



INFLATION REPORT

March 2025

**Recent trends
and macroeconomic
forecasts
2025-2026**

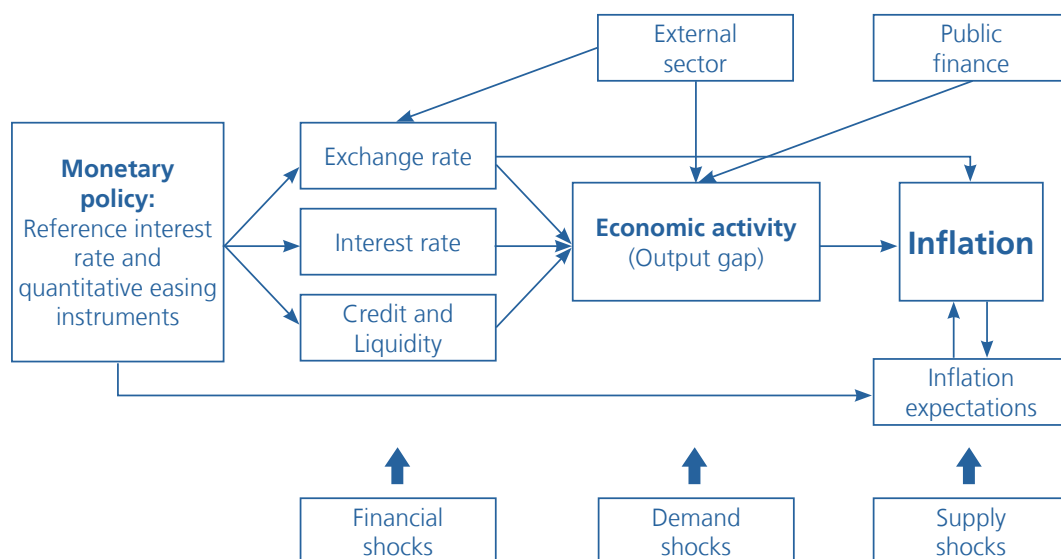


CENTRAL RESERVE BANK OF PERU

INFLATION REPORT

Recent Trends and Macroeconomic Forecasts 2025 - 2026

March 2025



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

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This **Inflation Report** has been prepared with information to the fourth quarter of 2024 on the Balance of Payments and Gross Domestic Product; to January 2025 on monthly GDP; and to February 2025 on the operations of the Non-Financial Public Sector, monetary accounts, inflation, financial markets and exchange rate.

Foreword

- According to the Peruvian Constitution, the Central Reserve Bank of Peru (BCRP) is an autonomous public entity, whose purpose is to preserve monetary stability. Its main functions are to regulate currency and credit, manage international reserves, issue banknotes and coins and report on the state of national finances.
- In order to achieve this goal, the BCRP follows a policy of Explicit Inflation Targets. The inflation target (a range between 1 and 3 percent) seeks to anchor inflation expectations at a level similar to that of developed economies and establish a permanent commitment to currency stability.
- Within an announced schedule, the BCRP's Board of Directors decides every month since 2003, the level of benchmark interest rate for the interbank lending market. This interest rate is the operational target of the monetary policy, which affects the inflation rate with lags and through different channels. Therefore, this interest rate is determined based on inflation projections and its determinants.
- Inflation may temporarily deviate outside the target range due to the presence of shocks that may temporarily affect the supply of goods and services. It should also be noted that the effectiveness of monetary policy is evaluated in terms of its success in maintaining inflation expectations within the target range, and returning to said range within a reasonable time horizon if there have been deviations from it due to some shock to the economy.
- In addition, the BCRP implements preventive measures to safeguard macro-financial stability and preserve monetary policy transmission mechanisms. In this way, the reference interest rate is complemented by the use of other monetary policy instruments, such as injection and sterilization operations, reserve requirements and foreign exchange intervention, to ensure the proper functioning of the markets, reduce excessive exchange rate volatility, and avoid significant variations in the volume and composition, by currencies and terms, of credit in the financial system.
- The Inflation Report was approved at the Board of Directors' meeting of March 13, 2025 and includes the macroeconomic projections for the period 2025-2026, which support the BCRP's monetary policy decisions, as well as the risk factors that may deviate from these projections.
- The next Inflation Report will be released on Friday, June 20, 2025.



Summary

- i. Since the last Report, there is a higher level of uncertainty in **global growth** due to trade tensions between the United States and its main trading partners and the persistence of geopolitical tensions at a global level. Growth performance during the fourth quarter of 2024 was uneven across countries: emerging economies such as China and Brazil grew faster than expected, while developed economies -mainly the United States and the Eurozone- were less dynamic.

In line with these developments, the global growth projection is maintained at 3.0 percent for 2025. This projection considers downward revisions for the United States, Canada and the Eurozone, due to the impact of trade measures on the manufacturing sector. An expansion of the same magnitude (3.0 percent) is assumed for 2026, a figure that represents a downward revision with respect to the December Report and is also lower than the average growth of the two decades prior to the pandemic.

After the reduction recorded in 2023, **headline inflation** has remained without significant changes in recent months and remains above the target range in the main developed economies. Particularly in the United States, a slower convergence of inflation towards the target was observed. Upward pressures on inflation come mainly from energy prices and, to a lesser extent, from food prices.

- ii. The **terms of trade** rose by 10.4 percent in 2024, reaching the highest level since 1975. The increase was due, to a greater extent, to the evolution of the prices of exported metals (gold and copper) and of non-traditional agricultural and fishery products. The former rose due to higher demand for minerals for the energy transition and a shortage of concentrates, while the latter benefited from adverse weather conditions in 2023 that reduced the supply of these products on the world market.

The terms of trade are revised upward, from a stable level to a projected growth of 4.4 percent in 2025, due to the forecast of higher prices of the main exported metals and non-traditional products.

- iii. As a result, the balance of payments strengthened its solid position. The **current account** surplus increased from 0.7 percent of GDP in 2023 to 2.2 percent of GDP in 2024. This evolution reflected: (i) higher terms of trade and exported volumes, which increased the goods trade surplus; (ii) the expansion of remittance flows, due to the favorable evolution of employment abroad; and (iii) the recovery in the inflow of foreign tourists to the country, a factor that reduced the services deficit.

The current account surplus is projected to decline slightly to 1.9 percent of GDP by 2025 and to increase to 2.2 percent in 2026. This scenario considers: (i) growing trade surpluses, consistent with the expected evolution of the terms of trade; (ii) a reduction in the services deficit, in line with the normalization of freight costs; and (iii) a recovery in the profits of companies with foreign participation in 2025 and a stabilization of these in 2026.





- iv. **National economic activity** showed a recovery in 2024, with growth of 3.3 percent after a contraction of 0.4 percent in 2023. The reversal of the adverse shocks that affected the economy in 2023 allowed for the recovery of primary sectors such as agriculture and fishing, as well as non-primary activities such as manufacturing, construction, and services. The rebound in private consumption and investment, in a context of lower inflation and greater business confidence, boosted the growth of domestic demand.

By 2025, the economy is projected to continue its recovery and grow 3.2 percent, a higher rate than that projected in the December Report (3.0 percent). On the expenditure side, this growth will be driven by domestic demand, with an increase in private spending, favored by the recovery of the labor market, the increase in household purchasing power and improved expectations. Thus, on the sectoral side, higher private spending is expected to boost non-primary activities. In particular, construction is expected to increase at a higher rate due to the expected advance in public investment, while the services sector will benefit from higher private consumption. On the other hand, primary sectors will moderate their growth from 4.1 to 2.6 percent between 2024 and 2025, following the normalization of production conditions.

By 2026, growth would moderate to 2.9 percent, with domestic demand as the main driver and a slowdown in public investment in line with fiscal consolidation targets.

- v. The **fiscal deficit** rose from 2.8 to 3.5 percent of GDP between 2023 and 2024, mainly due to the fall in current revenues as a percentage of GDP, affected by the lagged effect of lower economic activity and the fall in export prices in 2023. The annualized deficit as of February 2025 remained at 3.5 percent of GDP, with a slight recomposition within revenues and expenditures.

The fiscal deficit is projected to narrow to 2.2 and 1.8 percent of GDP in 2025 and 2026; respectively, as a result of: (i) higher fiscal revenues, driven by growth in economic activity and higher mineral prices (including the lagged effect of both variables); (ii) higher extraordinary revenues, especially from income tax in 2025, derived in part from the sale of companies in the electricity sector, along with the continuity of Sunat's auditing actions; (iii) prudent management of tax policy and public spending programming; and (iv) a recovery of cash flow from public companies, particularly Petroperu. Fiscal consolidation is fundamental to maintain the investment grade and with it the country's access to one of the lowest interest rates for external financing in the region.

Debt net of Non-Financial Public Sector financial assets is projected to increase from 24.1 to 25.6 percent of GDP between 2024 and 2026. Meanwhile, **gross debt** is projected to increase from 32.7 to 33.0 percent of GDP during the same period. The difference between the increase in gross and net debt is due to the assumption of a lower balance of public sector financial assets as a percentage of GDP.

- vi. The BCRP Board of Directors decided to reduce the **reference rate** by 25 basis points at the January 2025 monthly Monetary Program meeting, and agreed to keep it unchanged at the February and March meetings. Thus, the benchmark interest rate stands at 4.75 percent. In the monetary policy communiqués of the period, the message was reiterated that future adjustments in the reference interest rate will be conditioned to new information on inflation and its determinants. Also, in the communiqués, the Board reaffirmed its commitment to take the necessary actions to keep inflation within the target range.

- vii. **Interest rates in local currency** continued to evolve in line with the benchmark interest rate, particularly in the lower credit risk and shorter term segments. **Total liquidity** (current assets plus deposits) continued to show significant signs of recovery: its year-on-year growth rate rose from 3.0 percent in 2023 to 11.4 percent in January 2025. During the same period, the rate of expansion of **credit to the private sector** fell from 1.3 to 1.2 percent, mainly due to lower demand and a cautious attitude on the part of financial intermediaries. Going forward, credit to the private sector is expected to grow at rates of 5.0 and 4.0 percent in 2025 and 2026, respectively.
- viii. Year-on-year **inflation** continued to decline and remained within the target range, falling from 2.3 percent in November 2024 to 1.5 percent in February 2025. This result reflected the fall in food prices such as fish, chicken meat, eggs, and potatoes. Non-food and energy inflation (AFE) also declined, from 2.6 to 2.1 percent over the same period, with lower increases in items such as local transportation, water supply, and motor vehicles. The inflation rate for both goods and services included in the SAE was within the target range.
- Inflation is expected to be close to the middle of the target range over the projection horizon, with a rate of 2.0 percent for 2025 and 2026, similar to what was expected in the previous Inflation Report, following the reversal of supply shocks. Likewise, this projection assumes economic activity around its potential level and inflation expectations with a decreasing trend towards the middle value of the target range.
- ix. The **balance of risks for the inflation projection** remains neutral. Risks to the projection include mainly the following contingencies: (i) the contractionary and inflationary economic impact of the escalation of protectionist trade measures among the world's main economies; (ii) financial shocks with capital outflows and upward pressure on the exchange rate due to increased volatility in financial markets due to geopolitical tensions or situations of political uncertainty during the electoral period; and (iii) domestic demand shocks due to uncertainty in the face of a new electoral process that could deteriorate the prospects for growth in consumption and private investment.





SUMMARY OF INFLATION REPORT FORECAST

		2024	2025*		2026*	
			IR Dec.24	IR Mar.25	IR Dec.24	IR Mar.25
Real % chg.						
1.	Gross Domestic Product	3.3	3.0	3.2	2.9	2.9
2.	Domestic demand	3.8	3.2	3.5	3.0	3.0
	a. Private consumption	2.8	2.8	3.1	2.9	2.9
	b. Public consumption	2.3	2.2	2.2	2.5	2.5
	c. Fixed private investment	2.6	4.1	4.1	3.5	3.5
	d. Public investment	14.1	4.5	6.5	1.0	1.0
3.	Exports (good and services)	5.1	3.9	3.9	3.3	3.3
4.	Imports (good and services)	6.9	5.0	5.2	3.8	3.8
5.	Global economic growth	3.1	3.0	3.0	3.1	3.0
Nota:						
	Output gap ^{1/} (%)	-0.4	-0.5 ;,0.5	-0.5 ;,0.5	-0.5 ;,0.5	-0.5 ;,0.5
% chg.						
6.	Inflation (end-of-period)	2.0	2.0	2.0	2.0	2.0
7.	Expected inflation ^{2/}	2.5	2.5	2.3	2.5	2.4
8.	Expected depreciation ^{2/}	0.1	1.3	0.3	0.0	0.9
9.	Terms of trade	10.4	0.0	4.4	0.0	0.1
	a. Export prices	7.8	1.0	4.9	1.8	1.7
	b. Import prices	-2.3	1.0	0.6	1.8	1.5
Nominal % change						
10.	Currency	11.5	0.0	4.0	0.0	0.0
11.	Credit to the private sector	0.5	5.0	5.0	4.0	4.0
% GDP						
12.	Gross fixed investment	22.5	23.0	22.6	23.0	22.6
13.	Current account of the balance of payments	2.2	1.2	1.9	1.5	2.2
14.	Trade balance	8.2	7.9	8.7	7.9	8.7
15.	Long-term external financing of the private sector ^{3/}	11.7	12.1	10.6	11.1	9.9
16.	Current revenue of the general government	19.1	20.5	20.4	20.3	20.2
17.	Non-financial expenditure of the general government	21.2	21.0	20.9	20.4	20.4
18.	Overall balance of the non-financial public sector	-3.5	-2.2	-2.2	-1.8	-1.8
19.	Balance of total public debt	32.7	33.3	32.6	33.3	33.0
20.	Balance of net public debt	24.1	26.0	24.9	26.8	25.6

IR: Inflation Report.

* Forecast.

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

2/ Survey on expectations to the analysts and financial entities carried out at the time of publication of the respective Inflation Report. Data observed in the case of depreciation for 2024, and the average of expectations throughout year in case of inflation has been considered.

3/ Includes obligations in local currency with non-residents.

I. External sector

1. During the last few months, the world economy has maintained the trends outlined in the December Report: activity has gradually decelerated, inflationary pressures persist and expectations regarding the Fed's monetary policy easing have been reduced. These developments are taking place in a context of growing uncertainty due to trade tensions between the United States (US) and its main trading partners.
2. At the level of developed countries, **economic growth** continues to perform unevenly: the gradual slowdown in the U.S. is countered by stagnation in several European economies. On the emerging economies' side, data from China showed a slight recovery in the fourth quarter, but, in general terms, the outlook remains for a scenario of lower growth and low inflation; and the risks associated with the aforementioned trade tensions are increasing.
3. **Inflation**, after the marked reduction observed during 2022 and 2023, remains above the target range in the main developed economies. Inflation associated with services remains relatively stable, but at rates above the respective central banks' targets. On the other hand, goods inflation, particularly energy and food, has shown a rebound.
4. In this context, expectations regarding the **Fed's monetary policy** have been modified. The number of cuts has been reduced and, over the projection horizon, a smaller cumulative reduction is expected than that contemplated in previous Reports. Added to this are new factors-increased tariffs, labor shortages as a result of the measures adopted against illegal migration and the expected increase in the fiscal deficit-which have raised inflation expectations in the US.
5. Compared to the December Report, similar **growth** is estimated for 2025 (3.0 percent). The projection includes a slowdown in developed economies, both in the U.S. and in other developed economies. Within the emerging economies, the projection of lower growth in China is maintained due to the application of trade measures.

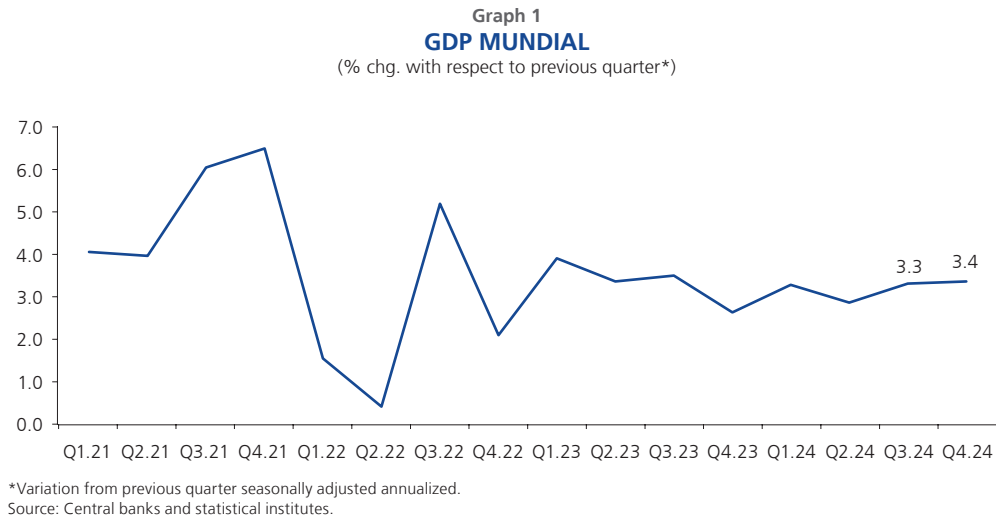
There are significant **downside risks to growth and upside risks to inflation**. In particular, the escalation of trade tensions, including generalized retaliatory measures, is a central risk in the current projection. This factor would operate through two channels: (i) on the one hand, it would affect global growth, particularly in China, Mexico and Canada; and (ii) on the other hand, it would generate inflationary pressures and increase risk aversion, affecting financial markets and *commodity* prices.



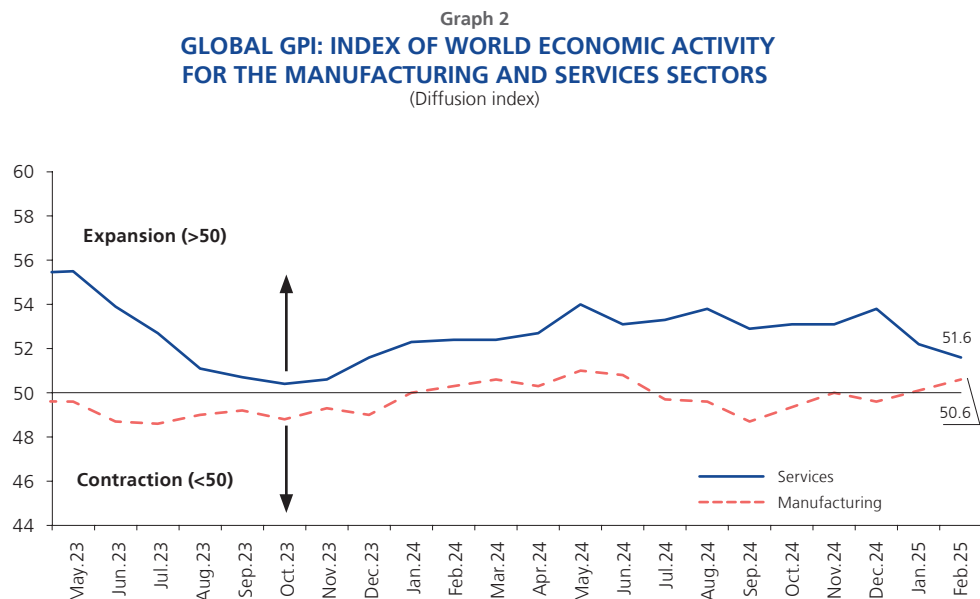


Recent developments in global economic activity

6. During the fourth **quarter**, global economic activity grew 3.4 percent, slightly higher than in the previous quarter. This improvement is explained by the performance of emerging economies, in contrast to the slowdown in developed economies, where some countries even contracted



7. In the first months of 2025, **leading indicators** show that economic growth continues, although with signs of some moderation. The global activity indicators (PMI) were slightly above the threshold that marks the expansion zone (50) and showed a more uniform behavior at the sector level.



The manufacturing sector, after several months in contraction, recovered in part due to higher trade volumes in anticipation of the imposition of U.S. trade sanctions and higher consumption of goods. The services sector showed a slowdown reflecting diminishing gains in the labor market.

Table 1
MANUFACTURING AND SERVICES IIMCS BY COUNTRY
 (Diffusion index)

	Dec.22	Dec.23	Mar.24	Apr.24	May.24	Jun.24	Jul.24	Aug.24	Sep.24	Oct.24	Nov.24	Dec.24	Jan.25	Feb.25
PMI Manufacturing														
India	57.8	54.9	59.1	58.8	57.5	58.3	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3
Japan	48.9	47.9	48.2	49.6	50.4	50.0	49.1	49.8	49.7	49.2	49.0	49.6	48.7	49.0
China	49.0	50.8	51.1	51.4	51.7	51.8	49.8	50.4	49.3	50.3	51.5	50.5	50.1	50.8
United States	46.2	47.9	51.9	50.0	51.3	51.6	49.6	47.9	47.3	48.5	49.7	49.4	51.2	52.7
Brazil	44.2	48.4	53.6	55.9	52.1	52.5	54.0	50.4	53.2	52.9	52.3	50.4	50.7	53.0
Germany	47.1	43.3	41.9	42.5	45.4	43.5	43.2	42.4	40.6	43.0	43.0	42.5	45.0	46.5
France	49.2	42.1	46.2	45.3	46.4	45.4	44.0	43.9	44.6	44.5	43.1	41.9	45.0	45.8
United Kingdom	45.3	46.2	50.3	49.1	51.2	50.9	52.1	52.5	51.5	49.9	48.0	47.0	48.3	46.9
Australia	50.2	47.6	47.3	49.6	49.7	47.2	47.5	48.5	46.7	47.3	49.4	47.8	50.2	50.4
PMI Services														
India	58.5	59.0	61.2	60.8	60.2	60.5	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59.0
Japan	51.1	51.5	54.1	54.3	53.8	49.4	53.7	53.7	53.1	49.7	50.5	50.9	53.0	53.7
China	41.6	50.4	53.0	51.2	51.1	50.5	50.2	50.3	50.0	50.2	50.0	52.2	50.2	50.4
United States	44.7	51.4	51.7	51.3	54.8	55.3	55.0	55.7	55.2	55.0	56.1	56.8	52.9	51.0
Brazil	51.0	50.5	54.8	53.7	55.3	54.8	56.4	54.2	55.8	56.2	53.6	51.6	47.6	50.6
Germany	49.2	49.3	50.1	53.2	54.2	53.1	52.5	51.2	50.6	51.6	49.3	51.2	52.5	51.1
France	49.5	45.7	48.3	51.3	49.3	49.6	50.1	55.0	49.6	49.2	46.9	49.3	48.2	45.3
United Kingdom	49.9	53.4	53.1	55.0	52.9	52.1	52.5	53.7	52.4	52.0	50.8	51.1	50.8	51.0
Australia	47.3	47.1	54.4	53.6	52.5	51.2	50.4	52.5	50.5	51.0	50.5	50.8	51.2	50.8

Expansion >.50

Contraction <.50

Source: PMI S&P.

8. In the case of **the U.S.**, fourth quarter GDP growth slowed from 3.1 to 2.3 percent. This reflects a less tight labor market and less optimistic consumer economic sentiment. These factors led to slower growth in non-durable consumption-particularly services-which was offset by higher spending on durable goods and a recovery in residential investment. Also contributing to the slower growth were lower nonresidential investment, a lower contribution from inventories, and a slowdown in government spending.

Table 2
EUA: GROWTH ADJUSTED FOR SEASONAL ADJUSTMENT
 (Annualized quarterly rates)

	Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24*
GDP	5.2	6.2	3.3	7.0	-2.0	-0.6	2.7	2.6	2.2	2.1	4.9	3.4	1.6	3.0	3.1	2.3
Personal Consumption	8.9	13.6	2.8	4.0	0.0	2.0	1.6	1.2	3.8	0.8	3.1	3.3	1.9	2.8	3.7	4.2
Durable	28.4	14.3	-23.1	11.1	1.5	-0.9	0.9	-1.0	14.0	-0.3	6.7	3.2	-1.8	5.5	7.6	12.1
Non-Durable	10.1	14.8	1.1	2.6	-2.7	0.0	-1.6	0.5	0.5	0.9	3.9	2.9	-0.8	1.7	4.6	3.0
Services	5.1	13.0	9.3	3.2	0.6	3.2	2.8	1.8	3.1	1.0	2.2	3.4	3.4	2.7	2.8	(3.3)
Gross Investment	-3.3	-5.4	16.1	27.9	6.2	-10.6	-7.6	3.4	-9.0	5.2	10.0	0.7	3.6	8.3	0.8	-5.7
Fixed Investment	9.3	5.9	-1.6	1.9	7.2	-0.2	-4.3	-5.4	3.1	5.2	2.6	3.5	6.5	2.3	2.1	(-1.4)
Non-Residential	8.9	9.7	-1.3	2.7	10.7	5.3	4.7	1.7	5.7	7.4	1.4	3.7	4.5	3.9	4.0	-3.2
Residential	9.8	-4.4	-2.7	-0.5	-1.8	-14.1	-26.4	-24.9	-5.3	-2.2	6.7	2.8	13.7	-2.8	-4.3	(5.4)
Exports	0.9	2.0	1.5	24.2	-4.6	10.6	16.2	-3.5	6.8	-9.3	5.4	5.1	1.9	1.0	9.6	-0.5
Imports	8.0	7.7	8.5	20.6	14.7	4.1	-4.8	-4.3	1.3	-7.6	4.2	2.2	6.1	7.6	10.7	(-1.2)
Government Spending	5.7	-4.3	-1.5	-0.3	-2.9	-1.9	2.9	5.3	4.8	3.3	5.8	4.6	1.8	3.1	5.1	2.9
Memo																
Inventory Contribution	-2.1	-1.9	3.0	3.0	-0.1	-2.1	-0.7	1.6	-2.2	0.0	1.3	-0.5	-0.5	1.1	-0.2	-0.8

* Preliminary.
 Source: BEA.

Some of these factors remain in place so far in 2025, particularly the weakening of consumer confidence-both in terms of current and future conditions-and the increase





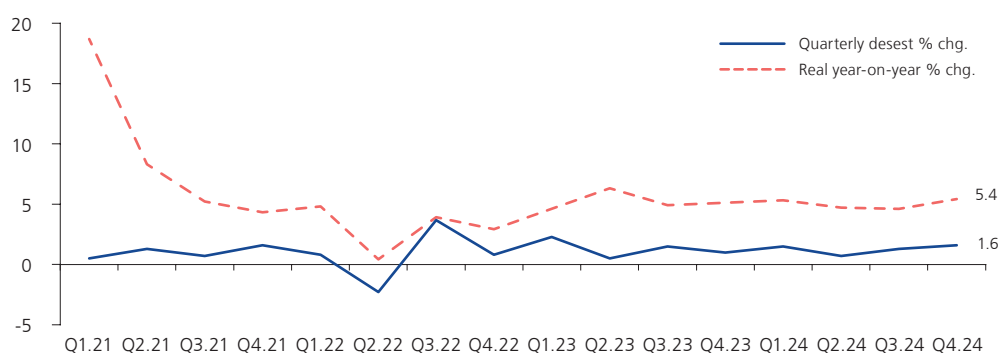
in inflation expectations. Likewise, job creation (150 thousand average monthly jobs in the first two months of the year) is below the monthly average of previous years (216 thousand in 2023 and 165 thousand in 2024) and the recovery of the real estate market, suggested at the end of 2024, has been limited by high interest rates.

9. In the **Eurozone**, GDP grew by 0.2 percent, slightly less than the 0.3 percent expansion in the third quarter. This reflects the lagged effect of energy prices on private consumption, weak investment and the weak performance of the export sector. At the country level, the contraction in Germany (0.2 percent), France (0.1 percent) and Italy stagnated.

Following the global trend, monthly frequency indicators show, for the Eurozone, a slight recovery of the manufacturing sector and a weakening of the services sector so far in 2025.

10. Within emerging economies, **China** grew 5.4 percent in the fourth quarter of 2024, a rate above expectations and the highest since the second quarter of 2023 (6.3 percent). Part of the momentum came from temporary factors such as the impact of economic stimulus measures and higher exports in anticipation of higher tariffs under the new U.S. administration. Compared to the previous quarter, economic activity grew 1.6 percent. With this, China's GDP accumulated 5.0 percent growth during 2024, meeting the government's target, announced during the first quarter.

Graph 3
CHINA: QUARTERLY GROWTH RATE



Source: National Bureau of Statistics of China.

Activity indicators for January and February show signs of a slight recovery in manufacturing activity due to higher new orders and sales levels following higher seasonal spending during the Lunar New Year holiday.

However, the external sector showed a slowdown during the first two months of the year. Exports and imports were affected by increased trade tensions between the US and China. Imports were also affected by lower domestic demand due to the fact that the greatest impact of the stimulus packages was observed in 4Q24. The year-on-year growth of *outstanding loans* continued to decelerate, marking the lowest growth rate since 1998.

The real estate sector did not show a significant recovery, as housing prices and investment in the sector continued to fall during the first months of the year. As in previous months, the market is under downward pressure due to high inventories and low demand as a result of high household indebtedness and long-term demographic factors.

Table 3
CHINA: SELECTED INDICATORS

Indicators	2024												2025	
	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
PMI Services - S&P 1/	52.7	52.5	52.7	52.5	54.0	51.2	52.1	51.6	50.3	52.0	51.5	52.2	51.0	51.4
Non-manufacturing PMI - official 1/	50.7	51.4	53.0	51.2	51.1	50.5	50.2	50.3	50.0	50.2	50.0	52.2	50.2	50.4
Manufacturing PMI - S&P 1/	50.8	50.9	51.1	51.4	51.7	51.8	49.8	50.4	49.3	50.3	51.5	50.5	50.1	50.8
Manufacturing PMI - official 1/	49.2	49.1	50.8	50.4	49.5	49.5	49.4	49.1	49.8	50.1	50.3	50.1	49.1	50.2
Industrial Production 2/	7.0	4.5	6.7	5.6	5.3	5.1	4.5	5.4	5.3	5.4	5.4	6.2	5.9	
Investment in fixed assets 3/	4.2	4.5	4.2	4.0	3.9	3.6	3.4	3.4	3.4	3.4	3.3	3.2	4.1	
Retail sales 2/	5.5	3.1	2.3	3.7	2.0	2.7	2.1	3.2	4.8	3.0	3.7	4.0		
Exports 2/	7.1	-7.5	1.5	7.6	8.6	7	8.7	2.4	12.7	6.7	10.7	2.3		
Imports 2/	3.5	-1.9	8.4	1.8	-2.3	7.2	0.5	0.3	-2.3	-3.9	1.0	-8.4		
Bank loans 2/	10.4	10.1	9.6	9.6	9.3	8.8	8.7	8.5	8.1	7.8	7.7	7.6	7.5	7.3
Consumer price index 2/	-0.8	0.7	0.1	0.3	0.3	0.2	0.5	0.6	0.4	0.3	0.2	0.1	0.5	-0.7
Housing price index 2/	-0.7	-1.4	-2.2	-3.1	-3.9	-4.5	-4.9	-5.3	-5.8	-5.9	-5.7	-5.3	-5.0	-4.8
Producer price index 2/	-2.5	-2.7	-2.8	-2.5	-1.4	-0.8	-0.8	-1.8	-2.8	-2.9	-2.5	-2.3	-2.3	-2.2

1/ Diffusion index: 50 = nivel neutral.

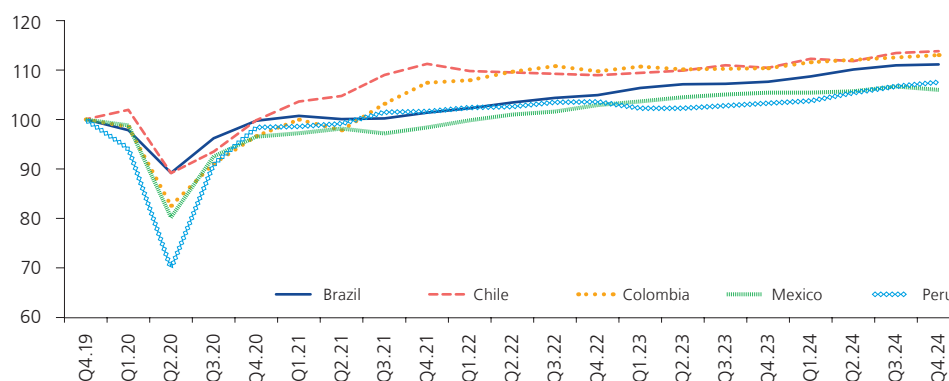
2/ Annual % change

3/ y/y. % chg.

Source: Trading Economics.

11. In **Latin America**, economic activity showed positive growth rates in the fourth quarter, with the exception of Mexico which, in seasonally adjusted terms, contracted 0.7 percent with respect to the previous quarter and marked the largest contraction since the third quarter of 2021.

Graph 4
LATIN AMERICA: QUARTERLY GDP*
(Index 100 = Q4.19)



* Seasonally adjusted series.

Source: Statistical institutes and central banks.

Colombia's growth (0.7 percent) was driven by the recovery of domestic demand associated with less restrictive financial conditions - following the reduction of interest rates - and higher public investment. Likewise, Brazil maintained a positive growth rate, due to a robust labor market, expansionary fiscal policies, and an increase in the



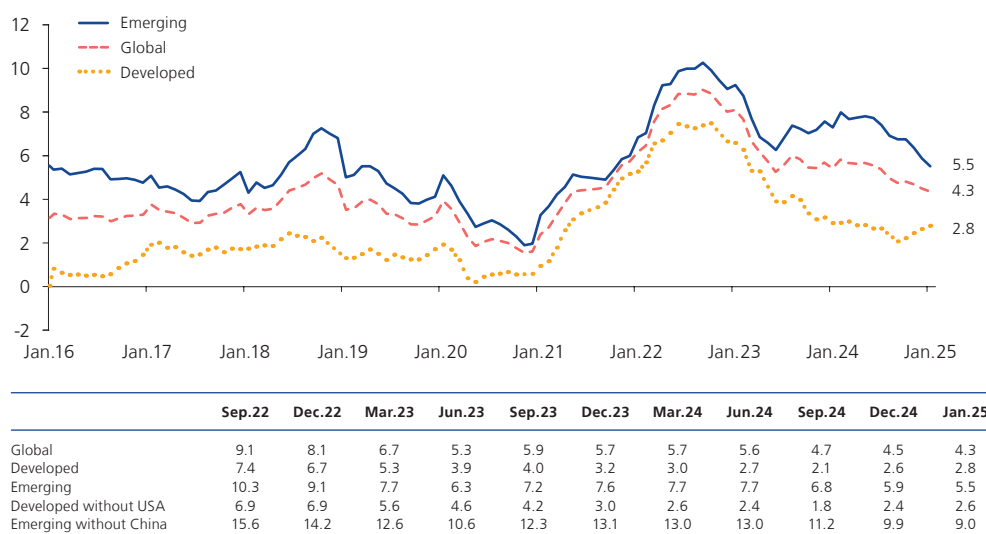


minimum wage (by 6.8 percent during 2024). These factors have led to growth above potential growth in recent quarters.

Recent inflation trends

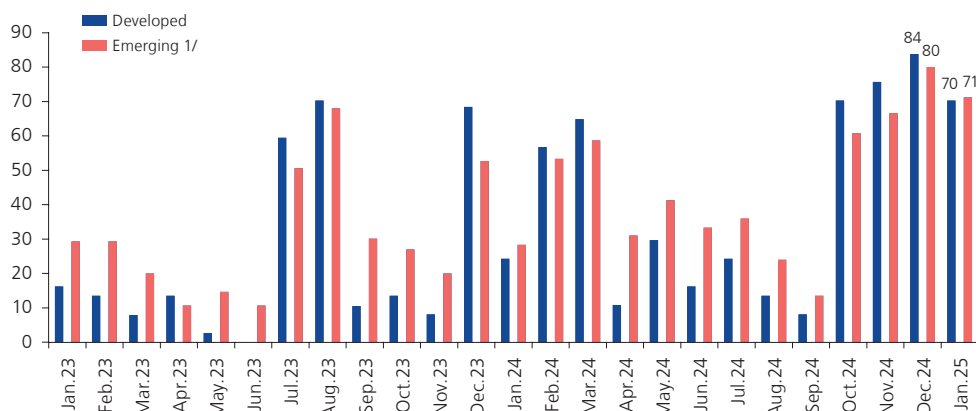
- 12. Actual inflation showed a similar dynamic to the one outlined in the December Report.** After the marked reduction recorded in 2022 and 2023, inflation has remained without significant changes in recent months. Graph 5 shows a reduction in aggregate inflation during January, reflecting a one-off drop in some emerging countries (Turkey, Brazil and India). However, this downward trend is not generalized; on the contrary, a slight increase in inflation is observed in most developed economies (USA, Eurozone and Japan).

Graph 5
INFLATION: GLOBAL, DEVELOPED COUNTRIES AND EMERGING ECONOMIES
(% chg. 12-month)



Source: Reuters.
Prepared by: BCRP.

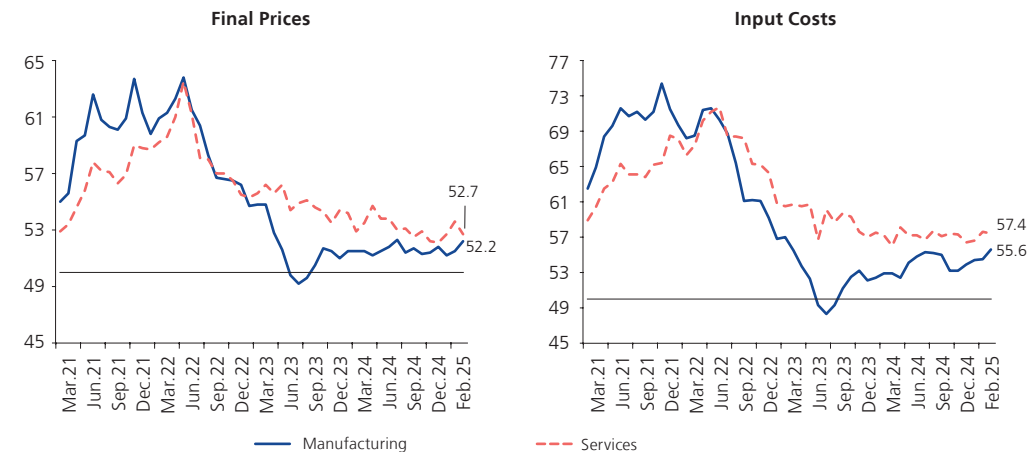
Graph 6
PERCENTAGE OF COUNTRIES WHOSE INFLATION ROSE COMPARED TO THE PREVIOUS MONTH
(Percentage of a sample of 37 developed and 74 emerging countries)



1/ Also considers developing countries.
Source: BCRP and Reuters.

In the same sense, the global PMI items associated with input costs and final prices reflect a similar upward trend in recent months. Thus, in the manufacturing sector, both costs and final prices have accelerated, while in the services sector, input costs have remained at high levels.

Graph 7
GLOBAL MANUFACTURING AND SERVICES GMI, 2021-2025

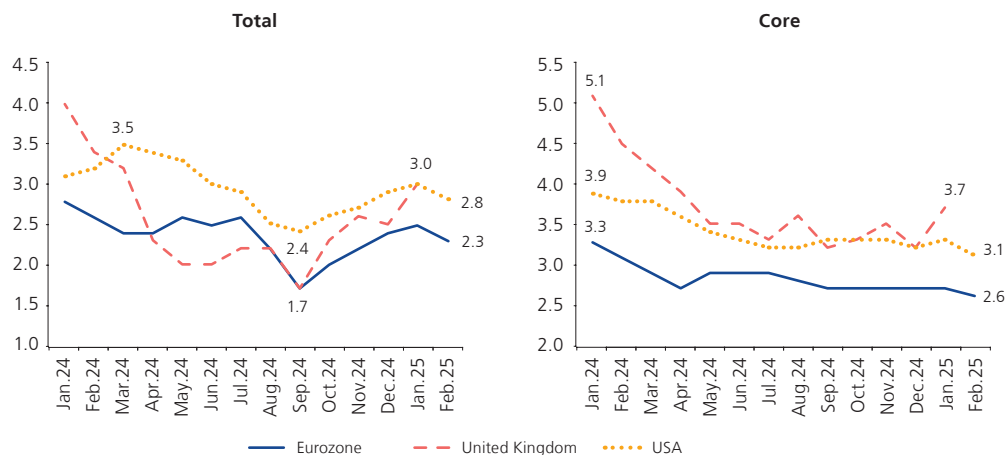


Source: S&P Markit.

13. In **developed economies**, after reaching a low of 2.1 percent in September 2024, inflation has registered a moderate and gradual upward trend, reaching a rate of 2.8 percent in January. As shown in Figure 6, this trend is present in most countries (70 percent).

- **Total inflation has registered a higher variation than core inflation.** The latter has remained relatively stable in recent months, but remains above the target range. This behavior implies that the non-core component of inflation -that which is excluded due to its greater volatility- has been on an upward trend.

Graph 8
INFLATION
(% chg.)



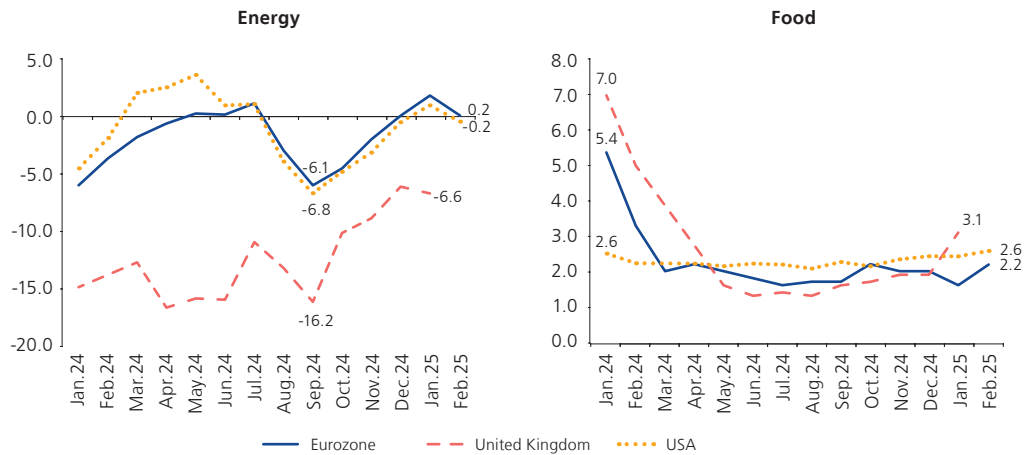
Source: Reuters.





- **Associated with the above, the greatest pressures have come from energy and, to a lesser extent, food.** The pressures on energy prices reflect the lagged effect of the increase in natural gas, particularly liquefied natural gas during 2024.

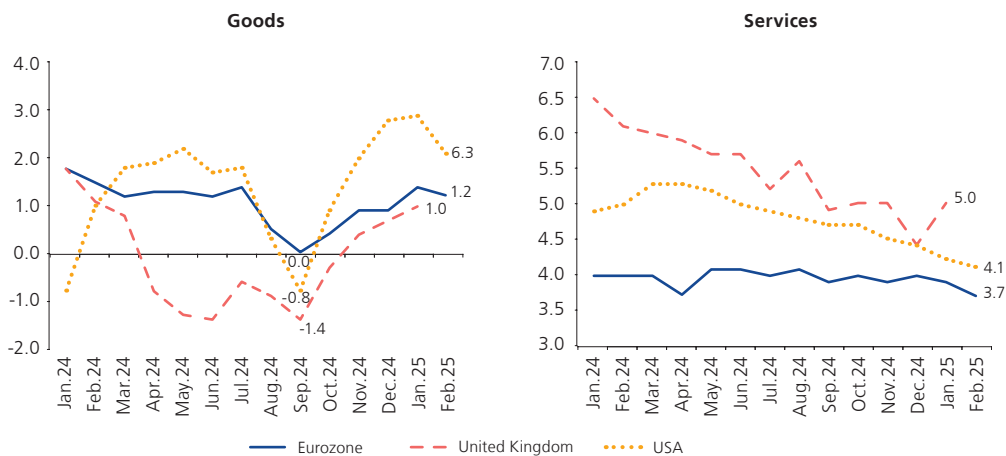
Graph 9
INFLATION
(% chg.)



Source: Reuters.

- The previous point also helps to explain the higher increase in goods inflation relative to services inflation. While services inflation remains above inflation targets, goods inflation -which for several months last year was close to zero or negative- has shown an upward trend, consistent with the behavior of food and energy mentioned above.

Graph 10
INFLATION
(% chg.)

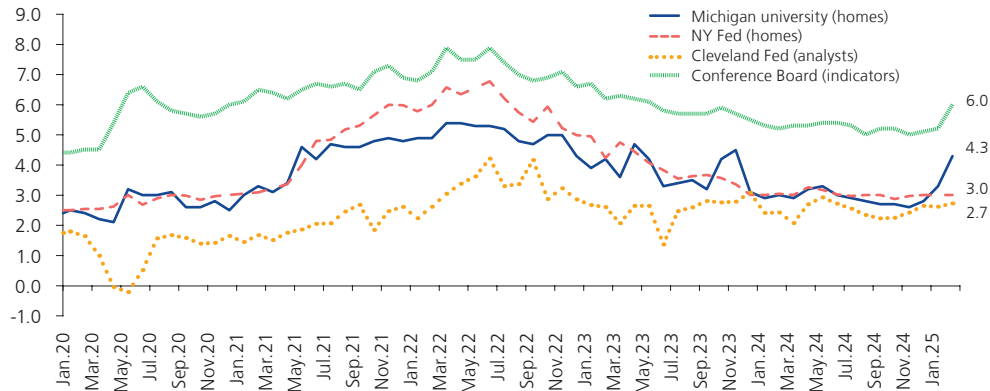


Source: Reuters.

14. **In the particular case of the U.S., there is a marked rise in consumer inflation expectations.** Although expectations reflect the recent upward trend in inflation

(from 2.4 percent in September 2024 to 3.0 percent in January of this year), they are also incorporating the expected impact on prices of the policies (trade, fiscal and immigration) announced by the new U.S. administration.

Graph 11
USA: INFLATION EXPECTATIONS 12 MONTHS
(%)



Source: Michigan university, Bloomberg, NY Fed, and Cleveland Fed.

15. In contrast to the situation in developed economies, deflationary pressures persist in **China**. In February, the consumer price index fell 0.7 percent and the underlying component fell 0.1 percent. Although part of the fall is due to seasonal factors linked to the Lunar New Year, there is excess production capacity and weak aggregate demand, which translate into low consumption and investment rates.

In January, the producer price index registered a similar drop to the previous month, marking 28 consecutive months of year-on-year deflation. This reflects the persistence of excess production of industrial goods.

Graph 12
CHINA INFLATION
(% chg.)



Source: Trading Economics.

In **Latin America**, inflation in most countries in the region, with the exception of Peru, ended 2024 above its target range, largely due to higher food and





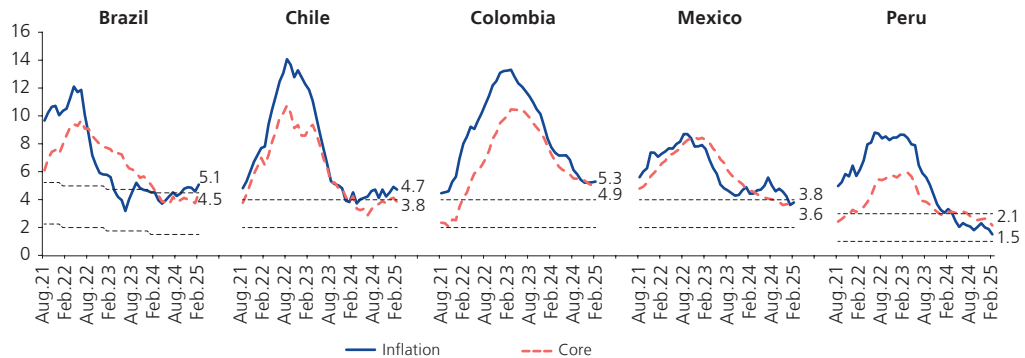
energy prices. However, inflation slowed in January 2025 in Brazil, Mexico and Peru.

In Chile, inflation continues to be driven by the adjustment of electricity tariffs as part of a series of staggered increases approved by the unfreezing of electricity tariffs that began in 2023. In Mexico, inflation was within its target range in January after 46 consecutive months of being above it, due to the fall in fruit and vegetable prices as a result of a greater supply due to favorable weather conditions.

In Brazil, inflation remains above the target range. In addition to the demand factors mentioned above, there were supply shocks due to a severe drought (described as the worst drought in the country's history).

In the case of **core inflation**, during 2024 it was within the target range (with the exception of Colombia), reflecting the lagged impact of monetary policy adjustments on aggregate demand and the output gap.

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



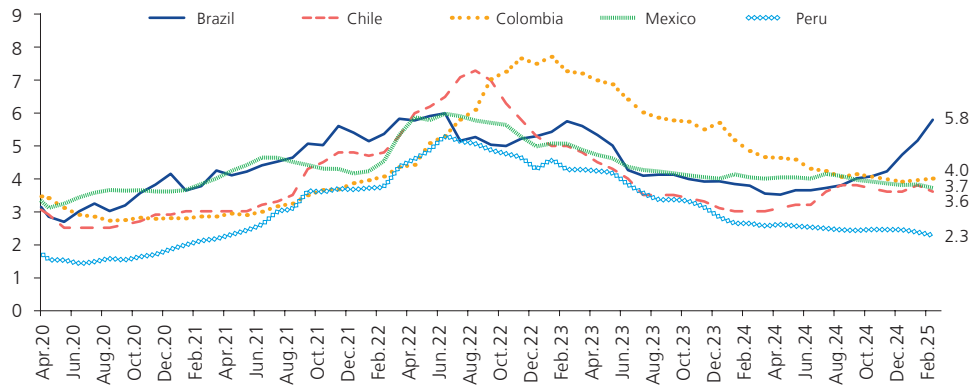
	Jan.25	Feb.25	Maximum	Jan.25	Feb.25	Maximum	Jan.25	Feb.25	Maximum	Jan.25	Feb.25	Maximum	Jan.25	Feb.25	Maximum
Inflation	4.6	5.1	12.1 (Apr.22)	4.9	4.7	14.1 (Aug.22)	5.2	5.3	13.3 (Mar.23)	3.6	3.8	8.7 (Sep.22)	1.9	1.5	8.8 (Jun.22)
Core	3.7	4.5	9.7 (Jun.22)	4.1	3.8	10.9 (Aug.22)	5.0	4.9	10.5 (Mar.23)	3.7	3.6	8.5 (Nov.22)	2.4	2.1	5.9 (Mar.23)

Memo: The graph shows the latest data (February 2025).
Source: Statistical institutes and central banks.

With respect to inflation expectations, with the exception of Brazil, inflation is projected to remain within the target range over the next twelve months. Since the last Report, these expectations have been revised downward for Mexico and Peru and upward for Colombia, where inflation is expected to be at the upper end of the range.

In the case of Brazil, 12-month expectations have been revised upward for eight consecutive months, in the context of a robust labor market, positive output gap, concerns about the country's fiscal stability and the weakening of the real since 2024.

Graph 14
LATAM: INFLATION EXPECTATIONS 12 MONTHS
(%)



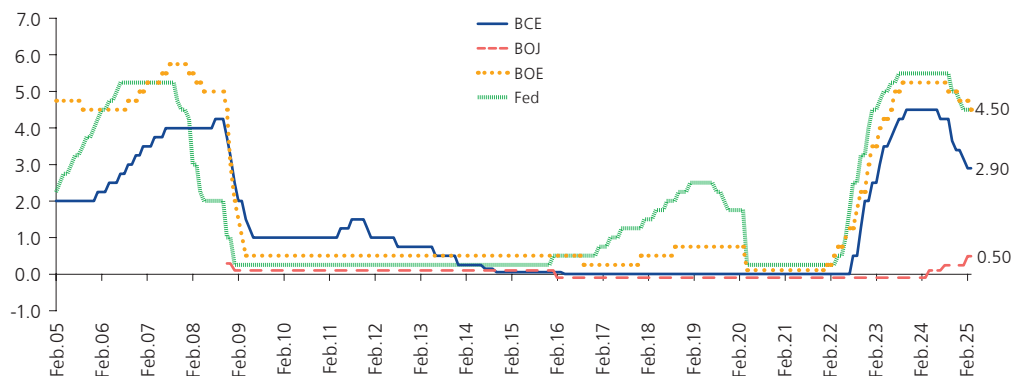
Memo: For Brazil, corresponds to the 12-month average inflation expectation recorded in the reference month. For Mexico, it is obtained by interpolation based on expectations as of December of current and next year.
Source: Central banks of each country.

Monetary and fiscal policy responses

16. So far this year, most central banks continued with the cycle of interest rate cuts. However, given the downward resistance to inflation mentioned in the previous point, particularly in **developed economies**, the reductions have been smaller than during 2024. With the exception of New Zealand, whose cut was 50 basis points (bps), the reduction in the rest of the countries was 25 bps.

In contrast, in the case of the Fed, the rate was maintained during the January and March meeting. In addition, the Fed announced a slower reduction in the size of its asset holdings, particularly its holdings of Treasury bonds, starting in April. Also, against the general trend, Japan raised its rate by 25 bps. in January on the back of higher-than-expected inflation rates; this is the third rate hike since December 2024.

Graph 15
MONETARY POLICY INTEREST RATE
(%)



Fed= Federal Reserve, ECB= European Central Bank, BOJ= Bank of Japan, BoE= Bank of England.
For the Fed, it includes the upper limit of the interest rate range. For the European Central Bank, it is the main refinancing rate.
Source: Central banks.

As in the December Report, interest rate cuts are expected to moderate. In the particular case of the U.S., the persistence of inflation above its target and the expected impact





of some economic policy measures on prices have reduced the magnitude of expected interest rate cuts for the projection horizon.

Thus, in its March 16 decision, it envisages two rate cuts for 2025, two additional cuts for 2026 and a final cut for 2027, which would bring the rate close to its long-term level (3.0%).

Table 4
FED PROJECTIONS*

	2025		2026		2027		Long-term	
	Dec.24	Mar.25	Dec.24	Mar.25	Dec.24	Mar.25	Dec.24	Mar.25
Growth**	2.1	1.7	2.0	1.8	1.9	1.8	1.8	1.8
Unemployment **	4.3	4.4	4.3	4.3	4.3	4.3	4.2	4.2
Inflation (PCE)**	2.5	2.7	2.1	2.2	2.0	2.0	2.0	2.0
Core inflation (PCE Core)**	2.5	2.8	2.2	2.2	2.0	2.0	-	-
Note: Underlying PCE excludes food and energy.								
Interest rate (%)***	3.9	3.9	3.4	3.4	3.1	3.1	3.0	3.0
Range of interest rates (%)	3.1-4.4	3.6-4.4	2.4-3.9	2.9-4.1	2.4-3.9	2.6-3.9	2.4-3.9	2.5-3.9

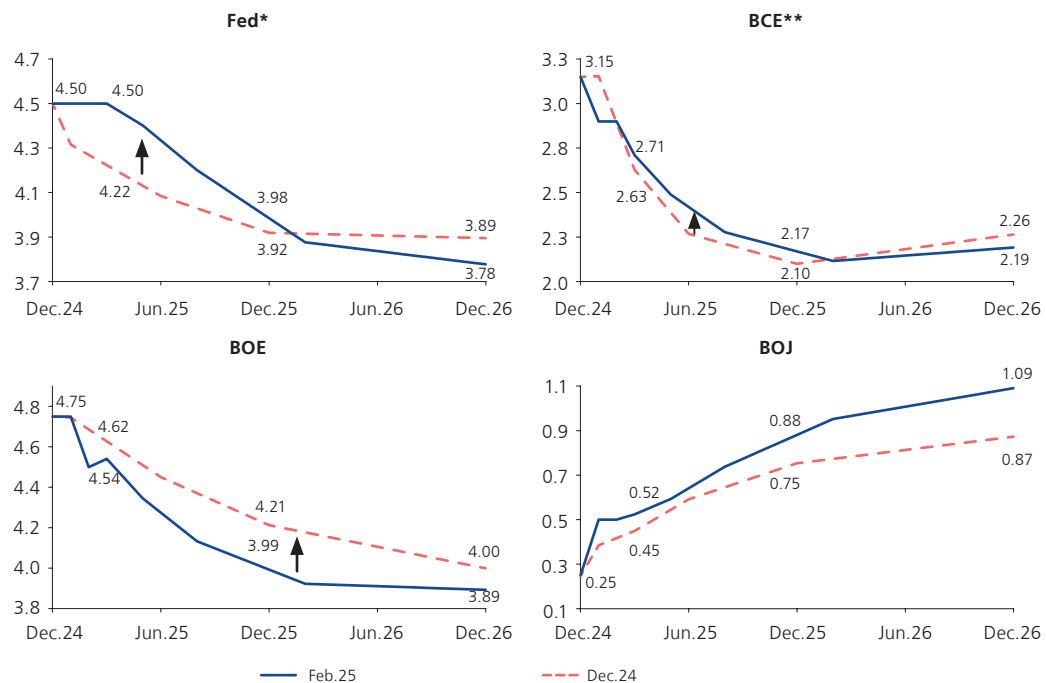
* Incorporates 19 data from individual Fed members' end-of-period projections.

** 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.

Graph 16
INTEREST RATE EXPECTATIONS ACCORDING TO THE FORWARDS MARKET
(%)



* Upper limit of monetary policy interest rates.

** Rate of main maintenance operations.

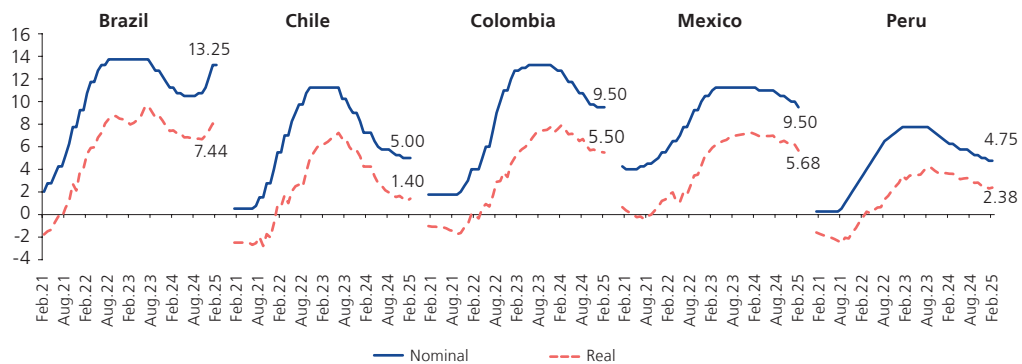
Source: Reuters.

17. **In the case of emerging economies**, interest rate cuts were recorded in several countries in Latin America, Asia and Europe. A reduction in inflation and a slowdown in economic activity were observed in Mexico, India, Thailand, Indonesia and the Czech Republic.

In **Latin America**, the reduction was also 25 bps, with the exception of Mexico (50 bps). Two exceptions to the easing cycle were Brazil and Uruguay. In the first case, the central bank increased by 100 bps in the face of the demand pressures noted above, rising inflation and the depreciation of the real; in addition, the central bank hinted at a similar hike for the next meeting in March. In the case of Uruguay, the central bank made a 25 bps. hike, the second since December 2024.

Considering the evolution of inflationary expectations, real interest rates decreased in Colombia, Mexico and Peru. In the case of Brazil, the real interest rate had an upward trend in line with the increase in the nominal rate, except in the month of February (due to the increase in expected inflation from 5.2 to 5.8 percent).

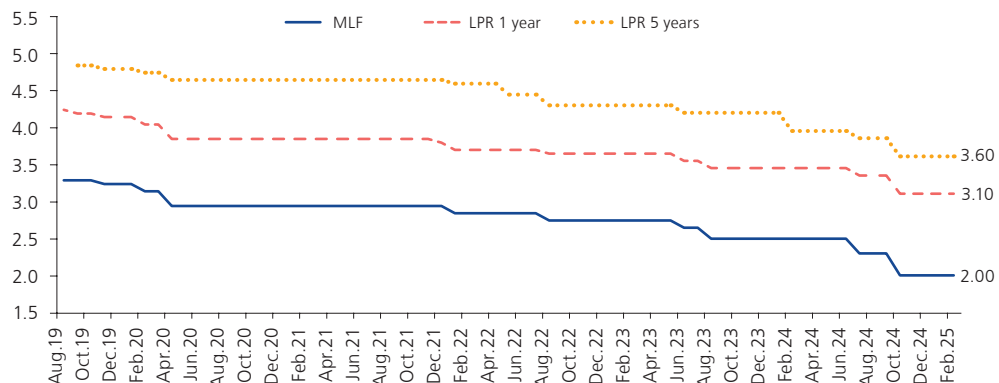
Graph 17
MONETARY POLICY INTEREST RATES IN LATIN AMERICA 2021-2025
(%)



Memo: Real rates based on 12-month inflation expectations.
Source: Statistical institutes and central banks of each country.

In February, **China's** central bank (PboC) kept interest rates in line with expectations. The PboC decided to maintain its rates to avoid further depreciation of the yuan, given expectations of a less accommodative stance by the Fed and other central banks. This pause in China's cutting cycle comes in a context where its main rates are at historical lows.

Graph 18
CHINA: INTEREST RATE
(%)



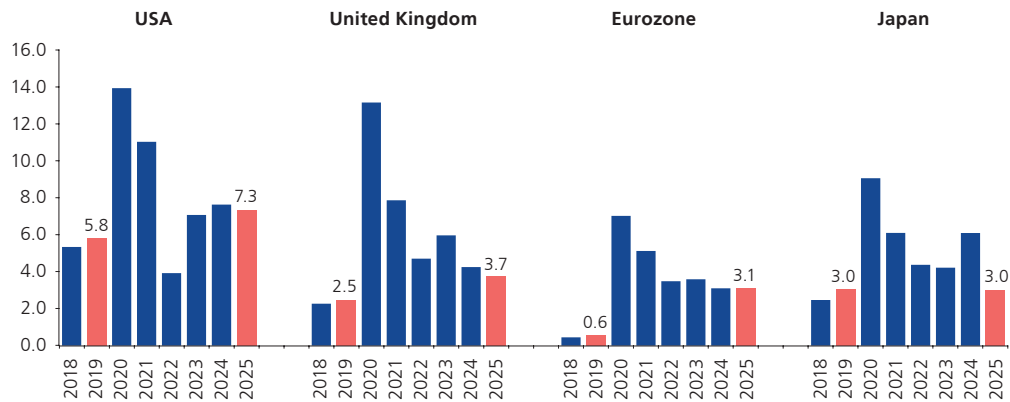
Memo: the MLF (medium-term lending facility) rate is the policy rate at which the PBoC lends to large commercial banks. LPR (loan prime rates) serve as a benchmark for new loans: 1-year for corporate and household loans; 5-year for mortgages. These are based on a weighted average of the lending rates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





18. It should be noted that monetary policy responses are taking place in a context of slower fiscal consolidation. With the exception of Japan, in the major developed economies, fiscal deficits have declined, but have not yet reached pre-pandemic levels or levels consistent with fiscal consolidation.

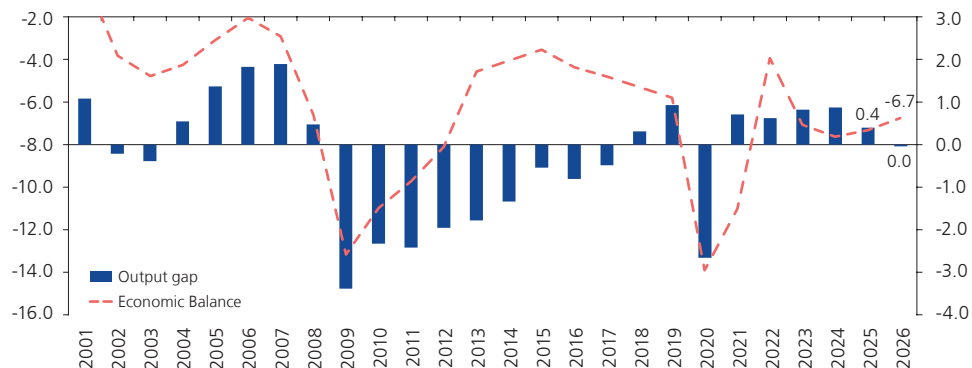
Graph 19
FISCAL DEFICIT
(% GDP)



Memo: Preliminary data for 2024 and projection for 2025.
Source: FMI.

In the case of the U.S., fiscal policy under the new administration is expected to remain expansionary even though the output gap suggests that the economy is operating near or above potential. The pressures on aggregate demand generated by fiscal policy in this context make it even more difficult for the Fed to ease monetary policy.

Graph 20
**USA: OUTPUT GAP (% OF POTENTIAL, RIGHT AXIS)
AND GENERAL GOVERNMENT ECONOMIC BALANCE (% OF GDP, LEFT AXIS)**



Source: IMF.

In the case of **emerging economies**, the measures adopted by China stand out. Since September 2024, the Chinese authorities have announced a set of policies to promote consumption through subsidies and improvements in social security, in line with the new economic growth scheme -which seeks to increase consumption by reducing pension savings-.

Additionally, during the first week of March, the annual meeting of the Assembly was held, where the target for the main macroeconomic variables was announced, including a fiscal deficit of 4.0 percent by 2025. These announcements were in line with market expectations, but additional measures are not ruled out in the current context of trade tensions that could affect official growth projections.

Table 5
CHINA: MAIN GOALS SET DURING NATIONAL PEOPLE'S ASSEMBLY

	2024			2025		
	Goal	Executed		Goal	Executed	
GDP (% chg.)	5.0	5.0	=	5.0	5.0	=
Inflation (% chg.)	3.0	0.1	-	2.0	2.0	=
Fiscal deficit (% GDP)	3.0	4.8	+	4.0	4.0	=
Bonds issuance (% GDP)	6.6	6.7	+	8.4	--	

Source: Investment houses.

Global economic outlook

19. For **2025**, the global growth projection of the previous Inflation Report is maintained (3.0 percent). For the U.S., growth is estimated at 1.8 percent, in line with executed data and with the forecast of a gradual slowdown in private consumption and a recovery in residential investment. In contrast, the growth projection for Canada and the main Eurozone countries has been revised downward due, among other factors, to the impact of trade measures on the manufacturing sector.

Table 6
GROWTH MUNDIAL
(Annual % chg.)

	PPP*	2023	2024	2025		2026	
				IR Dec.	IR Mar.	IR Dec.	IR Mar.
Developed economies	41.1	1.6	1.7	1.7	1.5	1.8	1.6
<i>Of which</i>							
1. United States	15.4	2.5	2.8	1.9	1.8	2.0	1.8
2. Eurozone	11.7	0.4	0.7	1.2	0.9	1.4	1.2
3. Japan	3.7	1.9	0.1	1.1	1.1	0.8	0.8
4. United Kingdom	2.2	0.1	0.9	1.2	1.1	1.5	1.4
5. Canada	1.4	1.1	1.6	1.7	1.5	1.8	1.6
Developing economies	58.9	4.3	4.1	4.0	4.0	4.0	4.0
<i>Of which</i>							
1. China	18.8	5.2	5.0	4.1	4.1	4.0	4.0
2. India	7.5	7.8	6.5	6.5	6.5	6.5	6.5
3. Russia	2.9	3.6	3.2	1.6	1.6	1.3	1.3
4. Latin America and the Caribbean	7.3	2.3	2.1	2.4	2.2	2.2	2.2
Argentina	0.7	-1.6	-1.7	3.8	4.1	2.6	3.0
Brazil	2.3	2.9	3.4	2.0	2.0	2.0	1.8
Chile	0.3	0.2	2.6	2.3	2.3	2.4	2.2
Colombia	0.6	0.6	1.7	2.7	2.7	2.7	2.7
Mexico	1.9	3.2	1.5	1.5	0.9	1.5	1.4
Peru	0.3	-0.4	3.3	3.0	3.2	2.9	2.9
World Economy	100.0	3.2	3.1	3.0	3.0	3.1	3.0

* Base 2023.

Source: FMI, Consensus Forecast.

Growth for **2026** is estimated at 3.0 percent, slightly lower than in the December Report (3.1 percent) and below the average growth shown in the two decades prior

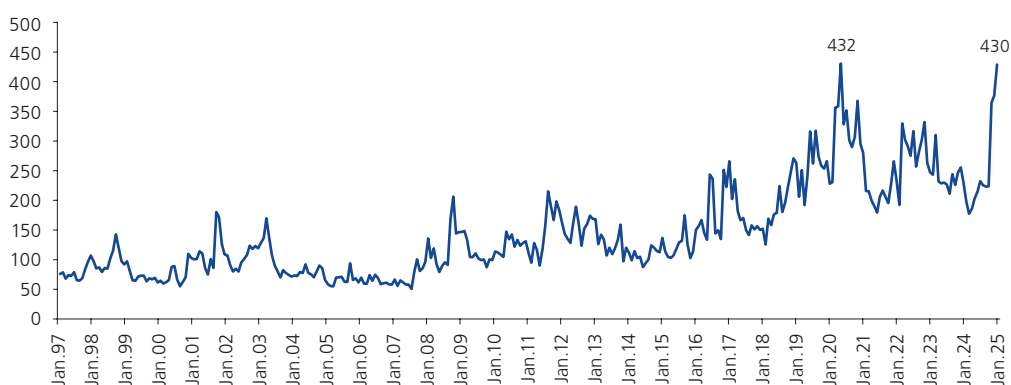




to the pandemic (3.6 percent). In the case of the U.S., expansionary fiscal policy, in a context of a positive output gap, is expected to be offset by a lesser easing of monetary policy by the Fed.

20. There are risk factors that introduce a downward bias in global growth over the projection horizon. In particular, global growth is very sensitive to an escalation of trade tensions involving retaliatory measures by economies previously affected by the imposition of U.S. tariffs. In addition to this trade uncertainty, there is also uncertainty regarding fiscal management.

Graph 21
GLOBAL ECONOMIC POLICY UNCERTAINTY INDICES



Source: Scott R. Baker, Nick Bloom, and Steven J. Davis.

Other risks to global growth also persist:

- **The persistence of high inflation, mainly in developed countries.** In the US, inflation expectations indicators published in recent months highlight a slower convergence of inflation towards the target and reflect the tariff policy adopted by the US and the expected impact of a higher fiscal deficit (which would generate additional demand pressures) and migration restrictions (which would reduce the availability of labor in sectors such as agriculture, construction and services).
- **A delay in the Fed's rate reduction cycle.** The slow convergence of inflation towards the target, as well as the dynamism of economic activity, would have reduced expectations of an expansionary policy by the Fed. Considering the impact that the above measures would have on inflation, the Fed's rate cutting cycle would be expected to be not very aggressive.
- **China growth fears.** As in the December Inflation Report, the baseline scenario assumes a moderate increase in tariffs imposed by the US on Chinese imports. A deepening of trade tensions, particularly those associated with the technology sector, could affect external demand and the supply chain. These downside risks

could be accentuated if the impact of measures to stimulate aggregate demand and the real estate sector are limited by the high degree of indebtedness and existing deflationary pressures.

- **The persistence and possible aggravation of geopolitical tensions.** At the close of this Report, expectations of a prompt solution to existing conflicts -especially in Ukraine and the Middle East- have been significantly reduced. Even a worsening of these conflicts is not ruled out, which would increase global risk aversion and generate additional pressures in some markets (such as oil and grains).
- **Difficulty in fiscal management.** Fiscal consolidation measures, and those to manage public debt levels, may be delayed beyond those expected amid a more pronounced slowdown in global growth. This may impact financial bond markets with a consequent impact on interest rates, mainly in developed economies. This, coupled with less accommodative monetary policy in developed economies, could affect financial conditions in emerging economies.

International financial markets

21. At the beginning of the year, global financial markets responded to a large extent to the expectations generated after the November election results in the US and subsequent announcements. Thus, the dollar continued its fourth quarter appreciation trend in anticipation of a less accommodative monetary policy by the Fed. This monetary policy, in turn, responds to the inflationary pressures expected after the implementation of fiscal, trade and immigration policies by the new administration. The US stock markets, unlike other markets, were supported by the expected deregulation in some sectors and by the likelihood of corporate tax cuts. Despite geopolitical uncertainty, US bond yields rose, consistent with expectations of an expansive fiscal policy.

However, this trend was reversed at the end of January when, in the face of worsening trade tensions and the application of retaliatory measures, risk aversion increased significantly. This was compounded by the release of indicators suggesting a slowdown in the US economy (in line with the trend in most other countries).

22. Regarding **the foreign exchange markets**, the dollar depreciated so far this year and on January 13 the Dollar DXY index reached a four-year high continuing the trend of the fourth quarter 2024.

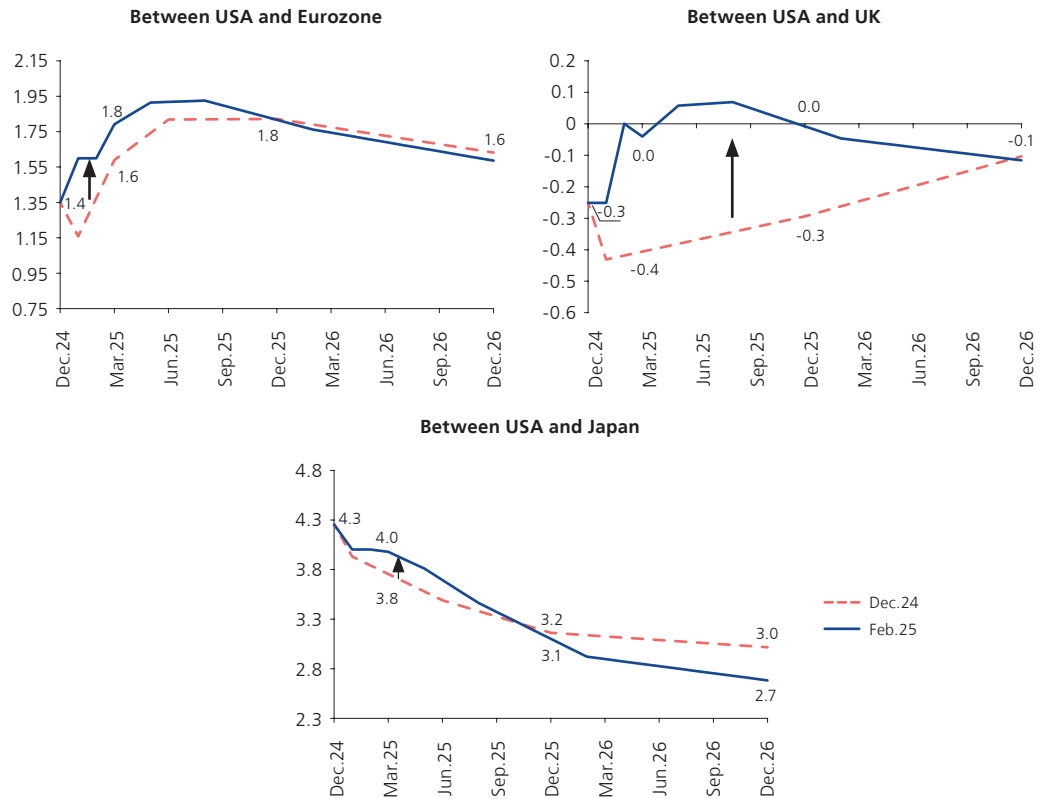
After that, the dollar was affected by concerns about the fiscal outlook, some moderation in U.S. activity and uncertainty surrounding trade and the implementation of retaliatory measures by various countries.

As noted, this was influenced by expectations of a less accommodative monetary policy by the Fed, which would explain the increase in the expected rate differential with respect to other central banks.





Graph 22
INTEREST RATE GAP
(%, according to forwards market)



Graph 23
DOLLAR DXY INDEX*



* A rise (fall) in the DXY index implies an appreciation (depreciation) of the US dollar against foreign currencies.
Source: Reuters.

Following the global trend, most emerging currencies reversed the previous depreciating trend since mid-January. As of the third week of March, the EMCI index (a basket of emerging currencies) has registered gains against the dollar compared to December 2024.

Table 7
EXCHANGE RATES *

(In U.M. per dollar, except euro and pound)

		Dec.23 (a)	Dec.24 (b)	Mar.25 (c)	% chg. **	
					(c) / (b)	(c) / (a)
Dollar index DXY***	US Dollar Index	101.33	108.49	104.14	-4.0	2.8
Euro	Euro	1.104	1.035	1.081	4.5	-2.0
United Kingdom	Pound	1.273	1.251	1.291	3.2	1.5
Japan	Yen	141.06	157.18	149.35	-5.0	5.9
Brazil	Real	4.852	6.184	5.727	-7.4	18.0
Colombia	Peso	3,873	4,402	4,151	-5.7	7.2
Chile	Peso	881	993	929	-6.5	5.4
Mexico	Peso	16.95	20.82	20.23	-2.8	19.3
Argentina	Peso	808.45	1,030.00	1,068.40	3.7	32.2
Peru	Sol	3.707	3.761	3.639	-3.2	-1.8
South Africa	Rand	18.28	18.85	18.22	-3.3	-0.3
India	Rupee	83.19	85.55	85.99	0.5	3.4
Turkey	Lira	29.48	35.34	37.50	6.1	27.2
Russia	Ruble	89.25	113.50	84.50	-25.6	-5.3
China	Yuan (onshore)	7.098	7.299	7.249	-0.7	2.1
South Korea	Won	1,294	1,477	1,463	-0.9	13.1
Indonesia	Rupee	15,395	16,090	16,495	2.5	7.1
Thailand	Bath	34.35	34.26	33.88	-1.1	-1.4
Malaysia	Ringgit	4.590	4.468	4.419	-1.1	-3.7
Philippines	Peso	55.39	58.08	57.36	-1.2	3.6

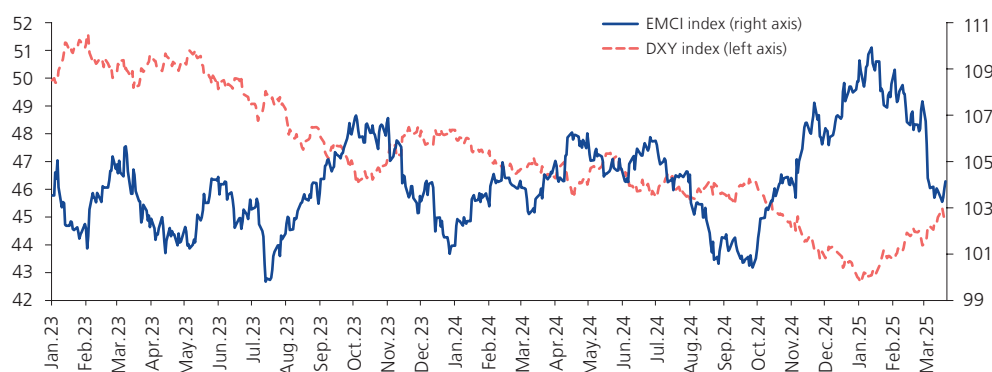
* As of March 21, 2025.

** 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.

Graph 24
**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.

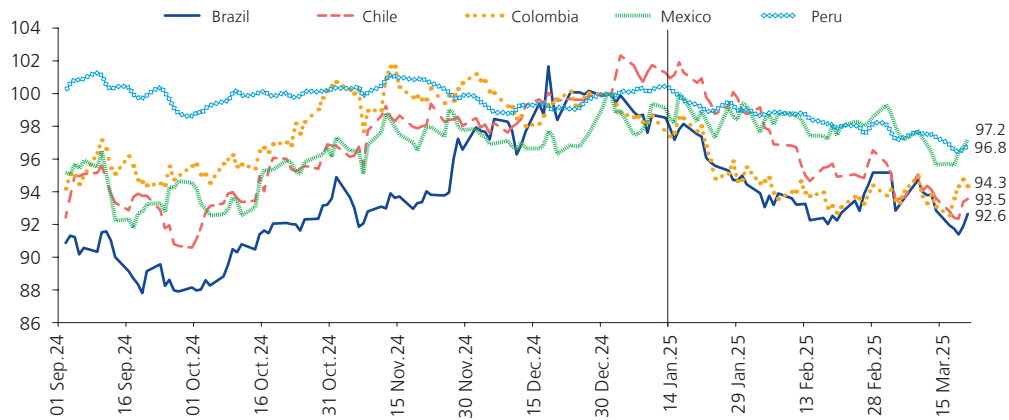
Source: Reuters, JP Morgan.

In the case of Latin American economies, most currencies appreciated, favored by the recovery of several *commodity* prices and in some cases, such as Brazil, by expectations of monetary policy adjustments in the context of demand pressures and rising inflationary pressures. It is worth noting that the sol shows one of the lowest appreciations against its peers in the region, which reflects, in part, the lower depreciation observed during the fourth quarter of 2024.





Graph 25
PERFORMANCE OF LAC5 CURRENCIES
(Base 100=Dec 31, 24)



* A rise (fall) in the index implies an appreciation (depreciation) of the U.S. dollar against that currency and vice versa.
Source: Reuters.

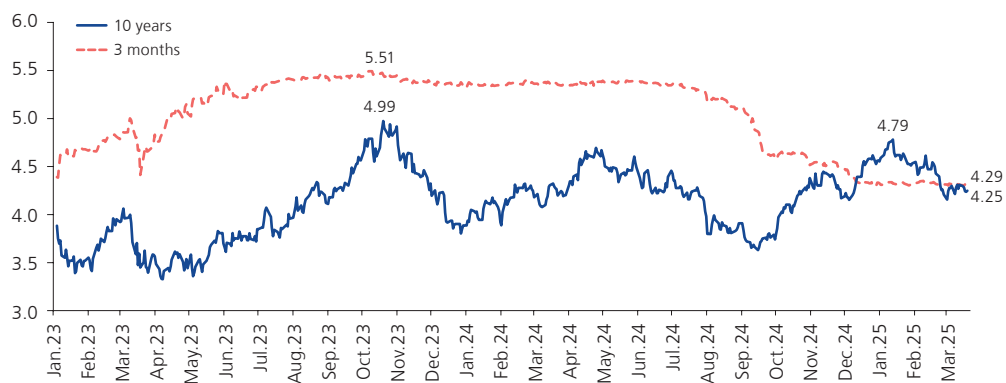
Table 8
EVOLUTION OF LAC5 CURRENCIES

		Quotation (U.M. per USD)			% chg.	
		Sep.24	Dec.24	Mar.25	Mar.25** / Dec.24	Dec.24 / Sep.24
Brazil	Real	5.448	6.184	5.727	-7.4	13.5
Colombia	Peso	4,206	4,402	4,151	-5.7	4.7
Chile	Peso	899	993	929	-6.5	10.5
Mexico	Peso	19.68	20.82	20.23	-2.8	5.8
Peru	Sol	3.705	3.761	3.639	-3.2	1.5

* A positive (negative) variation implies an appreciation (depreciation) of the dollar against the respective currency.
** As of March 21.
Source: Reuters.

23. In fixed income markets, US sovereign yields rose at the beginning of the first quarter of 2025 in line with fears of additional inflationary pressures and concerns about deteriorating fiscal accounts. However, the release of some negative US economic data and the increase in trade and geopolitical tensions have contributed to the demand for this instrument as a safe haven asset during February and March.

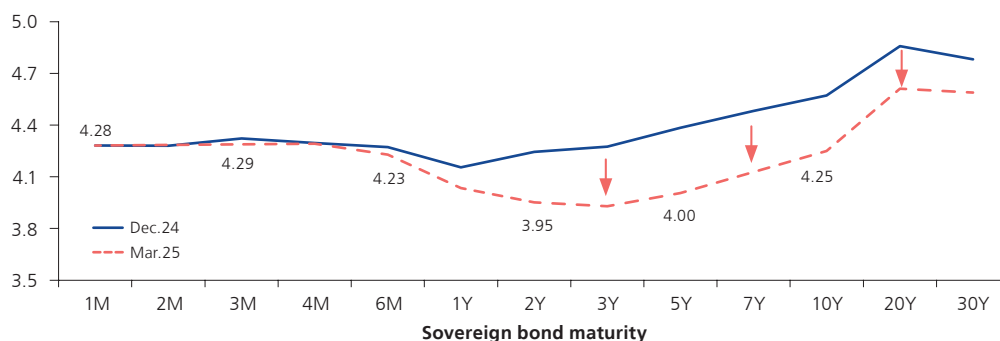
Graph 26
U.S. SOVEREIGN YIELDS
(%)



Source: Reuters.

U.S. sovereign yields declined on fears about trade tensions and signs of a U.S. economic slowdown in the last few weeks. The 2025 bond yields declined in the 2 to 30-year tranches. Thus, the yield on the 5-year bond fell by 38 bps. to 4.00 percent and the 10-year by 32 bps. to 4.25 percent. In contrast, very short-term yields remained stable.

Graph 27
U.S. SOVEREIGN YIELD CURVE
(%)



Source: Reuters.

In the Eurozone, yields rose following concerns about the fiscal situation in some countries due to difficulties in approving the budget (France and the United Kingdom). This was compounded by the German government's announcement of a substantial increase in public spending on infrastructure and defense.

Table 9
10-YEAR SOVEREIGN BOND YIELDS (%)*
(%)

	Dec.23 (a)	Dec.24 (b)	Mar.25 (c)	Difference (pbs)	
				(c) - (b)	(c) - (a)
United States	3.88	4.57	4.25	-33	37
Germany	2.02	2.36	2.76	40	74
France	2.56	3.19	3.46	27	91
Italy	3.69	3.52	3.88	36	19
Spain	2.98	3.06	3.41	35	43
Greece	3.05	3.22	3.58	36	52
United Kingdom	3.53	4.56	4.72	15	119
Japan	0.61	1.09	1.52	43	91
Brazil	10.37	15.16	14.83	-33	446
Colombia	9.96	11.88	11.85	-3	190
Chile	5.40	6.00	5.86	-14	46
Mexico	8.94	10.42	9.42	-100	49
Peru	6.68	6.63	6.42	-20	-25
South Africa	11.37	10.31	10.58	26	-80
India	7.17	6.76	6.63	-14	-55
Turkey	23.66	26.81	30.27	346	661
China	2.56	1.68	1.85	18	-71
South Korea	3.18	2.87	2.81	-7	-37
Indonesia	6.45	6.97	7.17	20	71
Thailand	2.68	2.25	2.04	-22	-64
Malaysia	3.73	3.81	3.74	-8	1
Philippines	5.94	6.05	5.94	-11	0

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

In Japan, against the global trend, yields were higher after the Bank of Japan raised interest rates by 25 bps during the period under review. The central bank



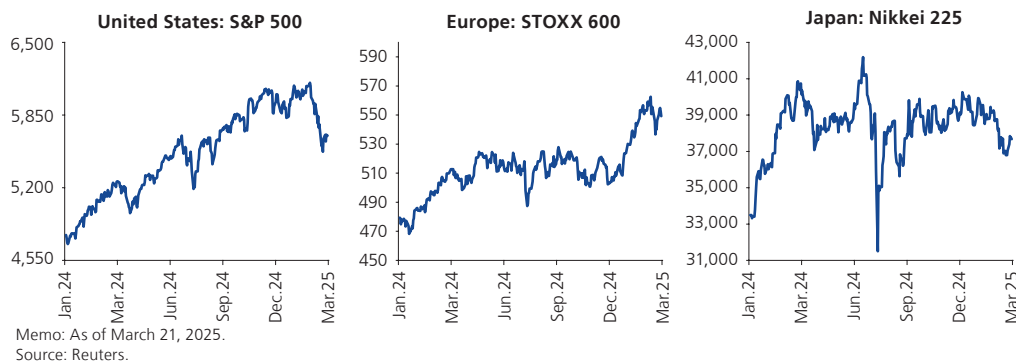


signaled that monetary policy tightening could continue if inflationary pressures persist.

In Latin America, several yields declined after the increase observed in the last quarter of 2024. Mexico's yield, which after closing 2024 at 10.4 percent, declined substantially in the context of a partial reduction of tensions with the US over tariffs and immigration.

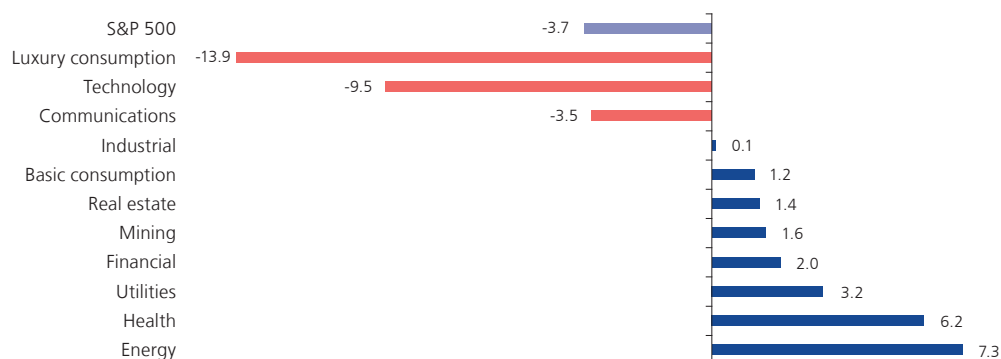
24. In the equity markets, US stocks rose during January and until the third week of February, supported by several positive corporate results and optimism regarding tax policy and the deregulation of some activities (such as those in the energy and financial sectors). This led the main US stock market indexes to reach new all-time highs.

Graph 28
STOCK INDEXES



However, investors subsequently took profits following particular events so far this year that increased risk aversion. The launch of the R1 artificial intelligence model by Chinese firm DeepSeek affected U.S. technology companies. This was compounded by companies' more uncertain outlook for 2025 as a result of trade tensions. As a result, U.S. stocks ended the first quarter with declines. The falls in luxury consumer, technology and communications stocks stood out, which overshadowed the good performance of the other sectors (some of the latter were driven by proposals for less regulation).

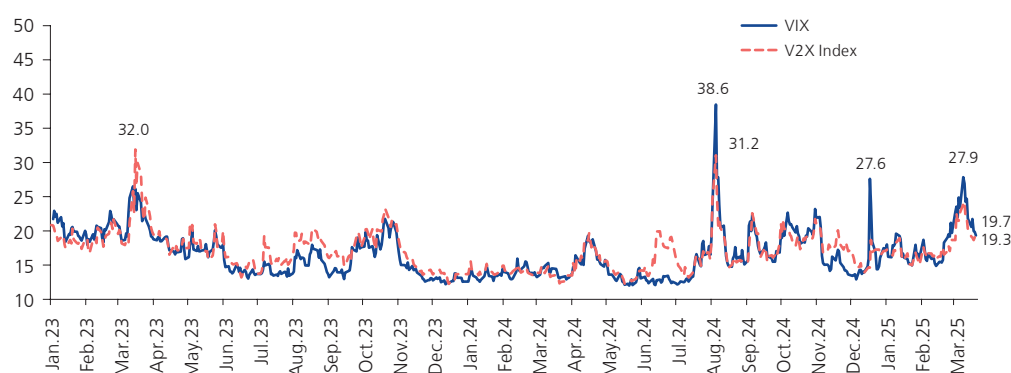
Graph 29
PERFORMANCE OF THE S&P 500 STOCK INDEX SECTORS: MAR.25 / DEC.24
(%)



Source: Reuters.

Likewise, there was a certain rebalancing from US assets to other markets, such as the European stock markets or those of emerging countries that performed less well during 2024. It should be noted that there was a greater increase in risk aversion in the US stock market compared to the European one: the increase in the VIX index (volatility index of the US stock market) was more pronounced than that of the V2X index (Eurozone stock market).

Graph 30
**VOLATILITY INDICES: VIX (U.S. STOCK MARKET)
AND V2X (EUROZONE STOCK MARKET)**



Source: Reuters.

As for Latin American stock markets, several rose, supported by higher metal prices and expansionary monetary policies, while others recovered from the sharp declines seen during the fourth quarter.

Table 10
WORLD STOCK EXCHANGES*
(In indices)

		Dec.23 (a)	Dec.24 (b)	Mar.25 (c)	% chg.	
					(c) / (b)	(c) / (a)
VIX**	S&P,500	12.45	17.35	19.27	1.9	6.8
United States	Dow Jones	37,690	42,544	41,985	-1.3	11.4
United States	S&P 500	4,770	5,882	5,668	-3.6	18.8
United States	Nasdaq	15,011	19,311	17,784	-7.9	18.5
Germany	DAX	16,752	19,909	22,892	15.0	36.7
France	CAC 40	7,543	7,381	8,043	9.0	6.6
Italy	FTSE MIB	30,352	34,186	39,036	14.2	28.6
Spain	IBEX 35	10,102	11,595	13,350	15.1	32.2
Greece	ASE	1,293	1,470	1,697	15.5	31.2
United Kingdom	FTSE 100	7,733	8,173	8,647	5.8	11.8
Japan	Nikkei 225	33,464	39,895	37,677	-5.6	12.6
Brazil	Ibovespa	134,185	120,283	132,191	9.9	-1.5
Colombia	COLCAP	1,195	1,380	1,609	16.6	34.6
Chile	IPSA	6,198	6,710	7,586	13.1	22.4
Mexico	IPC	57,386	49,513	52,657	6.4	-8.2
Argentina	Merval	929,704	2,533,635	2,433,538	-4.0	161.8
Peru	Ind. Gral.	25,960	28,961	30,363	4.8	17.0
South Africa	JSE	76,893	84,095	89,519	6.4	16.4
India	Nifty 50	21,731	23,645	23,350	-1.2	7.5
Turkey	XU100	7,470	9,831	9,045	-8.0	21.1
China	Shanghai C.	2,975	3,352	3,365	0.4	13.1
South Korea	KOSPI	2,655	2,399	2,643	10.2	-0.5
Indonesia	JCI	7,273	7,080	6,258	-11.6	-14.0
Thailand	SET	1,416	1,400	1,187	-15.3	-16.2
Malaysia	KLCI	1,455	1,642	1,505	-8.3	3.5
Philippines	Psei	6,450	6,529	6,267	-4.0	-2.8

* As of March 21, 2025.

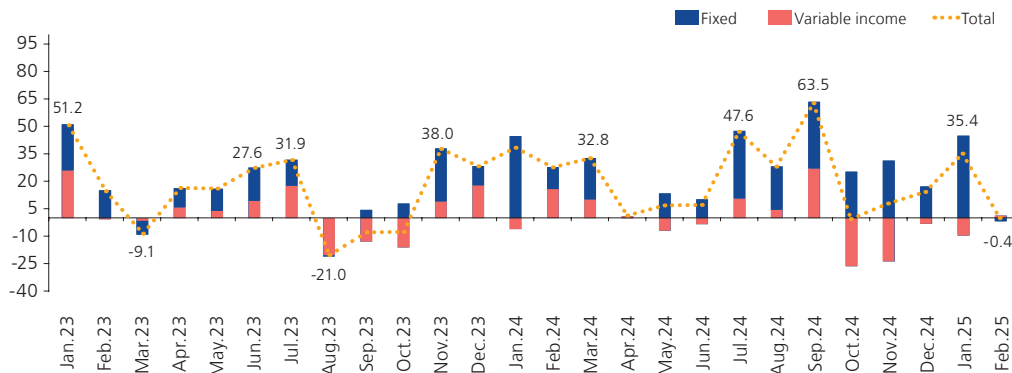
** Data and variations are expressed in points.
Source: Reuters.





25. There were inflows of capital flows from non-resident investors to emerging economies in the first two months of 2025. Much of this flowed into fixed-income assets, particularly during January.

Graph 31
NON-RESIDENT CAPITAL FLOWS TO EMERGING MARKETS
(Billion USD)

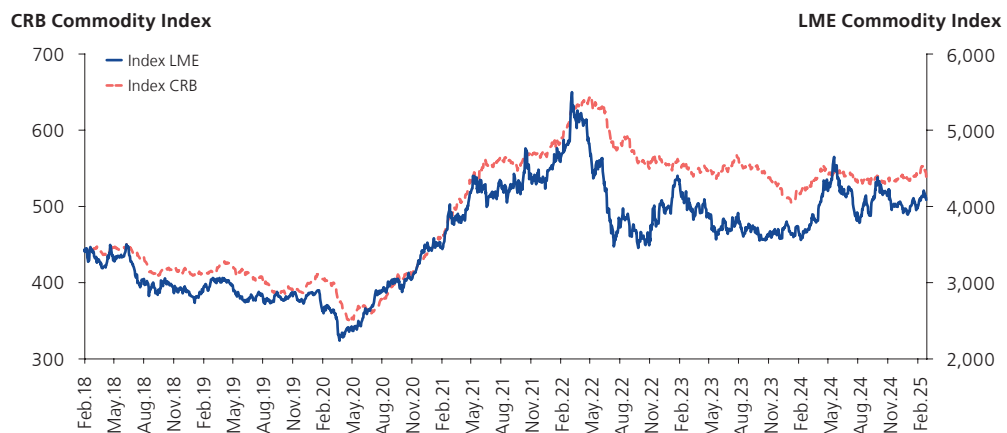


Note: Positive (negative) data implies a net inflow (outflow) of capital to emerging markets.
Source: IIF.

Commodity prices

26. In January and February, the prices of most *commodities* were slightly upwardly pressured. Thus, the London Metal Exchange (LME) metals index increased 4.6 percent over December, while the CRB Index-which includes metals, food and energy-increased by 0.5 percent.

Graph 32
LME AND CRB COMMODITY INDEXES



Source: Reuters.

In the case of **industrial metals**, with the exception of zinc, the increase is basically explained by the persistence of supply restrictions and stricter environmental regulations. On the demand side, the depreciation of the dollar and a better-than-expected improvement in manufacturing activity in China played a role. In the case

of gold, the price reached an all-time high in a context of increased demand as a financial asset from ETFs and central banks.

Oil prices remained volatile due to elevated geopolitical and economic risks. Fears about supply restrictions in Iran offset expectations of higher supply from the US following the announcement of lower market regulations and reduced environmental commitments. In the case of food, unfavorable weather conditions-with frosts in the north and droughts-were compounded by increased demand from the biodiesel industry.

However, at the close of this Report, markets have been affected by trade tensions. In addition to the tariffs applied by the US on imports from China, Mexico and Canada, measures have been applied directly to products such as steel and aluminum. An investigation has also been initiated that could culminate in the imposition of tariffs on imports of copper and by-products. The latter has generated a premium in COMEX prices against the LME.

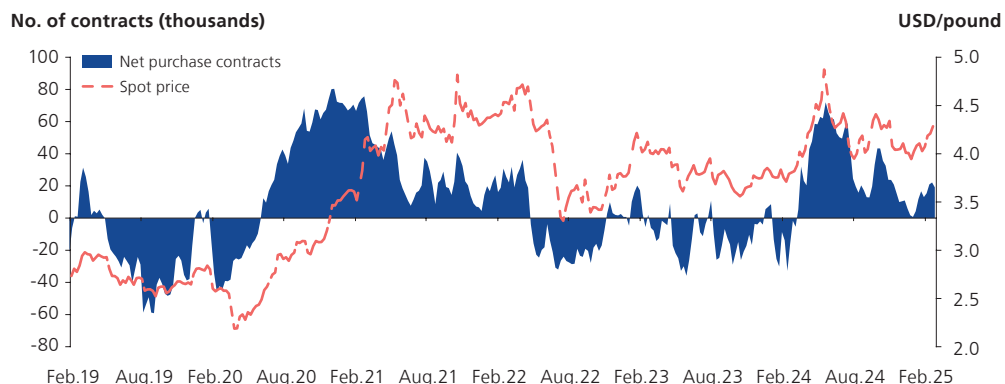
Copper

27. The average copper price increased 5 percent in the first two months of the year, from USD/lb. 4.04 in December 2024 to USD/lb.4.22 in February 2025. This increase comes after the copper price increased 6 percent in 2024.

Copper prices rose on expectations of a recovery in Chinese demand, supported by the latest stimulus package, the recovery of manufacturing and supply restrictions on global concentrates and refined products in China (the government imposed restrictions on copper smelting due to overcapacity in the industry).

At the end of February, the US administration initiated an investigation into copper due to its dependence on US imports. This has generated a price differential between the North American market (COMEX) and the London Metal Exchange (LME) - which would anticipate the imposition of a tariff of around 10 percent - and an increase in speculative positions.

Graph 33
COPPER: NON-COMMERCIAL CONTRACTS



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





These price developments are consistent with a global deficit for 2025, after a surplus of 301 thousand tons was recorded in 2024, lower than the 469 thousand tons estimated in October. The forecast deficit for 2025 is mainly driven by lower production of concentrates and refined products.

Table 11
SUPPLY AND DEMAND FOR REFINED COPPER 1/
(Thousands of metric tons of copper)

	2020	2021	2022	2023	2024
Global Mine Production	20,743	21,265	21,922	22,383	22,913
Global Refined Production (Primary and Secondary)	24,621	24,900	25,273	26,503	27,633
Global Refining Utilization	24,948	25,211	25,830	26,556	27,332
Refining Balance 2/	-327	-311	-557	-52	301

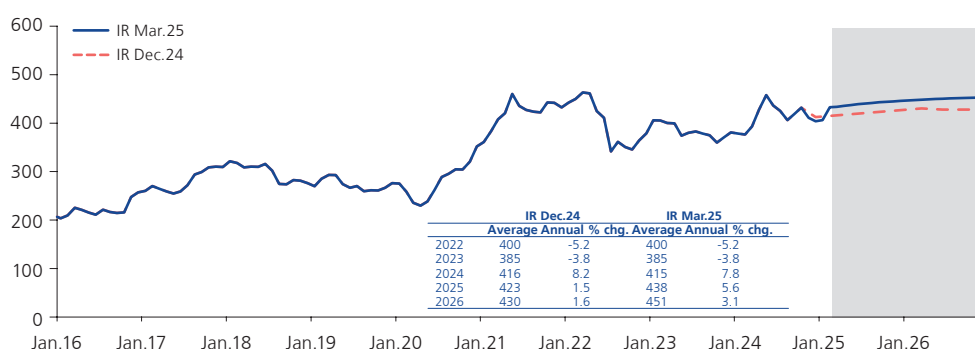
1/ The balance of refined products is calculated as the subtraction between the global production of refined products (supply) and its use (demand).

2/ ICSG monthly report for February 2025.

Source: ICSG.

In this context, the copper price projection was revised upwards with respect to the December Inflation Report estimate. The projection takes COMEX futures prices as a reference and, in this sense, would be influenced by the expectations of the application of a tariff by the US. Additionally, there is a risk of an escalation of trade tensions affecting global growth and a slowdown in China beyond expectations.

Graph 34
COPPER: JANUARY 2016 - DECEMBER 2026
(ctv. USD/pound.)



Source: Reuters and BCRP.

Zinc

28. The average international zinc price decreased by 6 percent in the last two months, from USD/lb. 1.38 in December 2024 to USD/lb. 1.29 in February 2025. The zinc quotation accumulated an increase of 21 percent in 2024.

The drop in zinc prices during the first two months of the year has been influenced by several factors, mainly uncertainty in demand and the global macroeconomic context. In particular, trade tensions, especially between the US and China, have generated concerns about demand in China (the world's largest consumer of this metal). In the

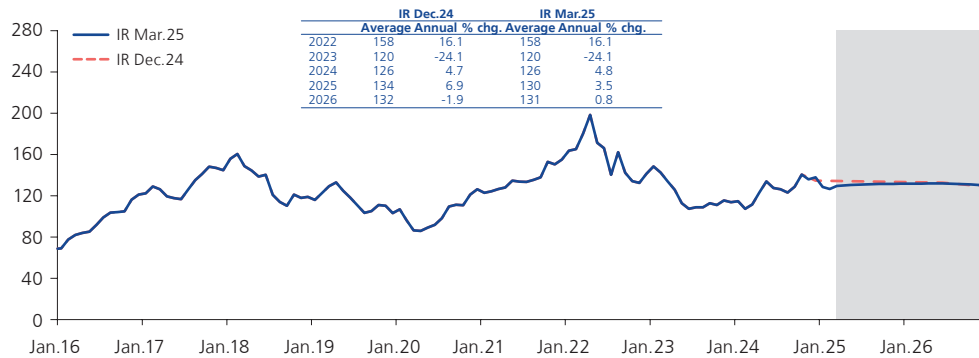
same vein, the 25 percent tariff imposed by the US on all steel imports has reduced demand for zinc, an essential metal for the manufacture of galvanized steel. Low demand from Europe (due to lower dynamism in the construction, automotive and steel production sectors) and from China (due to the persistence of problems in the real estate sector) has also had an impact.

On the other hand, zinc inventories have increased significantly on the London Metal Exchange (LME), indicating greater availability of the metal on the market. Although inventories have fallen slightly since their peak in February 2024, they remain high, which also puts downward pressure on prices.

These downward factors were limited by supply constraints in the face of lower zinc concentrate production, which fell for the third consecutive year in 2024, and by the expected slowdown in production at the Red Dog mine in Alaska (responsible for 10 percent of world production) by 2025 due to the depletion of its reserves.

In line with these developments, the zinc price for 2025 is revised slightly downward compared to what was projected in December. Downside risks remain from the possibility of an even smaller drop in demand due to US trade policies. Conversely, an upside risk is that there will be further disruptions in mine capacity due to the increasing cost pressures faced by mining companies.

Graph 35
ZINC: JANUARY 2016 - DECEMBER 2026
(ctv. USD/pound.)



Source: Reuters and BCRP.

Gold

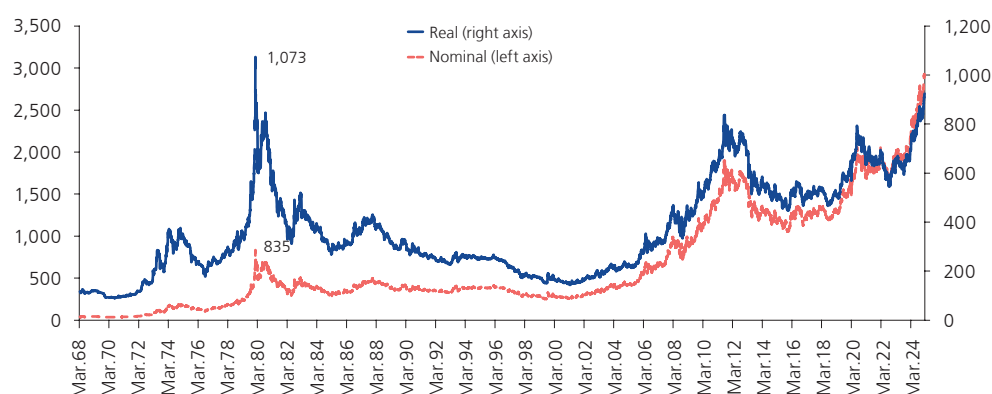
29. The average **gold** price increased 10 percent in the last two months, reaching a level of USD/oz.tr. 2 896 in February 2025. This continues the upward trend recorded in 2024. This increase comes after the gold price accumulated a 30 percent increase in 2024.

In the last two months, the nominal gold price increased to an all-time high of USD/oz.tr. 2,952 on February 24, although, in real terms, it is still below the peak reached in January 1980.





Graph 36
GOLD PRICE IN REAL AND NOMINAL TERMS
(USD/tr. ounce)



* Information as of March 12, series deflated with the US CPI (1982-84=100).
Source: Reuters.

The increase in the price of gold is mainly explained by the increase in investor demand and reserve purchases by central banks (in the last 3 years it represented around 25 percent of demand). This demand was favored by high risk aversion -due to the uncertainty surrounding US trade policy and global geopolitical events- and by the dollar's depreciation so far this year.

Demand from investors was reflected in continued growth in exchange-traded fund (ETF) inflows. In January 2025, global physical-backed gold ETFs recorded net inflows of USD 3 billion, according to the World Gold Council; purchases from Europe, particularly Germany and the UK, were notable. At the end of January, assets under management reached a record USD 294 billion.

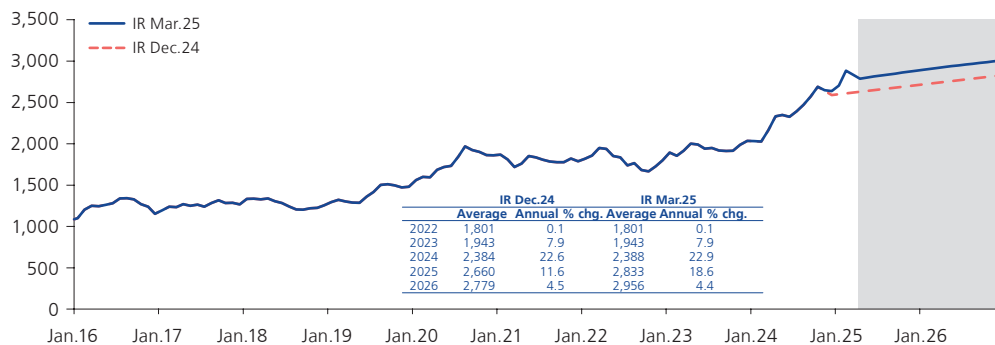
With respect to central bank demand, China's purchases stand out, raising its share of gold in its international reserves to 6 percent in January 2025 (in July 2024 it was 5 percent). In this way, it continues with the upward trend observed in recent years.

In line with the executed data, the gold price projection is revised upward from the previous Inflation Report. An increase is expected, although it is subject to a high degree of uncertainty.

The main downside risks include: (i) the current high price levels and expectations of a less accommodative monetary policy by the Fed, which would reduce demand pressures; and (ii) the weakness of the yuan and the Indian rupee, which could affect the demand for jewelry, demand that would also be affected by the lower growth forecast for China and India over the projection horizon.

On the other hand, the upside risks are: (i) an increase in global tensions, both commercial and geopolitical, and (ii) additional rebalancing of central banks' portfolios, particularly in emerging economies.

Graph 37
GOLD: JANUARY 2016 - DECEMBER 2026
 (USD/tr. ounce)



Source: Reuters and BCRP.

Gas

30. In the last two months, the average Henry Hub **natural gas** price increased 10 percent. This follows a cumulative increase of 34 percent in 2024. In the same sense, the quotation corresponding to the European market (*UK BNP*) increased by 9 percent in the last two months, following a cumulative increase of 13 percent in 2024. It should be noted that, as in previous Inflation Reports, prices in the European market remain above the Henry Hub natural gas price.

The increase in the price of Henry Hub natural gas in the U.S. in the first months of the year was associated with below-average temperatures in much of the U.S., which led to a significant increase in heating demand and, consequently, higher natural gas consumption. In addition, natural gas production experienced a slight decrease mainly in January due to frost. All of this was reflected in a significant reduction in inventories.

The increase in the price of natural gas in Europe was associated with both higher demand as a result of colder weather and demand for inventory replenishment. Likewise, the increase in liquefied natural gas (LNG) exports from the U.S. to Asia led to lower availability in the European market.

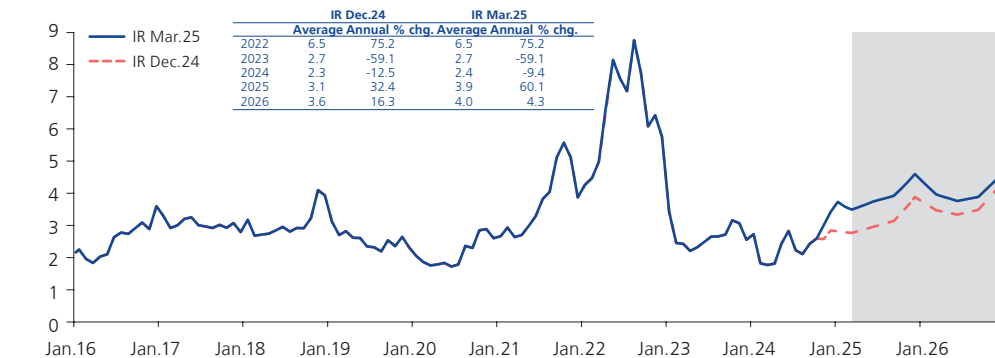
For the projection horizon, the average Henry Hub natural gas price has been revised upward. This revision is related to recent performance and strong demand prospects (particularly in Asia); this in a context of a tight market and low global inventories.

Risks to this central projection are mostly to the downside if tensions in the Middle East and Ukraine ease. There are also prospects for increased LNG production capacity in the US in line with proposals to deregulate the sector and changes to previously adopted environmental commitments. Globally, demand remains robust, especially in Asia, although high prices make a substantial switch from coal to gas difficult in some markets.





Graph 38
NATURAL GAS HENRY HUB: JANUARY 2016 - DECEMBER 2026
(USD/MBTU)



Source: Reuters and BCRP.

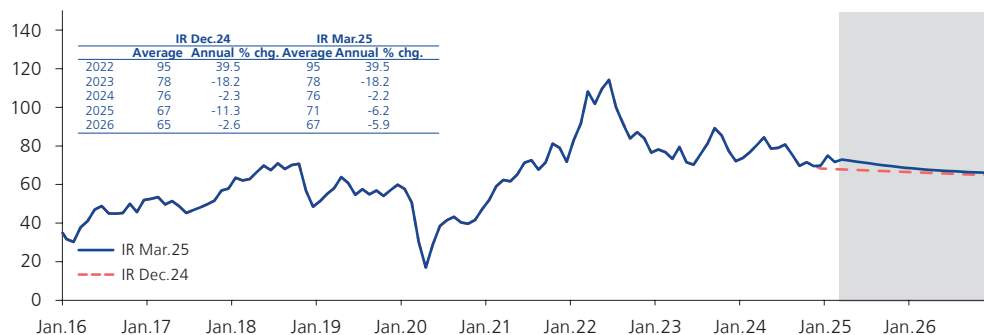
Oil

31. In the last two months, the average WTI **oil** price increased by 2 percent (from USD/bl. 70 in December to USD/bl.72 in February 2025). This only partially reverses the 3 percent drop recorded during 2024.

The slight increase is explained by supply restrictions and geopolitical factors, such as the reduction of Iranian exports due to U.S. sanctions and the extension of production cuts by OPEC+ producer countries until 2026. This is compounded by lower rig counts and strategic reserves, increasing the risk of a supply deficit. In the US, pro-fossil energy policies have favored expectations of higher consumption.

These upward pressures were limited by a gradual increase in U.S. production, driven by the Trump administration's regulatory easing, and the slow reversal of OPEC+ cuts from 2025 that have contributed to higher crude oil availability. In addition, slowing demand growth in China and the use of liquefied natural gas have reduced upward pressure on prices.

Graph 39
WTI OIL: JANUARY 2016 - DECEMBER 2026
(USD/br.)



Source: Reuters and BCRP.

For the projection horizon, the average oil price has been revised upwards with respect to the December Inflation Report, given the outlook of a tight market due to supply restrictions and geopolitical pressures. OPEC+ will continue with its production reduction policy until the end of 2026, while the US administration announced that it will apply additional sanctions to Iran, which will reduce its exports.

Food

- 32. Prices of agricultural products increased in the first months of the year**, due to the perception of a tighter cereal market in the 2024/25 season. This outlook is largely due to the climatic uncertainty generated by the La Niña phenomenon, which affected production prospects in several producing regions, particularly in the so-called “corn belt” of the US, where excessive rains and floods have damaged crops. In addition, this phenomenon has impacted wheat production in Argentina, although, on the other hand, other areas such as Australia have recorded abundant harvests as a result of this phenomenon.

These supply shocks are accompanied by strong global demand for grains, especially from developing countries and in biofuel markets in some developed economies. The increase in biodiesel production - especially in countries such as the USA, Canada and Brazil - has had a direct impact on demand for feedstocks such as soybean oil and corn oil.

In this context, the projection of most food prices is revised upwards, although there is considerable uncertainty in the projection horizon. There are also several risk and uncertainty factors associated with the conflicts in Ukraine (which directly affects grain supply) and in the Middle East (which impacts the market through oil prices). Also, if China’s retaliatory measures on US imports continue, demand for grains would experience a decline and a detour to other markets, as happened during the 2018-2019 trade war.

- (a) The price of **corn** increased by 10 percent in the first two months of the year, reaching a monthly average price of USD/MT 180 in February 2025. This increase follows the 4 percent drop in the price of corn in 2024.

Corn prices increased in the last two months due to a combination of factors. On the supply side, the decline in yields in the US and Argentina due to adverse weather conditions and the delay of the second harvest in Brazil. On the demand side, corn is being used for the ethanol industry in Brazil.

In this context, global inventories have reached their lowest level in four years, with a 16 percent drop in stocks of major exporters.

Recent tariffs imposed by the U.S. government on Mexico, the leading importer of U.S. corn, could lead to trade retaliatory tariffs affecting corn exports, exacerbating market volatility.

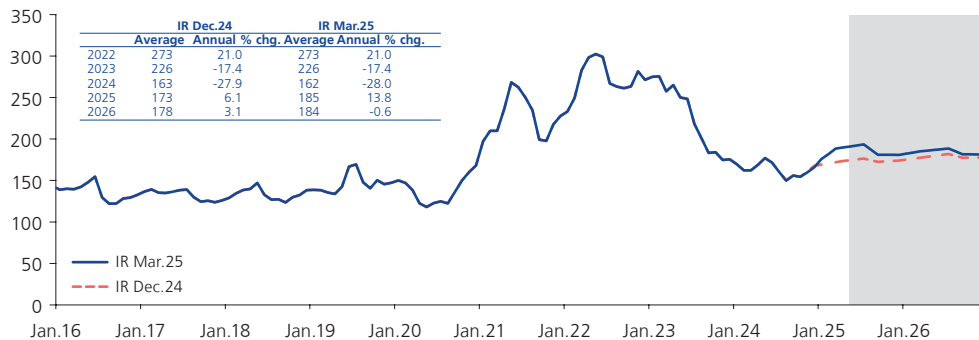
In this context, the corn price projection was revised upward with respect to the December Inflation Report due to forecasts of a tighter world market.





However, uncertainty factors remain, which, in a context of low inventories, could generate price variations. On the supply side, the uncertainty lies in how geopolitical conflicts will develop and how they will affect Black Sea supply and oil prices. On the demand side, it is not unlikely that Mexico, the main importer of corn from the U.S., will apply corn tariffs as part of the retaliation in the framework of the trade war.

Graph 40
MAIZE: JANUARY 2016 - DECEMBER 2026
(USD/ton)

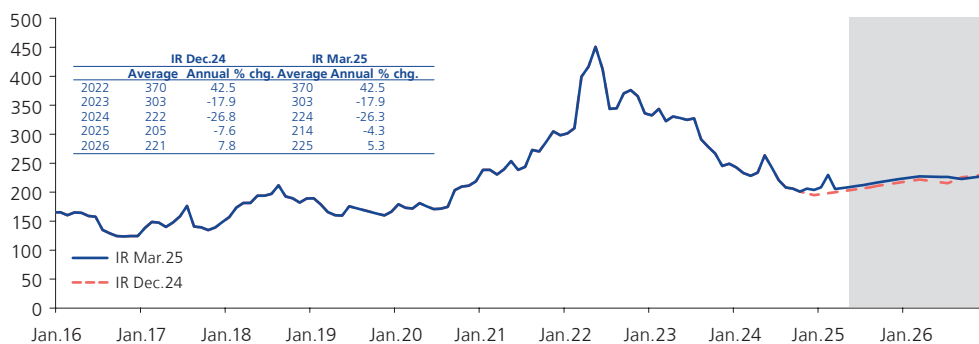


Source: Reuters and BCRP.

- (b) **Wheat** prices increased 12 percent in the first two months of the year, from USD/MT 203 in December 2024 to USD/MT 227 in February 2025. It should be noted that wheat accumulated a drop of 18 percent with respect to December 2023 due to abundant supply (particularly from Russia).

Wheat prices increased over the last two months due to adverse weather conditions in Russia, the world's largest wheat exporter, which have negatively affected the 2025 crop, with frost damage. In addition, wheat inventories in major exporting countries - such as the European Union, Russia, Argentina and the US - are tighter than usual, due to a combination of lower harvests and increased global consumption.

Graph 41
WHEAT: JANUARY 2016 - DECEMBER 2026
(USD/ton)



Source: Reuters and BCRP.

Over the forecast horizon, the price of wheat is revised slightly upward from the quotations projected in the December Inflation Report. This reflects the executed data and the expectation that prices will be supported by low inventories.

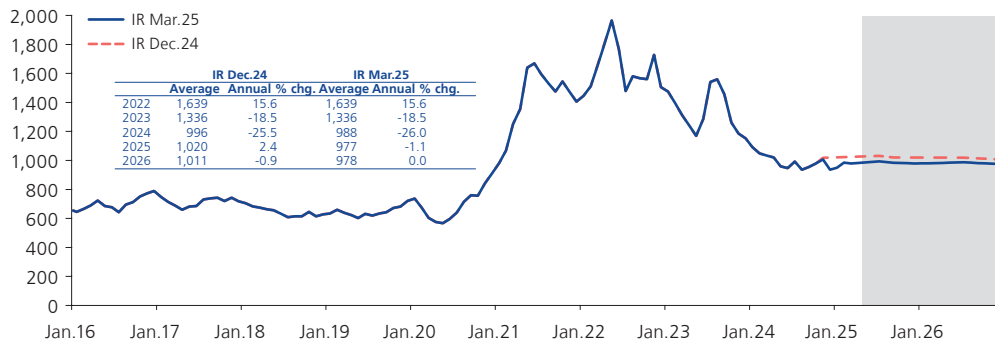
Risks to this scenario introduce an upside bias on this baseline scenario. The projection of a smaller crop in Russia, coupled with unfavorable weather conditions that threaten winter production, could further limit supply. Conversely, trade tensions, and possible resulting retaliatory measures, could generate trade detour that affect demand for U.S. grain.

- (c) The **soybean oil** quotation averaged USD/MT 907 in February 2025, down 3 percent from USD/MT 933 in December 2024. The soybean oil price accumulated a 19 percent drop in December 2024 compared to December 2023.

Soybean oil prices declined on expectations of a record soybean crop in Brazil. The most recent reports from Conab and the USDA agree that Brazil will reach an unprecedented historical production in the 2024/2025 season, surpassing the record achieved in 2022/2023. However, the drop was limited by increased demand from the U.S. biodiesel industry, demand that was favored by the uncertainty surrounding the oil market. These demand pressures were also reflected in a significant drop in inventories to historically low levels.

Considering these recent developments, prices are projected to trade slightly below the previous Inflation Report estimate. As with other food and commodities, the main risk in this projection is related to uncertainty about U.S. trade policy (demand could be favored in case tariffs are implemented on substitute goods such as canola oil from Canada) and about the future evolution of oil prices (where the possibility of OPEC+ gradually eliminating supply cuts would contribute to the fall in price). There is also the possibility of increased production in South America.

Graph 42
SOYBEAN OIL: JANUARY 2016 - DECEMBER 2026
(USD/ton)



Source: Reuters and BCRP.





II. Balance of payments

Terms of trade and goods trade balance

33. The **terms of trade** increased by 10.4 percent between 2023 and 2024. The increase was mostly due to higher **export prices** (7.8 percent), mainly for mining products such as copper, gold, and zinc, as well as non-traditional products from the agricultural and fisheries sectors. Higher metal prices were driven by higher demand for critical minerals for the energy transition, a continued shortage of concentrates, increased purchases of safe-haven assets due to geopolitical risks, and monetary easing by the main central banks. Meanwhile, the favorable evolution of non-traditional agro-export prices was explained by adverse weather conditions in 2023, which led to a lower supply in the world market.

The increase in export prices was accompanied by a decrease in **import prices** (-2.3 percent), as a result of a generalized fall in the price of imported inputs, with oil and its derivatives being the group that had the greatest impact on the average index. These prices were affected by a stable oil supply, with sustained production growth in the United States; prospects of lower demand for this energy input in China, the United States and Europe; abundant inventories and good wheat and corn harvests in the United States, Argentina, Brazil, Russia and Ukraine; as well as the establishment of a temporary maritime corridor in the Black Sea that guaranteed the flow of grains and cereals.

The 2025 terms of trade are projected to grow at a rate of 4.4 percent, which represents a significant upward revision from the zero growth forecast in the previous Report. This change in the projection is mainly based on the prospects of higher-than-expected export price growth in December (from 1.0 to 4.9 percent), mainly for gold and copper, and non-traditional products. The correction in the prices of these metals is in line with the upward pressures registered in the first months of the year, which respond to the persistence of supply restrictions and stricter environmental regulations, in a context of growing commercial risks.

To a lesser extent, a downward correction in the growth of import prices (from 1.0 to 0.6 percent) was a result of an expected moderation in the increase of industrial input prices, in line with the evolution observed in recent months.

For 2026, terms-of-trade growth was revised slightly upward (from 0.0 to 0.1 percent) due to lower expected growth in import prices, particularly the further decline in oil.

This projection is in line with the evolution of the main international quotations and the expected lower world inflation.

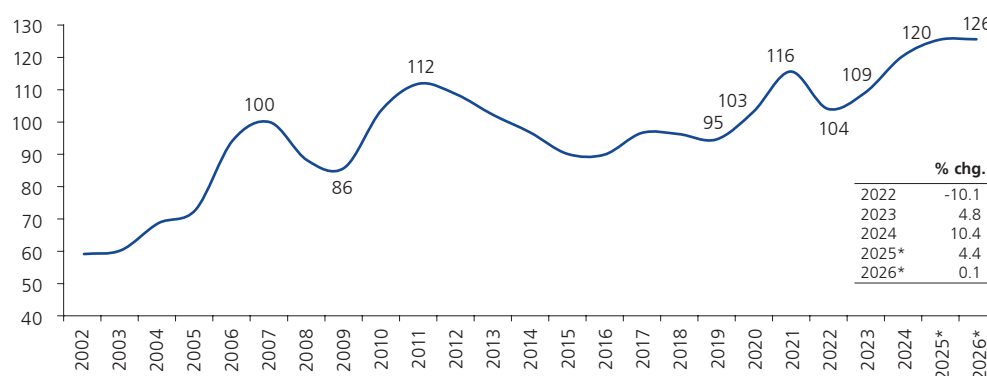
Table 12
TERMS OF TRADE: 2023-2026

	2023	2024	2025*		2026*	
			IR Dec.24	IR Mar.25	IR Dec.24	IR Mar.25
Terms of trade						
Annual % chg. (average)	4.8	10.4	0.0	4.4	0.0	0.1
Price of exports						
Annual % chg. (average)	-2.4	7.8	1.0	4.9	1.8	1.7
Copper (US\$ cents per pound)	385	415	423	438	430	451
Zinc (US\$ cents per pound)	120	126	134	130	132	131
Lead (US\$ cents per pound)	97	94	93	90	96	93
Gold (US\$ per troy ounce)	1,943	2,388	2,660	2,833	2,779	2,956
Price of imports						
Annual % chg. (average)	-6.9	-2.3	1.0	0.6	1.8	1.5
Oil (US\$ per barrel)	78	76	67	71	65	67
Wheat (US\$ per ton)	303	224	205	214	221	225
Maize (US\$ per ton)	226	162	173	185	178	184
Soybean Oil (US\$ per ton)	1,336	988	1,020	977	1,011	978

* Forecast.
Source: BCRP.

At the end of the projection horizon, the terms of trade index would stand at 126 (100 in 2007), the highest level recorded since 1951.

Graph 43
TERMS OF TRADE, 2002-2026
(Index 100=2007)



* Forecast.
Source: BCRP.

34. The **goods trade** surplus reached USD 23,821 million in 2024, USD 6,143 million higher than in the previous year. The annual expansion was mainly due to an increase of USD 8,398 million (12.4 percent) in the value of exports, which was explained by higher average export prices and higher volumes of gold and fishmeal exports. This increase far exceeded the expansion of USD 2,255 million (4.5 percent).



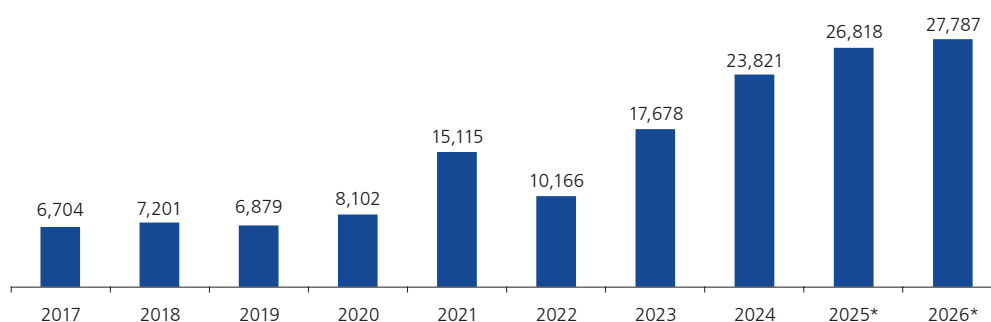


USD 2,255 million (4.5 percent) in imports, which was driven by higher imported volumes of inputs and capital goods, consistent with the recovery in economic activity.

The increase in exports was due to higher prices for mining products such as copper, gold and zinc, as well as higher volumes of gold, fishmeal and fish oil. The decrease in exported volumes of copper and zinc and the fall in the price of fishmeal were limiting factors in the dynamism of exports.

In contrast, the increase in the value of imports was due to higher demand for industrial inputs, such as plastics, fertilizers and textiles, and, to a lesser extent, higher volumes of oil, wheat and corn imports. This dynamic was attenuated by a fall in the prices of imported inputs, including petroleum derivatives, corn, iron and steel.

Graph 44
BALANCE OF TRADE IN GOODS, 2017-2026
(Million USD)



* Forecast.
Source: BCRP.

The trade surplus is expected to maintain an increasing trend over the projection horizon, reaching levels of USD 26,818 million in 2025 and USD 27,787 million in 2026. These figures represent an upward revision with respect to December's expectations, which is supported by the correction of the terms of trade outlook and, to a lesser extent, by the higher export volumes of mining products.

Results of external accounts

35. The 2024 **balance of payments** showed a current account surplus of USD 6,337 million (2.2 percent of GDP) and a net capital inflow in the financial account of USD 1,596 million (0.6 percent of GDP). The current account surplus was USD 4.5 billion higher than in 2023, while the financial account reversed the net capital outflow observed in that year (USD 1,309 million). These flows translated into a greater accumulation of international reserves for USD 7,954 million (2.7 percent of GDP).

Table 13
BALANCE OF PAYMENTS
(Million USD)

	2024	2025*		2026*	
		IR Dec.24	IR Mar.25	IR Dec.24	IR Mar.25
I. CURRENT ACCOUNT BALANCE	6,337	3,536	6,028	4,712	7,182
% GDP	2.2	1.2	1.9	1.5	2.2
1. Trade balance	23,821	23,619	26,818	24,336	27,787
a. Exports	75,916	78,564	82,309	82,618	86,464
Of which:					
i) Traditional	55,218	58,035	60,694	60,682	63,342
ii) Non-Traditional	20,483	20,371	21,445	21,782	22,966
b. Imports	52,095	54,945	55,491	58,283	58,677
2. Services	-7,756	-6,577	-7,011	-6,164	-6,895
3. Primary income (factor income)	-17,304	-21,128	-21,137	-21,318	-21,476
4. Secondary income (transfers)	7,575	7,622	7,358	7,858	7,766
Of which: Remittances	4,945	5,056	4,965	5,208	5,165
II. FINANCIAL ACCOUNT 1/	-1,596	-171	-2,954	969	839
% GDP	-0.6	-0.1	-1.0	0.3	0.3
1. Private Sector	3,673	1,852	812	2,709	2,299
a. Long-term	836	900	-87	1,502	1,084
b. Short-term	2,837	952	899	1,207	1,215
2. Public Sector 2/	-5,270	-2,024	-3,766	-1,740	-1,460
III. NET ERRORS AND OMISSIONS	-879	0	0	0	0
IV. BALANCE OF PAYMENTS	7,054	3,707	8,982	3,743	6,343
IV= (I+III) - II = (1-2)					
1. Change in NIR balance	7,954	3,707	8,982	3,743	6,343
2. Valuation effect	900	0	0	0	0

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

2/ Considers the purchase and sale between residents and non-residents of government bonds issued abroad or in the local market.

IR: Inflation Report.

* Forecast.

Source: BCRP.

The current account is projected to shrink in 2025, reaching a surplus of USD 6 028 million (1.9 percent of GDP), before rebounding to USD 7 182 million (2.2 percent of GDP) in 2026 of USD 6 028 million (1.9 percent of GDP), before rebounding to a level of USD 7 182 million (2.2 percent of GDP) in 2026. The recovery of foreign-owned companies' profits in the country would explain the reduction in 2025. Meanwhile, the expansion of the trade surplus, the normalization of inbound tourism and the reduction in freight rates would support the greater dynamism of the current account forecast for 2026.

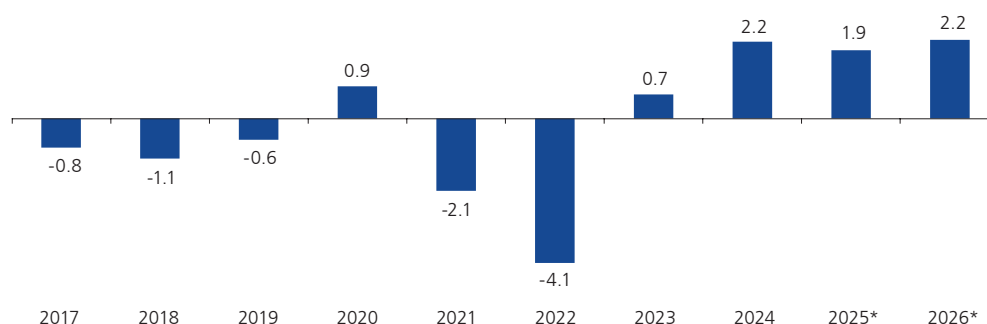
On the other hand, this year's financial account is expected to register a higher net capital inflow than in 2024, amounting to USD 2,954 million (1.0 percent of GDP). This evolution will correspond mainly to the lower outflow of short-term capital from banking companies; and, to a lesser extent, to the recovery of net long-term external financing of the private sector. Over the projection horizon, external financing received by the public sector is expected to gradually reduce, consistent with the consolidation process of the fiscal accounts. This factor, together with the reduction of the private sector's net debtor position, will explain the capital outflow from the financial account of USD 839 million estimated for 2026.

The higher **current account** surplus between 2023 and 2024 was caused by: (i) the positive impact of higher terms of trade and the recovery of local production and external demand on the trade balance; (ii) the gradual normalization of inbound tourism that increased services exports; and (iii) the effects of favorable employment conditions abroad on remittances.





Graph 45
CURRENT ACCOUNT, 2017-2026
(% GDP)

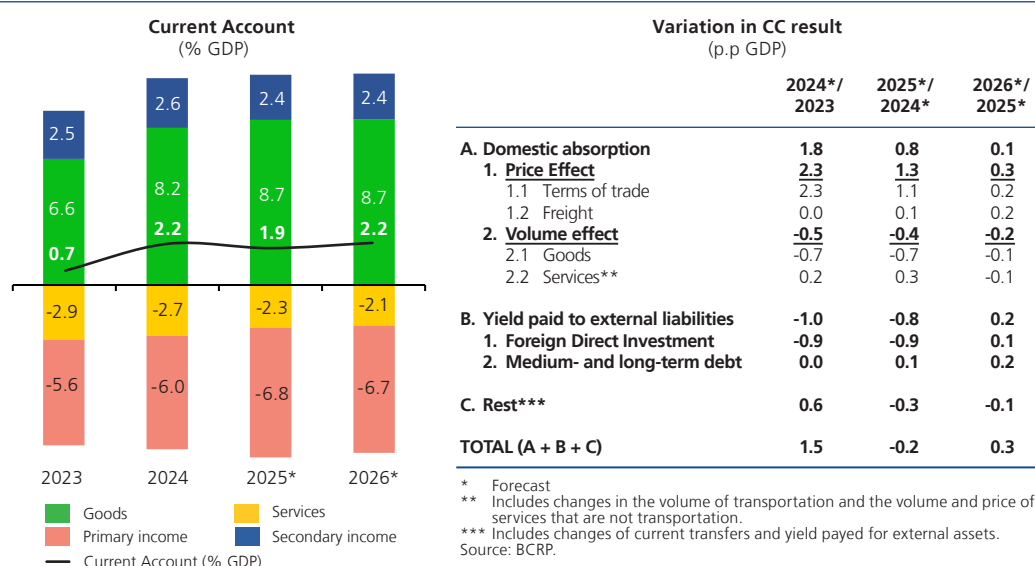


* Forecast.
Source: BCRP.

36. The **variations in the current account result** can be broken down into two main factors, the one attributed to domestic absorption (greater net nominal demand for goods and services from abroad) and the one related to the return paid to the factors of production (capital) and to Peru's liabilities abroad (debt instruments).

In 2024, the 1.5 percentage point (p.p.) expansion of the current account surplus was mainly explained by the **positive price effect of the terms of trade** (2.3 p.p.) and, to a lesser extent, by the **contribution of the other item** (0.6 p.p.), due to the higher flow of remittances due to favorable employment conditions abroad and the higher yield of our foreign assets. This dynamic was partially offset by the **higher yield paid on external liabilities** (-1.0 p.p.) and a **negative volume effect** in net trade in goods (-0.7 p.p.).

Table 14
DETERMINANTS OF THE VARIATION
IN THE CURRENT ACCOUNT RESULT, 2024-2026



By 2025, the reduction in the surplus with respect to the previous year will come mainly from **higher yields paid on FDI liabilities (-0.8 p.p.)**, explained by an

expected increase in profits from a level of 5.9 percent of GDP in 2024 to 6.7 percent in 2025. This effect will be reinforced by a **negative volume effect (-0.4 p.p.)** resulting from a greater dynamism in the volume of goods imports and by the **fall in the other item (-0.3 p.p.)**, in line with the decrease in income from current transfers (3.0 percent) -due to lower expected donations and the expected impact of harsher migration policies-; and lower income from external assets of the private sector.

The stabilization of FDI corporate profits at 6.7 percent of output towards the end of the projection horizon and lower international interest rates would explain the **positive contribution of the yield paid on external liabilities (0.2 p.p.)** to the positive variation of the current account result in 2026 (0.3 p.p.). This contribution would be reinforced by the positive impact of the terms of trade (0.2 p.p.) and the normalization of freight rates towards their pre-pandemic levels (0.2 p.p.).

With the projections for 2025 and 2026, we would be reaching 4 consecutive years of current account surplus, a fact not observed since the 2004-2007 period.

37. **Peru is one of the few economies in the region that recorded a current account surplus in 2024 and foresees surplus results in the next two years.** Although the rest of the countries recorded current account deficits in 2024, countries such as Chile and Colombia recorded reductions of 1.2 and 0.4 p.p., respectively, with respect to the previous year's deficit. In contrast, Brazil's current account deficit increased due to lower food and oil prices on its trade balance and an increase in the services deficit.

Table 15
LATIN AMERICA: CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS
(Annualized, in % GDP)

	2021	2022	2023	Q3.24	2024	2025*	2026*
Brazil	-1.7	-2.1	-1.1	-1.9	-2.6	-2.7	n.d.
Chile 1/	-7.3	-8.7	-3.6	-2.7	-1.5	-2.3	-2.3
Colombia	-5.6	-6.0	-2.2	-1.7	-1.8	-2.5	n.d.
Mexico	-0.3	-1.2	-0.3	-0.4	-0.3	-0.4	-0.6
Peru	-2.1	-4.1	0.7	2.1	2.2	1.9	2.2

* Forecast.

1/ The 2024 data for Chile is preliminary and the 2025-2026 data corresponds to the December 2024 Monetary Policy Report.

Source: Central banks of each country.

38. The 2024 **long-term private financial account** recorded a net capital outflow of USD 836 million (0.3 percent of GDP), USD 15 million higher than in 2023. This is explained by an increase in loan repayments and a higher pace of portfolio asset purchases by the banking and non-bank financial sector (AFPs and mutual funds). These effects were partially offset by the increase in FDI, due to higher reinvestment of earnings, and, to a lesser extent, to the increase in investment in portfolio liabilities.

By 2025, net capital inflows are projected at USD 87 million, as a result of higher FDI flows and lower net purchases of portfolio assets by the PFAs and the banking sector. By 2026, the increase in FDI inflows and the recovery of portfolio asset purchases,





together with lower disbursements and higher external loan repayments, are expected to result in a net capital outflow of USD 1,084 million.

Investment in portfolio liabilities is expected to show a downward trend, driven by lower bond issuance abroad to finance resident companies. However, these investment flows were revised upward with respect to the previous Report, in line with higher forecasts for bond issuance to prepay debt instruments.

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

	2024	2025*		2026*	
		IR Dec.24	IR Mar.25	IR Dec.24	IR Mar.25
Private Sector (A + B)	3,673	1,852	812	2,709	2,299
% GDP	1.3	0.6	0.3	0.9	0.7
A. Long-term (1-2)	836	900	-87	1,502	1,084
1. Assets	8,669	7,574	6,550	6,840	7,134
Direct investment	1,514	1,620	1,797	1,971	2,134
Portfolio investment 2/	7,155	5,953	4,753	4,869	5,000
2. Liabilities 3/	7,833	6,674	6,637	5,338	6,050
Direct investment	6,886	7,116	7,380	7,047	7,267
Portfolio investment 4/	2,506	83	357	70	160
Long-term loans	-1,558	-525	-1,100	-1,778	-1,377
B. Short-term	2,837	952	899	1,207	1,215

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.

* Forecast.

Source: BCRP.

39. The 2024 **public sector financial account** recorded an increase in net foreign borrowing equivalent to USD 5.27 billion, which contrasts with a net reduction in financing of USD 716 million in 2023. This dynamic was the result of higher global bond issuance by the General Government during the third quarter of the year and the recovery of the pace of net purchases of sovereign bonds by non-residents.

Public sector net external financing is projected to gradually decline to USD 3,766 million in 2025 and USD 1,460 million in 2026. Lower portfolio issuance in 2025 and a slower pace of sovereign bond purchases by non-residents in 2026 would explain the downward trend in public sector net external borrowing. The current projection is in line with the expected lower requirements of the treasury due to the expected reduction in the fiscal deficit.

Table 17
FINANCIAL ACCOUNT OF THE PUBLIC SECTOR 1/
(Million USD)

	2024	2025*		2026*	
		IR Dec.24	IR Mar.25	IR Dec.24	IR Mar.25
I. ASSETS	-35	140	141	140	140
II. LIABILITIES (1+2) 2/	5,235	2,164	3,907	1,880	1,600
1. Portfolio investment	4,384	1,266	2,984	1,625	1,329
Issuance	3,300	0	0	0	0
Amortizations	-2,252	-774	-774	-1,289	-1,289
Other operations (a - b) 3/	3,336	2,040	3,758	2,914	2,617
a. Sovereign bonds purchased by non-residents	3,589	2,040	3,877	2,914	2,617
b. Global bonds purchased by residents	253	0	119	0	0
2. Loans	851	898	923	255	272
Disbursements	1,968	2,372	2,372	1,423	1,423
Amortizations	-1,117	-1,474	-1,449	-1,168	-1,151
III. TOTAL (I - II)	-5,270	-2,024	-3,766	-1,740	-1,460

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.

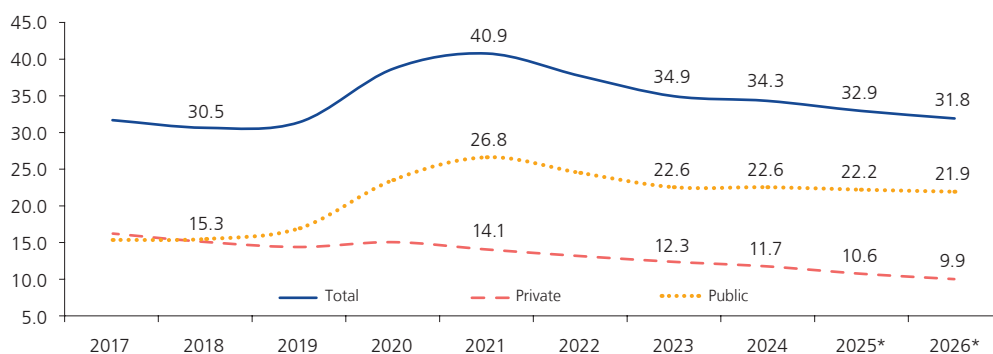
3/ For the purchase and sale between residents and non-residents of government bonds issued abroad or in the local market.

* Forecast.

Source: BCRP.

40. The **stock of medium- and long-term external debt** -mainly loans and bonds- increased by USD 5,642 million between 2023 and 2024, basically due to higher purchases of sovereign bonds by non-residents and the issuance of these instruments in international markets. In terms of output, this balance is projected to decline from 34.3 percent of GDP in 2024 to 31.8 percent at the end of the projection horizon, mostly due to a reduction in private sector debt from 11.7 percent of GDP to 9.9 percent over the same period. To a lesser extent, a 0.6 p.p. reduction in public external debt would contribute.

Graph 46
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

41. As of March 20, **Net International Reserves** (NIR) accumulated an expansion of USD 5,543 million with respect to the end of last year, to a total USD 84,540 million.

NIRs will stand at 29.4 percent of GDP at the end of the projection horizon and is expected to be worth almost 6 times the balance of short-term external liabilities and more than ten times the sum of these liabilities plus the current account deficit. These indicators reveal existing solid support against possible external shocks.

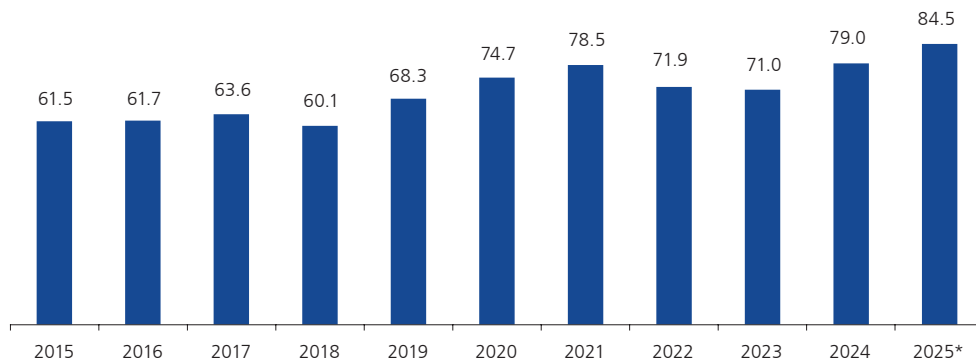
Table 18
NIR INDICATORS, 2015-2025

	2022	2023	2024*	2025*	2026*
International Reserves as a percentage of:					
a. GDP	29.4	26.5	27.3	28.4	29.4
b. Short-term external debt 1/	460	348	517	546	581
c. Short-term external debt plus current account deficit	279	383	884	871	1,043

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

* Forecast.

Graph 47
NET INTERNATIONAL RESERVES, 2015-2025
(Billion USD)



* As of March 20, 2025.

Source: BCRP.

III. Economic Activity

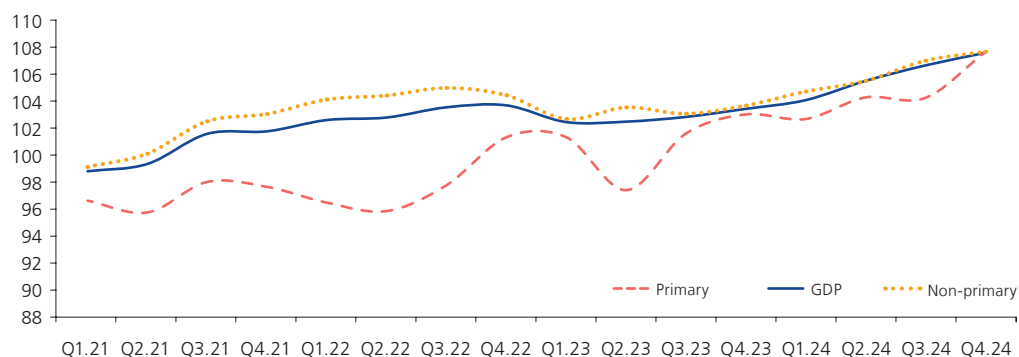
Sectoral GDP

42. Economic activity showed a recovery of 3.3 percent in 2024, following the reversal of most of the adverse shocks that affected economic performance in 2023. Primary activities grew 4.1 percent, driven by the recovery of the agriculture sector, fishing and related manufacturing, which in 2023 were affected by adverse weather events such as the El Niño and droughts in the south of the country at the end of 2022. Likewise, agricultural production recovered mainly in the domestic market and agroexport sectors, while the normalization of sea temperatures favored maritime anchovy fishing and its related manufacturing.

Non-primary sectors, which had fallen 1.3 percent in 2023, rebounded 3.1 percent in 2024, with manufacturing, construction, and services sectors gaining momentum. In particular, non-primary activities accelerated from the third quarter with growth of 4.2 percent (2.5 percent in the second quarter). This was result of a recovery in employment and income, low inflation, higher business confidence after three years in the pessimistic tranche, an increase in inbound tourism, and authorized withdrawals from pension funds, which boosted private spending. The construction sector represented an additional boost, both due to the progress of public works and private infrastructure projects in non-mining sectors.

The seasonally adjusted GDP indicator continued to show an increasing trend in the fourth quarter of 2024 (0.9 percent) with respect to the previous quarter, driven by growth in both primary and non-primary activities.

Graph 48
SEASONALLY ADJUSTED ECONOMIC ACTIVITY INDEXES
(Base 100 = 4Q-2019)



Source: BCRP.





43. The economy is projected to continue the recovery path initiated in 2024 and grow 3.2 percent in 2025. The lower growth rate of the primary sectors is consistent with stable weather conditions between 2024 and 2025. Non-primary sectors are expected to accelerate from 3.1 to 3.3 percent, due to the sustained effect of low inflation, the recovery of the labor market, and business and consumer confidence on private spending, which in turn will boost manufacturing and services.

The economy is expected to grow by 2.9 percent in 2026, the same rate as projected in the December Report. The base scenario assumes favorable weather conditions for the development of primary activities, together with an environment of socio-political and price stability that reinforces the confidence of private sector agents. Likewise, the projection considers that the 2026 general elections will take place in an orderly manner and in the absence of risks to institutional stability. This will stimulate private spending and, consequently, boost non-primary activities.

Compared to the December Report, the growth projection for 2025 is revised upward, from 3.0 to 3.2 percent. This revision is the result of higher expected growth in the non-primary sectors, particularly in construction, associated with the upward revision of public investment, and in the services sector, due to higher private consumption. On the other hand, the growth projection for the primary sectors is revised downward, mainly for (i) fishing, due to the lower performance of the anchovy catch in the first months of the year, as well as warm conditions in February and March; and (ii) mining, due to lower production projections for some gold and molybdenum mining companies.

Table 19
GDP BY ECONOMIC SECTORS
(Real % change)

	2023	2024	2025*			2026*	
			Jan.	IR Dec.24	IR Mar.25	IR Dec.24	IR Mar.25
Primary GDP	2.9	4.1	4.4	3.0	2.6	2.0	2.0
Agriculture and livestock	-2.3	4.9	3.2	3.0	3.2	3.0	3.0
Fishing	-21.2	24.9	23.5	2.7	2.2	2.4	2.9
Metallic mining	9.3	2.0	3.2	2.5	2.0	1.5	1.0
Hydrocarbons	0.7	2.1	-9.1	7.7	5.5	0.2	2.1
Manufacturing	-2.3	8.2	16.0	2.8	2.6	3.0	3.2
Non-Primary GDP	-1.3	3.1	4.0	3.0	3.3	3.1	3.1
Manufacturing	-8.0	2.5	1.9	3.0	3.0	2.9	2.9
Electricity and water	3.7	2.4	1.5	3.0	3.0	2.7	2.7
Construction	-8.2	3.6	4.1	3.2	3.8	2.0	2.0
Commerce	2.4	3.0	3.2	2.7	2.7	2.8	2.8
Services	-0.1	3.2	4.6	3.0	3.5	3.3	3.3
Gross Domestic Product	-0.4	3.3	4.1	3.0	3.2	2.9	2.9

IR: Inflation Report

* Forecast.

Source: BCRP.

The growth projection for 2026 remains the same as expected in December, however, the current baseline scenario includes recompositions between sectors. Higher results

are expected in fisheries (due to lower growth rate in 2025), which will be offset by mining (lower announced zinc production and modifications in the production forecasts of copper companies).

44. Forecast by economic sector:

- a) The **agriculture sector** grew 4.9 percent in **2024**, resuming the growth path that characterized the sector during 2005-2022. Growth in 2024 was due to optimal weather conditions that allowed for a good season, both for production for the domestic and foreign markets, with record volumes of blueberries.

For **2025**, the growth projection was raised from 3.0 to 3.2 percent due to a favorable evolution of the rainfall cycle in recent months. Although rains were delayed (in December there was a rainfall deficit in the southern highlands), they regularized in the first months of this year. However, this will mean that at the beginning of 2025 there will be less dynamism in production for the domestic market, which will improve by mid-year. The engine of annual growth will be the continuity of the good agro-export campaign (grapes, mangoes, blueberries and olives) and the constant effort in the varietal change of export fruits, to increase agricultural yields.

The projection of 3.0 percent annual growth is maintained for the year **2026**.

As of March, the precipitation indicator for the sierra region shows surplus accumulations for the northern and central highland, and improvements in precipitation levels throughout the highland region since February 2025.

Table 20
RAINFALL INDICATOR - SIERRA REGION 1/
(In % respect to its historical average)

	Jul. 2024	Aug. 2024	Sep. 2024	Oct. 2024	Nov. 2024	Dec. 2024	Jan. 2025	Feb. 2025	Mar.* 2025	Agricultural Campaign 2/ Aug.2024 - Mar.2025*
North	-47.3	-63.8	-41.5	-44.4	-58.8	35.4	32.0	91.9	-6.0	15.2
Center	-61.9	-19.8	-34.9	-26.1	52.5	7.7	-2.1	56.1	46.3	18.5
South	-42.4	-64.0	-22.7	-36.6	52.0	-39.8	3.0	22.6	106.3	8.7

1/ Sample of 218 Meteorological Stations, with a 30-year historical average (1981-2010).

2/ Percentage variation of accumulated rainfall in crop year, 2024-2025, with respect to its historical average.

* Accumulated up to day 10.

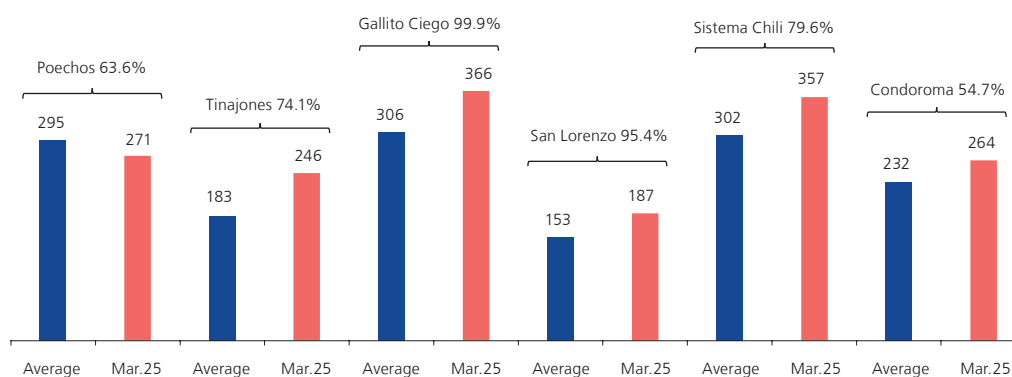
Source: Senamhi and ANA.

As of March 14, 2025, water storage with respect to its storage capacity is ample in the country's main reservoirs, particularly in the north. Thus, it exceeds 90 percent in the Gallito Ciego dam and the San Lorenzo reservoir; and 60 percent in the Tinajones (Lambayeque) and Poechos (in Piura) reservoirs.





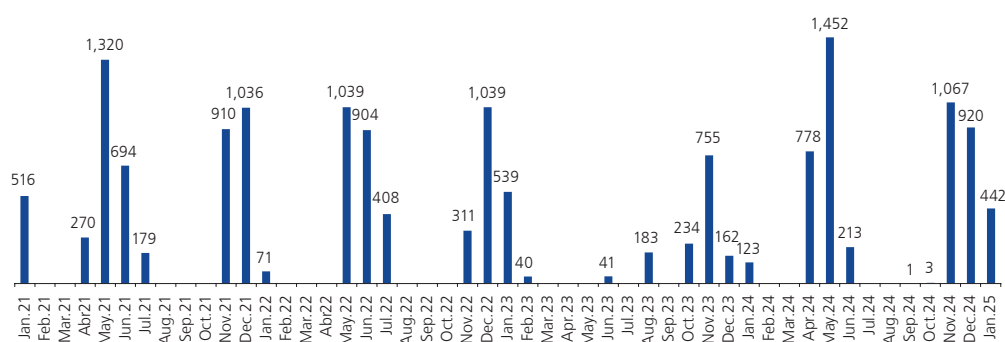
Graph 49
STORED VOLUME OF MAIN RESERVOIRS 1/
(In million cubic metres)



1/ As of March 14, 2025, the average cover the last five years (2020-2024) 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 Project

- b) In 2024, the **fishing sector** grew 24.9 percent, mainly due to the industrial fishing catch. The performance is explained by (i) a base effect, given the cancellation of the first anchovy season in the north-central zone in 2023; and (ii) the higher catch quota allocated in the second season (2.51 million tons), being the highest in recent years. The result was partially offset by a lower performance of direct human consumption and inland fishing. The fall in the catch of squid (-69.7 percent), prawns (-46.6 percent), perico (-38.3 percent), mackerel (-29.4 percent), trout (-7.9 percent), among others, stands out. In the case of squid, the Ministry of Production reported that the low availability is due to the delayed effects of the El Niño 2023-2024.

Graph 50
ANCHOVY CATCH FOR INDUSTRIAL CONSUMPTION IN NORTH-CENTRAL ZONE*
(Thousand tons)



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

On November 1, the start of the second anchovy fishing season in the north-central zone was authorized. As of December 31, 2.0 million tons were caught, representing 79.2 percent of the allocated quota (2.51 million MT). On January

21, the season ended with a catch of 2.4 million tons (96.8 percent of the quota).

The sector's activity is expected to grow 2.2 percent in **2025**. The downward revision from the previous projection (2.7 percent) responds to weak warm conditions in the months of February and March that would mainly affect industrial fishing¹. Growth of 2.9 percent is expected for **2026**. This projection assumes normal weather conditions and quotas for the anchoveta campaigns in line with historical levels observed in previous years.

- c) **Metal mining sector** grew 2.0 percent during 2024; mainly explained by higher extractions of gold, molybdenum, silver, iron, lead and tin, that offset declines in zinc and copper.

For the year, **copper** production decreased 0.2 percent, mainly due to lower extraction at Antapaccay, Marcobre, Quellaveco, Cerro Verde, and Gold Fields. With respect to Antapaccay, the lower performance (-15.7 percent) responds to a geological failure at the mine during the second quarter that compromised copper production. Marcobre and Quellaveco had lower ore grades, while Cerro Verde extracted less during the year. The lower production was partially offset by the performance of Southern (better Toquepala grades) and Las Bambas (start of operation of the Chalcobamba pit). **Zinc** production contracted by 13.5 percent in 2024, mainly due to lower zinc grades reported by Antamina and lower processing by El Brocal and Volcan.

Gold production grew 6.9 percent. There was a significant contribution from Las Bambas and Paltarumi (absent in the comparison period). There was also higher production from Boroo due to its optimization project and higher processing from Yanacocha and Poderosa.

Higher **molybdenum** production was recorded (25.3 percent) due to increased extraction at Antamina and Southern. Antamina's higher production was due to higher ore grades not initially contemplated in its production plan. **Silver** and **lead production** increased by 15.4 and 6.6 percent, respectively. In both cases, the higher production came mainly from Buenaventura, associated with the restart of operations at Uchucchacua and the start-up of the Yumpag project. It is worth mentioning that silver production from Las Bambas (absent in 2023) was accounted for. Likewise, **tin** production increased 23.2 percent due to a base effect, given the social protests in the first quarter of 2023 that affected Minsur's production. In addition, **iron ore** production increased 2.5 percent by Shougang.

1 In its official communiqué 03-2025 of March 14, ENFEN maintained the alert status of "Coastal Niño Watch" in the Niño 1+2 region, in the face of a possible short-lived weak warm event. According to the communiqué, weak warm conditions would prevail through April with a 56 percent probability.





For **2025**, growth in the sector is revised downward from 2.5 to 2.0 percent. This is mainly supported by revised production plans and a base effect, given a better-than-expected performance in 2024. An increase of 1.0 percent is projected in **2026**.

- d) Activity in the **hydrocarbons sector** increased 2.1 percent during the year. **Oil** production grew 5.3 percent due to higher production from lot 95, derived from the drilling of 6 development wells and, to a lesser extent, from the resumption of operations in lots Z-1 and 8 (paralyzed since the pandemic). Meanwhile, **natural gas liquids** production increased 2.6 percent due to lot 57, while **natural gas** extraction decreased 1.2 percent due to lots 56 and 88.

For **2025**, growth is revised downward from 7.7 to 5.5 percent due to the postponement to 2026 of the start of operations of lot 192 (contemplated for April 2025 in the previous Report). With the 2025 revision, **2026** growth increases from 0.2 to 2.1 percent.

- e) Activity in the **primary manufacturing subsector** increased 8.2 percent in 2024, mainly due to higher fishmeal and fish oil production, in line with the recovery of the anchoveta catch.

Subsector grow of 2.6 percent is expected for **2025**, which considers growth in the production of canned and frozen fish products and metal refining. By **2026**, a 3.2 percent increase is expected.

- f) **Non-primary manufacturing** activity grew 2.5 percent in the year. The branches that recorded the greatest increase were those pertaining to mass consumer goods, such as furniture and toiletries and cleaning products; and those oriented to the external market, such as clothing, fabrics and knitted articles, and canned food.

Non-primary manufacturing is projected to grow by 3.0 percent in **2025**, the same as in the previous report. For **2026**, the growth projection of 2.9 percent is maintained.

- g) The **construction sector** grew 3.6 percent in 2024 due to greater progress in public works. For **2025**, the growth projection was revised upward from 3.2 to 3.8 percent, due to higher public investment. For **2026**, the sector's growth projection was maintained at 2.0 percent, supported by higher private investment.

- h) During 2024 the **trade sector** grew 3.0 percent, due to higher wholesale (3.2 percent), retail (3.2 percent) and vehicle sales (0.2 percent).

By 2025, the sector's activity is expected to grow 2.7 percent; while by 2026, growth is estimated at 2.8 percent.

- i) The **services** sector grew 3.2 percent in 2024. Import duties and taxes accelerated, growing 3.6 percent, which would be associated with higher economic growth. Likewise, there was significant growth in transportation and storage services (6.1 percent), due to higher land and air passenger transportation services.

By **2025** and **2026**, services are expected to grow by 3.5 and 3.3 percent, respectively, in line with the expected evolution of private consumption.

GDP expenditure

45. On the expenditure side, the recovery in 2024 was supported by the advance of domestic demand. On the one hand, the recovery of the labor market, the increase in purchasing power and greater business confidence allowed for a rebound in private spending. Thus, private consumption grew from 0.1 to 2.8 percent between 2023 and 2024, while investment partially reversed the 7.3 percent drop by expanding 2.6 percent in the same period. Public spending also contributed to the increase in GDP, mainly in its subnational investment component, which went from a 5.3 percent contraction in 2023 to double-digit growth, a rate not seen since 2012, excluding the years affected by the pandemic.

The upward revision in output growth forecast for 2025, with respect to the previous Report, is explained by the prospects of higher domestic demand, resulting from higher public investment -due to the execution observed in the first two months of the year- and a greater dynamism of private consumption expected in the first quarters of the year -in line with the evolution of the leading indicators of consumption-.

By 2026, the output growth rate is expected to moderate slightly to 2.9 percent, with private spending as the main driver of growth and a lower growth rate of public investment in line with fiscal targets for expenditure consolidation. The assumptions of the 2025-2026 projection scenario include an environment of macroeconomic and financial stability that stimulates the recovery of business confidence and private spending, as well as the normal and orderly development of the 2026 electoral process.





Table 21
DOMESTIC DEMAND AND GDP
(Real % change)

	2023	2024	2025*		2026*	
			IR Dec.24	IR Mar.25	IR Dec.24	IR Mar.25
Domestic demand	-1.9	3.8	3.2	3.5	3.0	3.0
Private consumption	0.1	2.8	2.8	3.1	2.9	2.9
Public consumption	4.6	2.3	2.2	2.2	2.5	2.5
Private investment	-7.3	2.6	4.1	4.1	3.5	3.5
Public investment	2.8	14.1	4.5	6.5	1.0	1.0
Change on inventories (contribution)	-1.3	0.4	0.0	0.0	0.0	0.0
Exports	4.9	5.1	3.9	3.9	3.3	3.3
Imports	-1.3	6.9	5.0	5.2	3.8	3.8
Gross Domestic Product	-0.4	3.3	3.0	3.2	2.9	2.9

IR: Inflation Report.

* Forecast.

Source: BCRP.

46. Most **contemporary and leading indicators related to private consumption** show favorable signs.

In the labor market, indicators continued to improve in recent months. Jobs continued to recover in non-primary sectors such as construction, commerce and services, while employment in primary sectors, such as agriculture and livestock, showed a sustained recovery since the third quarter of 2024, consistent with better weather conditions. In addition, the total nominal wage bill maintains solid growth.

Table 22
**FORMAL JOBS IN
THE PRIVATE SECTOR**

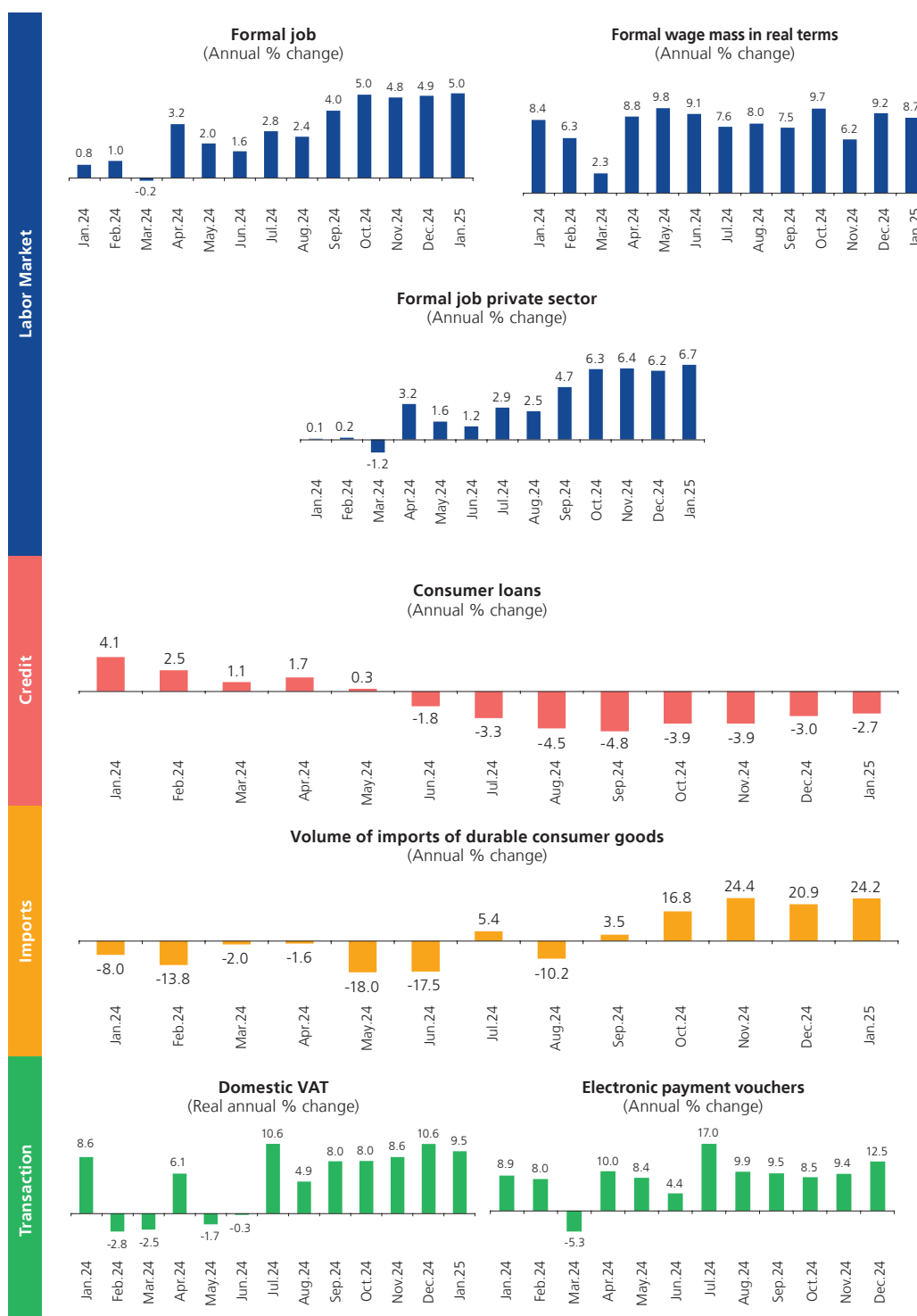
	Thousand jobs								% chg.			
	2023				2024				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total	4,129	4,125	4,110	4,206	4,115	4,208	4,249	4,471	-0.3	2.0	3.4	6.3
<i>Of which:</i>												
Agriculture and livestock 1/	546	440	456	507	449	400	469	641	-17.8	-9.1	2.8	26.2
Fishing	20	18	18	19	16	17	16	17	-18.7	-6.0	-13.2	-9.5
Mining	114	117	119	119	122	124	125	125	7.2	6.0	5.2	5.0
Manufacturing	506	498	487	489	498	497	492	493	-1.6	-0.1	1.0	0.8
Electricity	16	16	16	16	16	16	17	17	-1.7	-0.8	1.9	4.5
Construction	208	207	219	232	213	222	232	238	2.4	7.4	5.9	2.9
Commerce	708	695	690	700	712	716	706	720	0.5	3.1	2.3	2.9
Services	1,992	2,113	2,079	2,094	2,052	2,169	2,139	2,161	3.0	2.6	2.9	3.2

1/ Includes fruit and vegetable processing and preservation.

Source: SUNAT.

Transactional indicators, such as domestic VAT and payment vouchers, continued to show solid growth in recent months. Likewise, although consumer credit in real terms has been contracting since June, the magnitude of the fall has been progressively reduced, which has been accompanied by a reduction in household delinquency. Finally, the import volume of consumer durable goods has shown a positive and sustained trend since September 2024, mainly for televisions and household appliances.

Graph 51
INDICATORS RELATED TO PRIVATE CONSUMPTION



Source: BCRP, INEI, and SUNAT.

47. **Contemporaneous and leading indicators related to private investment** have shown a favorable evolution in recent months.

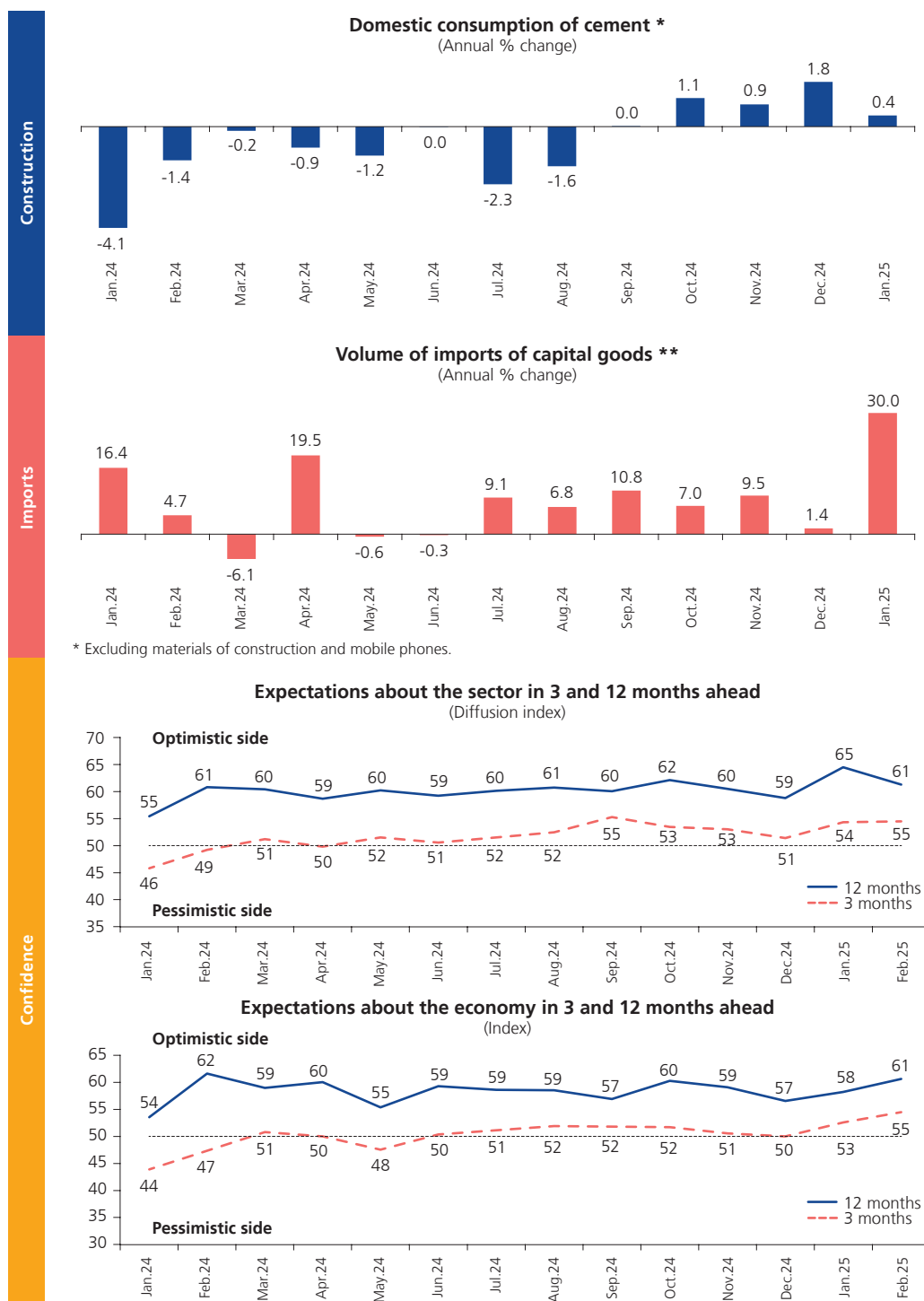
On the one hand, 3- and 12-month economy and sector expectations continued in optimistic terrain and most of them with an increasing trend in recent months. Also,





the imported volume of capital goods (excluding construction materials and mobile phones) has been growing since July 2024, and in January 2025 it increased 30.0 percent.

Graph 52
INDICATORS RELATED TO PRIVATE INVESTMENT



On the other hand, domestic cement consumption did not show a clear recovery until the third quarter of 2024, due to the lack of dynamism in the self-construction segment, which registered strong growth until 2022. However, as of October, the year-over-year variation of the 3-month moving average shows a clear improvement.

48. The February **Survey on Macroeconomic Expectations** shows that economic agents expect GDP growth of between 3.0 and 3.1 percent by 2025 and between 2.9 and 3.0 percent by 2026.

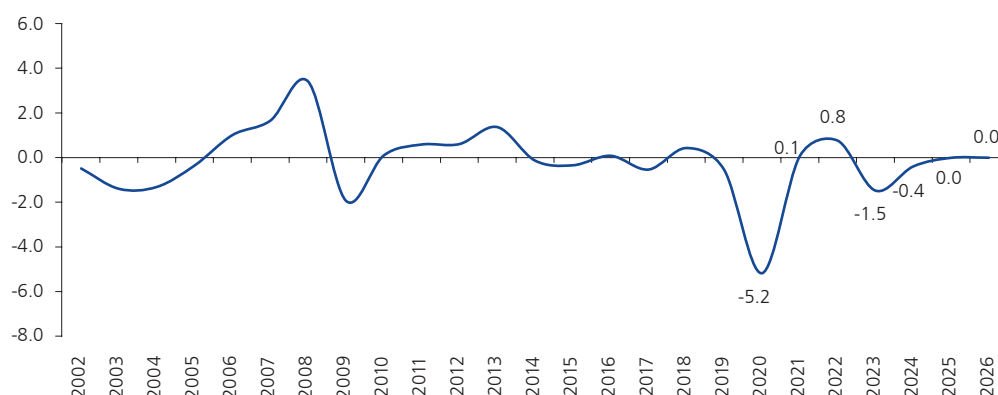
Table 23
MACROECONOMIC EXPECTATIONS SURVEY: GDP GROWTH
(% change)

		IR Sep.24	IR Dec.24	IR Mar.25*
Financial entities	2025	2.8	2.9	3.0
	2026		3.0	2.9
Economic analysts	2025	3.0	3.0	3.1
	2026		2.9	3.0
Non-financial firms	2025	3.0	3.0	3.0
	2026		3.0	3.0

* Survey conducted on February 28.
Source: BCRP.

49. The **output gap**, defined as the difference between GDP and potential GDP, is expected to reverse in 2024 much of the reduction it registered in 2023, as a result of supply shocks and their second-round impacts on income and business confidence. The negative output gap of 0.4 percent of potential GDP in 2024 would close by 2025, and the economy is estimated to remain at its potential level in 2026. Potential GDP growth in line with this projection is 2.8 and 2.9 percent for 2025 and 2026, respectively.

Graph 53
OUTPUT GAP
(% of potential GDP)



Memo: Potential GDP is an unobservable variable, so, the product gap series is preliminary and is calculated based on the latest information available at the time of preparation of this Inflation Report.
Source: BCRP.





This projection incorporates observed and expected performance of investment in a context of positive business confidence. In addition, it assumes a recovery in productivity driven by the reversal of supply shocks, in an environment of socio-political and price stability that reinforces private sector confidence. It also assumes that the 2026 general elections will take place in an orderly manner and without risks to institutional stability. In order to aim for higher potential GDP growth rates, economic reforms and an environment of political and social stability are required.

50. **Private consumption** grew 2.8 percent, recovering from a weak 0.1 percent advance in 2023. This recovery was due to the improvement in the labor market, lower inflation and withdrawals from private pension funds. The normalization of weather conditions and lower social unrest favored employment dynamism, while total inflation returned to the target range in the first half of 2024, closing the year at 1.25 percent in food and beverage items. These factors strengthened the purchasing power of households and allowed them to recompose their food basket, thus stimulating aggregate spending.

By 2025, private consumption is expected to expand 3.1 percent, a higher rate than forecast in the December Report, considering the favorable evolution of contemporaneous and leading indicators. The growth rate is projected to moderate slightly in 2026, to 2.9 percent, in a context of dynamic employment, inflation within the target range, gradual recovery of credit and reduction of household delinquency.

51. **Private investment** grew 2.6 percent in 2024, driven by the recovery of investment in non-mining non-residential sectors. This dynamism responded to improved business expectations, more favorable weather conditions than in 2023, and lower corporate interest rates in local and foreign currency. The increase in non-residential investment was reflected in the 6.2 percent year-on-year growth in capital goods imports, excluding construction materials.

Table 24
PRIVATE INVESTMENT
(Real % chg.)

	Weight respect to GDP in 2023 1/	2019	2020	2021	2022	2023	2024	2025*		2026*	
								IR Dec24	IR Mar25	IR Dec24	IR Mar25
Private investment	18.9	4.5	-16.5	37.0	-0.5	-7.3	2.6	4.1	4.1	3.5	3.5
Residential investment	5.7	4.7	-14.5	35.4	-0.3	-8.8	-7.3	3.0	3.0	3.0	3.0
Non-residential investment	13.2	4.4	-17.5	37.8	-0.5	-6.6	7.2	4.5	4.6	3.6	3.7
Mining investment	1.9	18.3	-25.4	23.7	-7.8	-9.6	-0.8	7.7	7.3	3.0	3.7
Non-mining investment	11.3	1.3	-15.4	41.0	1.0	-6.0	8.6	3.9	4.2	3.8	3.7

1/ To price 2007.

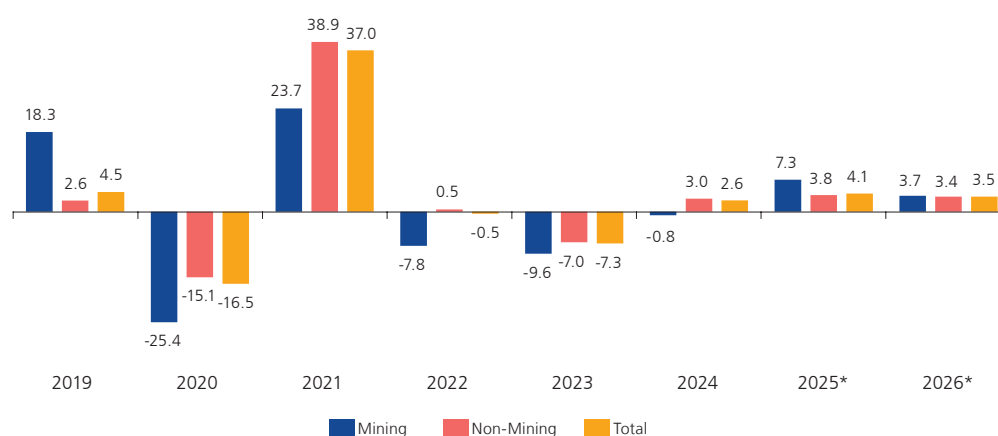
IR: Inflation Report.

* Forecast.

Source: BCRP.

Private investment is expected to grow 4.1 percent in 2025, in line with the previous report's projection. This figure considers a growth of the residential component from the end of 2024, which is due to the recovery of self-construction, as households have been able to recompose their basket after the reduction of food inflation and the increase in formal income. The current projection assumes a favorable environment for investment, an electoral process that does not pose risks to macroeconomic stability, the absence of significant climatic shocks, and more flexible local financial conditions that encourage credit and strengthen investment confidence. Under these assumptions, private investment would grow 3.5 percent in 2026.

Graph 54
PRIVATE INVESTMENT
(Real % change)



* Forecast.

- a. In the **mining sector**, investments in 2024 amounted to USD 4,961 million, mainly from Antamina (USD 689 million), Las Bambas (USD 385 million) and Cerro Verde (USD 355 million). The projection for the period 2025-2026 considers the construction of San Gabriel and the start of construction of the Antamina Repositioning, Tia Maria, Zafranal, and Corani projects.
- b. In the **non-mining sectors**, the progress of works on Line 2 and a branch of Line 4 of the Lima Metro stands out, with an investment of USD 5.3 billion. The project has a physical progress of 67 percent, with the first stage in operation since December 2023. Civil works are currently underway at eight stations of stage 1B, eleven stations of stage 2, and five stations of branch 4.

Viettel is deploying the necessary infrastructure for the implementation of the 2.3 GHz and AWS-3 bands in more than 3,800 rural localities (investment





commitment of US\$ 600 million). Consorcio Eléctrico Yapay obtained the concession for the Enlace 500 kV Huánuco - Tocache - Celendín - Trujillo transmission line (at an investment commitment of USD 335 million). It is worth mentioning that, in 2026, the construction of the Lima Peripheral Road Ring would begin, with an investment of USD 2.3 billion (the total projected investment of USD 3.4 billion includes the acquisition of land and other expenses associated with its start-up).

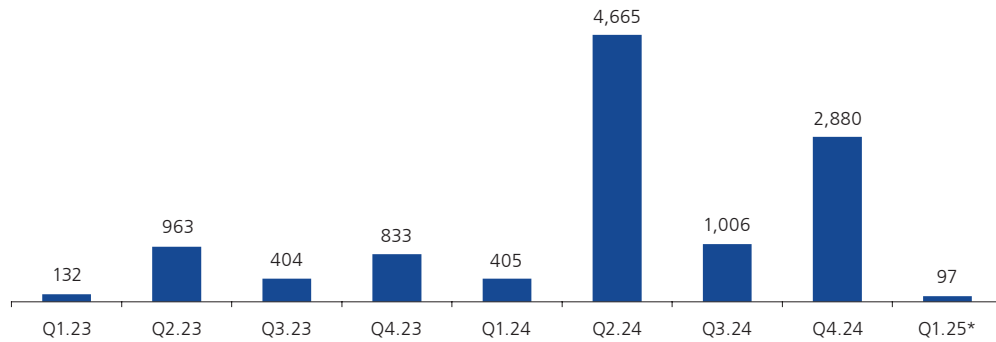
Table 25
MAIN ANNOUNCEMENTS OF PRIVATE INVESTMENT PROJECTS: 2025-2026

SECTOR	INVESTOR	PROJECTS
MINING	Antamina	Replacement of Antamina
	Southern Peru CC	Tía María
	Zafranal	Zafranal
	Bear Creek Mining	Corani
	Buenaventura	San Gabriel
HYDROCARBONS	Cálidda Gas Natural del Peru	Wide-Scale Use of Natural Gas
	Promigas Peru	Distribution of Natural Gas
ELECTRICITY	Huallaga Hydro	Hydropower plant Huallaga I
	Luz del Sur	Hydropower plant Santa Teresa II
	Consorcio Eléctrico Yapay	Transmission Line 500 Kv Huanuco-tocache-Celendin-Trujillo
	Hydro Global Peru	Hydropower plant San Gaban III
	Acciona Energía	San José Solar Power Plant
INDUSTRY	Siderperu	Plant capacity expansion
	Aceros Arequipa	Plant capacity expansion
	Unacem	Environmental Sustainability Program
	Arca Continental Lindley	Environmental Sustainability Program
TRANSPORT	Consorcio Nuevo Metro de Lima	Line 2 of the Metro network of Lima and Callao
	Sociedad Concesionaria Anillo Vial	Peripheral Road Ring in Lima
	Shougang Hierro Peru	Marcona Port Terminal (Marcona)
	APM Terminals	Modernization of Muelle Norte
TELECOMUNICATIONS	Viettel Peru	Mobile Services with 4G technology
	América Móvil Peru	Fibre optic networks

Memo: Investment projects that are under implementation or will start in the period 2025 - 2026.
Source: Information on companies, newspaper and specialized media.

- c. Since January 2023, Proinversion has awarded projects for a total of USD 11,384 million, including mainly improvements in transportation (USD 3,961 million) and in power transmission lines (USD 2,266 million). (USD 2,266 million). The last award comprises to the wastewater treatment plant project in Chincha for a projected investment of USD 97 million.

Graph 55
AWARDED CONCESSIONS BY PROINVERSIÓN, 2023-2025
(Million USD)



* As of March 10, 2025.
Source: Proinversión.

Table 26
PROJECTS AWARDED BY PROINVERSIÓN
(Million USD)

Year	Quarter	Project	Sector	Modality	Projected Investment (Without VAT)
2023	I	Transmission line 220 kv Ica – Poroma, extensions and substations and transmission line ITC 220 kv Cadiz – Jaén Norte (2 circuits), extensions and substations	Electricity	Concession	132
	II	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	640
		Specialized Hospital in the Piura Care Network of ESSALUD, department of Piura and Specialized Hospital Chimbote in the Ancash Care Network of ESSALUD, department of Ancash	Health	Concession	323
		Transmission Line 500 kv Piura Nueva-Frontera Substation (Second Call)	Electricity	Concession	223
	III	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 substations 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	181
	IV	Transmission line 500 kv Huánuco – Tocache – Celendín – Trujillo, extensions and substations and transmission line 500 kv Celendín – Piura, extensions and substations	Electricity	Concession	833
2024	I	New Port Terminal of San Juan de Marcona	Ports	Private initiative	405
	II	Peripheral Road Ring	Transport	Concession	3,396
		Group 1: Transmission Plant Projects (Ica and Arequipa)	Electricity	Concession	329
	III	Addendum to the transfer contract of the Bayóvar mining concession	Mining	Concession	940
		Modernization of Huancayo - Huancavelica Railway	Transport	Concession	565
		Group 2: Transmission Plant Projects (Lima, Ica and Ayacucho)	Electricity	Concession	441
	IV	Group 4: Transmission Plant Projects (Áncash, Junín y Ucayali)	Electricity	Concession	127
2025		El Algarrobo Mining Project	Mining	Private initiative	2,753
	I*	Wastewater treatment plant project - PTAR Chíncha	Sanitation	Concession	97
Accumulated					11,384

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

* Data as of March 10, 2025.

Source: Proinversión.





- d. As of March 10, 2025, **Proinversión** reports a portfolio of USD 26 billion in investment projects to be awarded for the 2025-2027 period.

Table 27
MAIN PROJECTS TO BE IMPLEMENTED THROUGH CONCESSION ARRANGEMENTS IN 2025 - 2027
(Million USD)

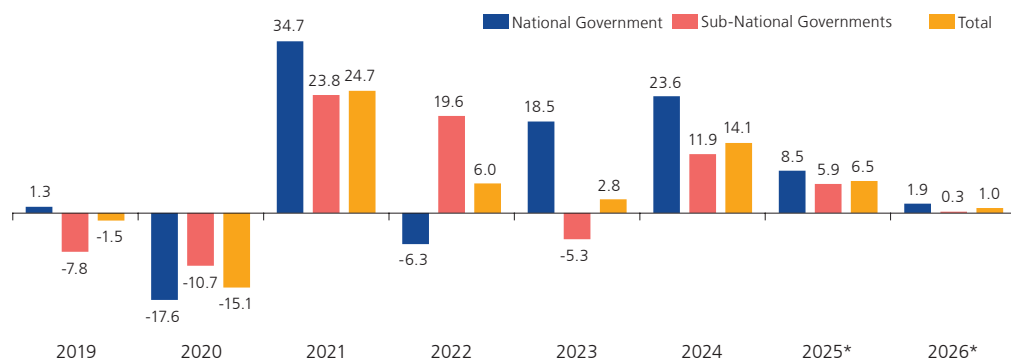
	Estimated investment
To be called	26,337
18 Conservation Projects of the National Road Network	4,514
Integrated Gas Transportation System - Southern Zone	4,321
Chinecas Project.	2,95
Longitudinal of the Sierra road project, Section 4	1,353
8 projects of Wastewater Treatment System	1,266
Ancon Industrial Park	1,214
Evitamiento Highway - Cusco	943
Project of Bayóvar phosphates - Piura	940
Operation and Maintenance of Backbone Fiber Optic Network	879
Gate of the Pacific Peninsula	767
Integral Water System Chancay Valley - Lambayeque	619
Schools in risk: Metropolitan Lima, Ate, San Juan de Lurigancho, and other districts.	586
Header works for water supply in Lima (1st stage)	476
Sanitation Wash in 9 provinces	474
Chavimochic projects (3rd stage)	450
Group 2 - Electricity projects of the 2025-2034 Transmission Plan	433
Highway Buenos Aires Canchaque - Huancabamba (Piura Region)	340
New Emergency Hospital Villa El Salvador - HEVES	284
Chimbote Port Terminal	262
Choquequirao Tourism Project	261
National Hospital Hipólito Unanue	250
Group 1 - Electricity projects of the 2025-2034 Transmission Plan	233
New Central Military Hospital	223
Third Group of Airports (includes Operation and Maintenance of Chinchero)	216
Lima Convention Centre (Operation and Maintenance)	216
Maintenance of the Cajamarca hospital	198
Operation and maintenance of Sullana Hospital	193
New Port Terminal in Pucallpa	185
IPC -Wastewater Treatment, Cajamarca	180
Group 3 - Electricity projects in the 2023-2032 Transmission Plan	168
Operation of the Instituto Nacional del Niño	168
Group 3 - Electricity Projects of the 2025-2034 Transmission Plan	137
New port terminals in Loreto (Saramiza and Iquitos)	132
Group 4 - Electricity projects of the Transmission Plan 2025-2034	122
Ilo desalination plant	110
Expansion of the Panamericana Village	66
Wide-scale use of natural gas - Southwest Concession	60
Reinforcement of infrastructure, equipment and maintenance of Cusco School	58
Desalination Plant - Lambayeque	49
Solid Waste Management - GIRSE	41

Memo: Estimated investment without VAT.
Source: Proinversión.

52. **Public investment** expanded by 14.1 percent in 2024. The double-digit rate in public investment occurred both at the national government level (23.6 percent) and in subnational governments (11.9 percent). The increase in the National Government was credited to the execution of projects under the National Sustainable Infrastructure Plan for Competitiveness, and the Bicentennial Schools, Metro Line 2 and the broad bands stood out. In addition, the National Infrastructure Authority (ANIN) made progress in the protection of riverbanks. Investments in road, communications, sanitation and health projects also stood out.

The execution observed in the first two months of 2025 was higher than forecast in December, which is why the 2025 public investment increase is revised upward from 4.5 to 6.5 percent. For 2026, public investment growth is estimated at 1.0 percent, in line with fiscal targets for expenditure consolidation.

Graph 56
PUBLIC INVESTMENT
(Real % change)

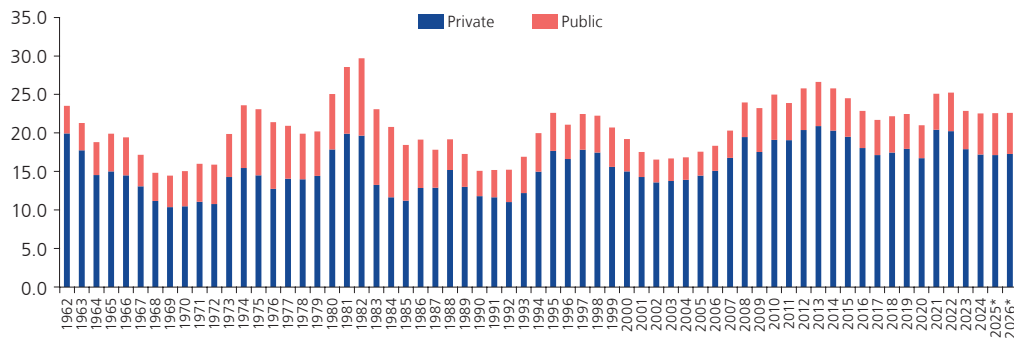


Memo: Public investment is made up of investment by the National Government, Subnational Governments and investment by public companies.
* Forecast.
Source: BCRP.

53. **Gross fixed investment** as a percentage of GDP fell slightly between 2023 and 2024. Despite the real growth of both public and private investment, total output prices have increased more than the prices of private capital goods, causing the nominal ratio to fall. Gross fixed investment is estimated to remain relatively stable over the projection horizon, close to 22.6 percent of output.

Box 1

Graph 57
GROSS FIXED INVESTMENT: PRIVATE AND PUBLIC, 1962-2026
(% of real GDP)



* Forecast.
Source: BCRP.





Box 1

RELATIONSHIP BETWEEN THE DIFFERENT EMPLOYMENT MEASURES AND ECONOMIC ACTIVITY

This box uses employment information from the administrative data of the National Superintendence of Customs and Tax Administration (SUNAT) and the yearbooks of the Ministry of Labor and Employment Promotion (MTPE) as well as surveys of the National Institute of Statistics and Informatics (INEI) to quantify the relationship between employment and economic activity.

The analysis considers both a measure of dependent formal employment in private sector and a broad measure of employment. Contemporaneous and dynamic correlations are estimated for both the pre- and post-pandemic period of COVID-19. Correlation analysis is also performed at the economic sector level. The analysis of unconditional correlations is complemented with estimates of conditional correlations obtained from the estimation of a structural VAR in which the correlation between aggregate output and the different measures of employment is calculated conditional on the presence of a set of shocks typically faced by a small open economy.

Administrative and survey data

In order to follow the evolution of formal employment on a monthly basis, we rely on Sunat's electronic payroll, the entity to which the universe of formal companies report monthly. The Electronic Payroll is an administrative registry that collects monthly information on jobs and the average income of workers in the universe of formal companies, which is why it is the best source of formal employment data available. It also reports additional information on the economic sector to which the company belongs. In 2024, on average, 371 thousand private companies reported information on jobs and income to Sunat.

On the other hand, the INEI publishes employment information based on the results of the Permanent National Employment Survey (EPEN)², which includes a sample of 134 thousand households per year and has nationwide coverage. The main labor market indicators are constructed from this survey: Working Age Population (WAP), Economically Active Population (EAP), Economically Active Employed Population, etc. One of the advantages of using surveys is that they provide information on both the formal and informal labor market, as well as other socioeconomic variables related to employment that are not available from other sources of information. However, the results of the surveys have not been able to capture the growth of the labor market as a result of migration or replicate the size of the dependent formal labor market as recorded in the Electronic Payroll³.

Employment and economic activity indicators

Among the various employment indicators, private dependent formal employment from the electronic payroll stands out. This indicator includes the universe of formal dependent employees, and has been the one that shows the strongest relationship with economic activity, especially with

2 Until 2021, the employment information published by INEI came from the employment module of the National Household Survey (ENAHU), with a sample of 37,000 households.

3 Box 4 of the March 2022 Inflation Report: Employment Indicators.

non-primary activity. On the other hand, two employment measures can be constructed from the ENAHO and EPEN household surveys: formal dependent private employment, in order to have an indicator comparable to administrative records, and the employed EAP, which allows us to have an indicator of both the formal and informal labor market.

In the analysis that follows, we consider the year-on-year quarterly growth rates of these three employment measures and their relationship to the quarterly GDP growth rate. The following table shows that the formal employment series from administrative records is less volatile⁴ and has a higher correlation with GDP than the comparable formal employment indicator estimated with household surveys. On the other hand, the employed EAP indicator is more volatile and less correlated with GDP. Additionally, when separating the sample including and excluding the pandemic and post-pandemic years, the correlation of the formal employment indicator from administrative records with activity decreases while on the contrary the correlation of the employed EAP indicator with activity increases. These changes in the correlations could be due to the atypical data observed during the pandemic period.

STATISTICS OF THE DIFFERENT EMPLOYMENT MEASURES

(Series in growth rates)

	Administrative	Surveys	
	data	Formal private	EAP employed
Standard deviation			
2008-2019	4.3	6.7	1.0
2020-2021	7.6	31.8	23.4
2022-2024	3.1	5.4	2.6
Total	5.1	12.9	8.3
Correlation coefficient between GDP and employment			
2008-2019	0.74 ***	0.34 **	0.07
2020-2021	0.71 **	0.96 ***	0.98 ***
2022-2024	0.40	-0.28	0.69 **
Total	0.54 ***	0.81 ***	0.91 ***

Memo: Administrative data corresponds to private formal dependent employment from the Electronic Payroll (for the period 2013 - 2024) and from the MTPE yearbook (for 2009 - 2012). Private formal and employed EAP survey is the EAP component estimated from the ENAHO and EPEN surveys. (**) At 95% statistical confidence (***) At 99% statistical confidence.

The following graph shows the forward and lagged correlation for a one-year horizon of the three estimated labor indicators. Panel 1 shows that economic activity in the non-primary sectors tends to lead the behavior of the employment series coming from the electronic payroll, mainly in the commerce and services sectors; sectors that generate about 75 percent of formal employment.⁵ In contrast, survey data (Panels 2 and 3) exhibit a contemporaneous correlation of less than 0.4 in all sectors. Forward correlations between survey-measured employment and economic activity show mixed results: (i) positive forward correlations for economic activity in non-primary sectors and dependent private formal employment (the equivalent of the spreadsheet data) and (ii) low and negative forward correlations for correlations with employment measured more broadly (employed EAP).

4 For example, the 4.3 standard deviation of employment growth from administrative records indicates that since the series average is 5.3 percent, the data are scattered by +/- 4.3 percentage points from this average.

5 When post-pandemic information is added, the correlation between activity in non-primary sectors and employment is reduced and, on the contrary, an increase in the correlation of the total series is observed.





DYNAMIC CORRELATION BETWEEN EMPLOYMENT AND GDP PRODUCTIVE SECTORS

1- Administrative data: 2013 - 2019

PLAME	t-4 -	t-3 -	t-2 -	t-1 -	t -	t+1 -	t+2 -	t+3 -	t+4 -
	-0,08	-0,38	-0,53	-0,37	-0,07	0,07	0,19	0,16	0,10
	0,04	0,33	0,51	0,64	0,78	0,77	0,73	0,78	0,71
	-0,34	-0,14	0,18	0,28	0,38	0,42	0,38	0,36	0,38
	0,06	0,32	0,41	0,55	0,68	0,65	0,59	0,52	0,36
	0,54	0,63	0,71	0,76	0,83	0,88	0,86	0,81	0,76
	0,72	0,81	0,86	0,88	0,87	0,82	0,75	0,72	0,66
	-0,15	0,03	0,17	0,19	0,32	0,31	0,25	0,30	0,30
	Primary	Non primary	Manufacture	Construction	Commerce	Services	Total		
	GDP by sector (t)								

2- Surveys, private formal dependent employment: 2008 - 2019

ENAO / EPEN	t-4 -	t-3 -	t-2 -	t-1 -	t -	t+1 -	t+2 -	t+3 -	t+4 -
	0,04	0,06	0,11	-0,24	-0,02	0,03	-0,03	0,00	-0,28
	0,23	0,30	0,28	0,26	0,37	0,39	0,45	0,60	0,52
	0,12	0,22	0,08	0,15	-0,05	-0,05	0,06	0,06	0,27
	0,31	0,17	0,20	0,29	0,28	0,43	0,45	0,43	0,52
	-0,08	-0,04	0,09	0,12	0,29	0,34	0,40	0,33	0,17
	0,29	0,29	0,19	0,22	0,32	0,43	0,42	0,50	0,47
	0,08	0,20	0,31	0,14	0,34	0,41	0,39	0,61	0,50
	Primary	Non primary	Manufacture	Construction	Commerce	Services	Total		
	GDP by sector (t)								

3- Surveys, EAP Employed: 2008 - 2019

ENAO / EPEN	t-4 -	t-3 -	t-2 -	t-1 -	t -	t+1 -	t+2 -	t+3 -	t+4 -
	0,05	0,15	0,09	0,09	0,07	-0,09	-0,14	-0,01	-0,10
	0,30	0,33	0,41	0,33	0,32	0,17	0,00	-0,11	-0,21
	0,16	0,23	0,21	0,38	0,09	-0,03	-0,10	-0,23	-0,17
	0,30	0,29	0,29	0,24	0,15	0,27	0,32	0,20	0,33
	0,20	-0,06	-0,13	-0,23	-0,03	0,17	0,22	0,14	-0,16
	0,05	0,11	0,05	0,05	0,03	-0,07	-0,10	-0,21	-0,03
	0,21	0,10	0,06	0,04	0,07	0,03	0,05	0,00	-0,14
	Primary	Non primary	Manufacture	Construction	Commerce	Services	Total		
	GDP by sector (t)								

Memo: Dynamic correlation between employment and production at the sectoral level for different quarterly periods. Table 1 of Administrative Data was prepared with monthly data from the Electronic Payroll, where each month's data is the moving average of the previous three months. Tables 2 and 3 are based on quarterly data on private dependent formal employment and EAP employed from the ENAO and EPEN surveys.

The following graph presents the cross-correlations between employment recorded in the different sectors of the economy, with administrative data and with those from surveys. Employment from administrative records shows a high correlation between the commerce and services and construction and manufacturing sectors and suggests a certain level of substitution between employment in the agricultural sector and the other sectors. On the other hand, both dependent private formal employment and the employed EAP estimated with surveys register low or null correlations.⁶ When estimating correlations between GDP sectors, a high correlation is found for the commerce and services sectors; a similar result to that found between employment in administrative records of these sectors.

6 Kim (2020) points out that there could be a recomposition in employment when a productivity shock occurs in the manufacturing sector. Our initial results suggest complementarities between output and employment in the manufacturing sector and in employment between different sectors.

CORRELATION MATRIX OF EMPLOYMENT BETWEEN SECTORS

1- Administrative data: 2013 - 2019

Fishing	-0,20					
Mining	0,08	-0,15				
Manufacture	-0,03	-0,19	0,43			
Construction	-0,22	-0,24	0,63	0,83		
Commerce	-0,42	0,32	-0,01	0,55	0,43	
Services	-0,52	0,21	-0,09	0,59	0,59	0,83
	Agriculture & livestock	Fishing	Mining	Manufacture	Construction	Total

2- Surveys, private formal dependent employment: 2008 - 2019

Fishing	0,02					
Mining	-0,05	-0,19				
Manufacture	0,17	-0,30	-0,15			
Construction	-0,11	-0,07	0,20	-0,31		
Commerce	-0,10	0,11	0,05	-0,14	0,30	
Services	0,32	0,02	0,20	0,07	0,21	0,13
	Agriculture & livestock	Fishing	Mining	Manufacture	Construction	Total

3- Surveys, EAP Employed: 2008 - 2019

Fishing	0,06					
Mining	-0,02	-0,07				
Manufacture	-0,38	-0,23	-0,06			
Construction	0,14	0,02	0,11	-0,37		
Commerce	-0,01	-0,08	-0,26	-0,06	0,20	
Services	-0,45	-0,09	0,02	0,21	-0,28	-0,36
	Agriculture & livestock	Fishing	Mining	Manufacture	Construction	Total

Memo: Correlation between employment in different sectors according to data source. Table 1 of Administrative Data was prepared with monthly data from the Electronic Payroll, where the data for each month is the moving average of the previous three months. Tables 2 and 3 are based on quarterly data on private dependent formal employment and EAP employed from the ENAHO and EPEN surveys.

SVAR and conditional correlations

An alternative way to estimate the degree of association between employment and output is through correlations conditional on the effects of a shock affecting all the variables in a system of equations representing a typical small open economy. In this sense, a vector autoregressive vector





(VAR) system is estimated in which a set of shocks affecting labor and economic activity can be identified.

The series considered in the VAR are the bilateral real exchange rate with the United States (*e*), the international oil price (*oil*), GDP (*y*), a measure of employment (*l*) and the real interbank interest rate (*i*). This order of variables is used to estimate a structural VAR (SVAR) that responds to a Cholesky-type identification.

Given a shock (impulse) to one of the variables, the response of employment and production over a three-year horizon is estimated. Then, the correlation coefficient of the observed responses is calculated. In other words, the correlation between production and employment is estimated, conditional on the occurrence of a shock in one of the system's variables.

The following table presents the results of incorporating the three employment measures in the SVAR system. The results suggest that, given different types of shocks, the employment indicator coming from administrative record has a higher correlation with GDP in the pre-pandemic period. Formal private employment measured with surveys in general presents low correlations. On the other hand, the correlations of the employed EAP tend to increase when considering the entire sample (which includes pandemic outliers).

To assess the robustness of the estimation of the conditional correlations, this estimation is complemented by using 100 thousand simulations of shocks associated with each variable, which are then used to estimate a similar number of GDP and employment responses. In line with Sims and Zha (1999), the simulations use the coefficients of the SVAR model and the variance-covariance matrix of the residuals from the previous estimation. Finally, the median of all GDP and employment responses is considered when estimating the correlation coefficient. In general, the results hold. The formal employment indicator of Electronic Payroll has a better correlation with GDP than the other employment indicators, except when taking outliers during and after the pandemic.

It is worth noting that the negative correlation estimated with administrative record conditional on an output shock for the period 2009-2024 could reflect the fact that during the pandemic GDP fell sharply but formal employment did not. This fact is due to policy measures implemented to address COVID-19 that had a positive impact on employment as Reactiva.

CONDITIONAL CORRELATION BETWEEN PRODUCTION AND EMPLOYMENT

		Administrative data		Surveys			
				Formal private		EAP employed	
		2008-2019	2008-2024	2008-2019	2008-2024	2008-2019	2008-2024
Models SVAR	$\rho_{y,l e}$	0.99	0.80	0.81	-0.67	0.89	-0.43
	$\rho_{y,l oil}$	0.99	0.53	0.11	0.28	0.27	0.99
	$\rho_{y,l i}$	0.99	0.99	0.60	0.05	0.97	0.99
	$\rho_{y,l y}$	0.82	-0.32	-0.41	0.36	0.89	0.92
	$\rho_{y,l l}$	0.98	0.28	0.84	0.95	0.29	0.99
Simulations	$\rho_{y,l e}$	0.99	0.73	0.72	-0.76	0.77	-0.11
	$\rho_{y,l oil}$	0.98	0.34	0.29	0.21	0.39	0.99
	$\rho_{y,l i}$	0.99	0.98	0.46	0.54	0.95	0.99
	$\rho_{y,l y}$	0.61	-0.18	-0.43	0.37	0.95	0.94
	$\rho_{y,l l}$	0.97	0.60	0.64	0.96	-0.38	0.98

Note: Administrative data correspond to private formal dependent employment from the Electronic Payroll. The employed EAP Survey and the private formal employment survey are the components of the estimated EAP based on the ENAHO and EPEN surveys.

Conclusions

At the aggregate level, between 2009 and 2019, the formal employment series from administrative records shows lower volatility and greater relationship with economic activity, compared to the formal employment indicator estimated with household surveys. The employed EAP shows reduced volatility and no clear relationship with GDP. When including the pandemic and post-pandemic years, the relationship of the formal employment indicator from administrative records with activity is reduced while the relationship of the employed EAP indicator with activity improves. These changes in the correlations could be due to the atypical data during the pandemic period, in which the sharp drop in employment was associated with the unexpected and prolonged closure of companies and businesses, affecting informal employment to a greater extent due to the confinement measures that made it impossible for people to go out to work or look for a new job⁷.

The electronic payroll employment indicator at the productive sector level suggests that, between 2013 and 2019, non-primary sectors tend to lead employment behavior, mainly in the commerce and services sectors. In contrast, survey-measured employment data show mixed results, with low and negative forward correlations when the sector to which the worker belongs is taken into account.

The cross-correlations between employment recorded in the different sectors of the economy from administrative records have a high value in the case of non-primary sectors and suggest that there is substitution between employment in the agricultural sector and that of the other sectors. In this exercise, low or null correlations were found when using employment indicators measured by surveys.

When considering a VAR structure in the relationship between employment and aggregate output we find that the highest correlations conditional on different types of shocks are found in the administrative records (in the pre-pandemic period) and in the case of the employed EAP (with the full sample). In general, we find a positive association between employment and aggregate output, regardless of the employment series used. The result is robust even when simulating different scenarios for each shock of the VAR system.

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7 See Armas et al. (2023) for an analysis of the correlation between output and unemployment in the immediate post-pandemic period.



**Box 2****THE QUALITY OF REGULATION AND THE COMPETITIVENESS
OF THE ECONOMY**

Well-designed and implemented regulation provides standards and guidelines for business, promotes a level playing field, and fosters competition, innovation and the optimal allocation of resources (OECD, 2024)⁸. For its part, regulatory simplification is important because it corrects inefficiencies caused by procedures that imposes unnecessary obstacles and costs on citizens and businesses, which in turn can be conducive to corruption, and affect lower-income people more (Roseth et al., 2018)⁹. Both the absence of good regulatory practices and the complexity of red tape reduce the efficiency of the economy and negatively affect productivity.

For example, for the case of Peru, Schiffbauer, Sampi and Coronado (2022)¹⁰ analyze the impact of a regulatory change on Total Factor Productivity (TFP) and firms' profit margin, using data from the Annual Economic Survey (2007-2017) of the National Institute of Statistics and Informatics (INEI) and the records of elimination of bureaucratic barriers in 2013 and 2014 of the National Institute for the Defense of Competition and Protection of Intellectual Property (Indecopi). The reform allowed Indecopi to investigate ex officio and declare local regulations (at the municipal level) illegal or unreasonable. The barriers eliminated were classified as: (i) licenses, referring to illegal requirements to operate in a sector or municipality; (ii) technical, related to illegal technical requirements to enter a local market; and (iii) tariffs, associated with administrative fees that exceeded the amounts established by law.

The results of this study show that the elimination of an entry barrier at the municipal level increased the TFP of the affected firms by an average of 11 percent compared to those located in municipalities that did not eliminate such barriers. Furthermore, although the reduction of excessive tariffs (the third type of barrier studied) did not have a significant effect on TFP, it did increase firms' profit margins, which could have an indirect effect in the future, if higher profit margins allow firms to invest more and grow. Additionally, it was observed that some municipalities preemptively eliminated regulations declared illegal by Indecopi in other municipalities, in order to avoid fines imposed on mayors and other public officials.

On the other hand, processes and tools are applied to improve regulatory quality, whose governing body is the Secretariat of Public Management of the Presidency of the Council of Ministers (SGP-PCM). Likewise, supervisory bodies participate, such as the Multisectoral Commission on Regulatory Quality (CMCR)¹¹, responsible for evaluating and validating the application and results of the ex ante and ex post regulatory quality analysis (ACR)¹², as well as the ex ante and ex post

8 OECD (2024). Panorama of Public Administrations: Latin America and the Caribbean 2024.

9 Roseth, B., Reyes, A., & Santiso, C. (Ed.) (2018). The end of eternal red tape: citizens, bureaucracy and digital government. Inter-American Development Bank. <http://dx.doi.org/10.18235/0001150>

10 Schiffbauer, M., Sampi, J., & Coronado, J. (2022). Competition and Productivity: Evidence from Peruvian Municipalities. Review of Economics and Statistics, 1-45.

11 Composed of the Secretariat of Public Management of the PCM, the Directorate of Regulatory Efficiency for Productivity and Competition of the Ministry of Economy and Finance (MEF), and the General Directorate of Regulatory Development and Regulatory Quality of the Ministry of Justice and Human Rights (MINJUS).

12 RCA focuses on the evaluation and improvement of the quality of administrative procedures (formalities). Ex-ante RCA is the review of administrative procedures contained in draft regulations. The ex-post RCA is the review that is performed to the administrative procedures that are contained in the current rules. Between 2017 and 2019, a review of the regulations in force at the beginning of that period was carried out, covering the administrative procedures in charge of the ministries and agencies of the Executive Branch, a process referred to as "stock RCA".

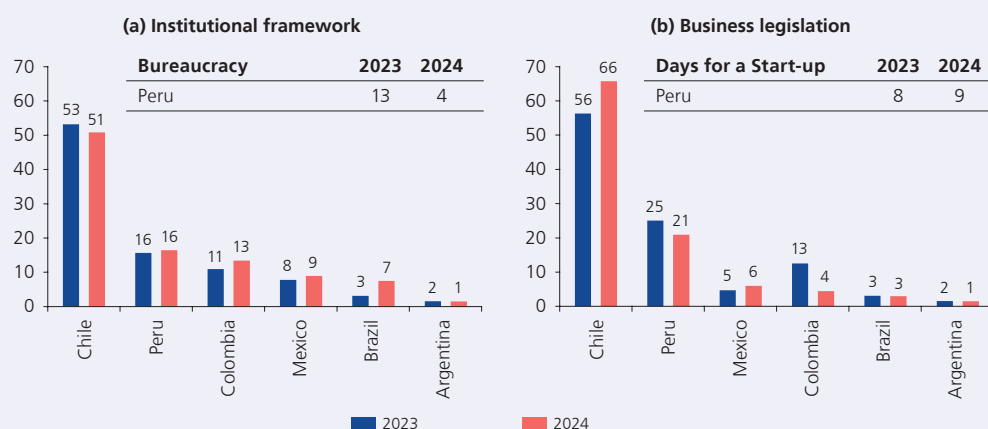
regulatory impact analysis (AIR)¹³; and the Commission for the Elimination of Bureaucratic Barriers of Indecopi¹⁴, in charge of eliminating illegal or unreasonable regulations¹⁵. In addition, any public entity is empowered to simplify its procedures on its own initiative.¹⁶

International comparison of the institutional framework and business legislation

According to the World Competitiveness Ranking of the Institute of Management Development (IMD) of Switzerland¹⁷, Peru ranked in the 16th percentile (0: worst; 100: best) in terms of institutional framework, and in the 21st percentile in legislation for business (both are components of the government efficiency pillar) in 2024. Peru is further behind in the indicator for bureaucracy and time to start a business, ranking in the 4th and 9th percentiles, respectively.

PERU: IMD GLOBAL COMPETITIVENESS RANKING: GOVERNMENT EFFICIENCY PILLAR AND SELECTED COUNTRIES AND COMPONENTS

(Percentiles, 0: worst; 100: best)



Memo: The sample of countries for 2023 and 2024 is 64 and 67, respectively. For bureaucracy, "Bureaucracy does not hinder entrepreneurship" was queried. The number of days to start a business remained at 26 since 2022, according to the IMD ranking. Source: IMD and Centrum PUCP.

International trends on regulatory improvement

Regarding **trends in regulatory policy practices in selected Latin American and Caribbean countries**, the Organization for Economic Cooperation and Development (OECD) reports that countries have published documents on regulatory reforms or improvements. The areas covered mainly comprise regulatory impact analysis (RIA), ex post evaluation, stakeholder participation, regulatory compliance, administrative simplification, intergovernmental coordination and regulatory oversight (OECD, 2024).

13 The AIR is an assessment of the positive and negative effects of regulatory proposals (ex ante) and existing regulations (ex post) versus non-regulatory alternatives.

14 In addition, in February 2024, a temporary Multisector Commission was created under the PCM to identify inefficient, unnecessary and/or unjustified compliance costs, as well as to propose actions for administrative simplification, with representatives from various ministries, and whose technical secretariat is in charge of Indecopi. Recently, its validity was extended until September 13, 2025.

15 In addition, it oversees compliance by public entities with administrative simplification rules and the application of standardized administrative procedures and their incorporation into their respective Sole Texts of Administrative Procedures (TUPA).

16 In this regard, Law 27444, the General Administrative Procedure Law (LPAG) establishes the principle of simplicity, which seeks to streamline administrative procedures in order to reduce costs and time. This law has been amended several times to promote a greater simplification of procedures.

17 This ranking evaluates the competitiveness of countries through four pillars: economic performance, government efficiency, business efficiency, and infrastructure, which are composed of several specific factors.





MAIN REGULATORY PRACTICES IN LATIN AMERICA AND THE CARIBBEAN

(Selected countries)

	Brazil	Chile	Colombia	Costa Rica	Ecuador	El Salvador	Mexico	Peru	Dominican Republic
Covered areas									
Regulatory impact analysis	yes	yes	yes	yes	yes	yes	yes	yes	yes
Ex post evaluation	yes	yes	yes	yes	yes	yes	yes	yes	yes
Stakeholder participation	yes	yes	yes	yes	yes	yes	yes	yes	yes
Regulatory compliance	yes	yes	yes	yes	yes	yes	yes	yes	yes
Administrative simplification	yes	yes	yes	yes	yes	yes	yes	yes	yes
Intergovernmental coordination	yes	yes	yes	yes	yes	yes	yes	yes	yes
Regulatory oversight	yes	yes	yes	yes	yes	yes	yes	yes	yes
International regulatory cooperation	No	yes	yes	No	yes	yes	yes	yes	No
Legal obligation to perform AIR									
For all existing regulations	No	No	No	No	yes	No	yes	No	yes
For some subordinate regulations	yes	yes	yes	yes	No	yes	No	yes	No
AIR is carried out in practice									
For some subordinate regulations	No	yes	yes	yes	yes	yes	No	yes	yes
Systematically	No	No	No	No	No	No	yes	No	No
Reasons to review existing regulations									
Ex post evaluation	yes	yes	yes	No	yes	yes	yes	yes	yes
Coding	yes	No	yes	yes	yes	No	yes	No	No
Legal consolidation	yes	No	yes	yes	yes	No	yes	No	No
Expiration clauses	yes	No	No	No	No	No	yes	yes	No
Revision clause	yes	No	No	No	No	No	yes	No	No
Administrative simplification by level of government									
National	yes	yes	yes	yes	yes	yes	yes	yes	yes
Regional	yes	No	yes	yes	No	No	yes	yes	No
Municipal	yes	No	yes	yes	No	No	yes	yes	No
Methodological guides for administrative simplification	yes	No	yes	yes	yes	yes	yes	yes	yes

Source: OCDE (2024).

Peru has implemented several initiatives to optimize regulatory quality in recent years, such as the incorporation of regulatory reform into the public administration modernization system, the creation of the multisectoral regulatory quality commission (CMCR), the regulatory quality analysis (ACR) to reduce administrative burdens, the approval of the regulatory impact analysis (AIR) regulation, the implementation of digital tools to facilitate processes, the approval in May 2023 of the General Law for Regulatory Quality Improvement¹⁸ and the recent approval of its regulation (on 25-Feb-2025), which adds a regulatory sandbox to the set of instruments for regulatory quality improvement, instruments to strengthen citizen confidence, the possibility for citizens to report regulatory violations, the possibility for citizens to report regulatory violations, instruments to strengthen citizen confidence, the possibility for citizens to report regulatory violations, the possibility for citizens to report regulatory violations and the possibility for citizens to do so.), where a regulatory *sandbox*¹⁹ is added to the set of instruments for the improvement of regulatory quality, instruments to strengthen citizen confidence²⁰, the possibility for citizens to report any infringement that generates bureaucratic barriers before Indecopi, among others. In addition, guidelines have been approved that establish the criteria for the development and implementation of standardized administrative procedures (PAE) in the entities of the public administration²¹, among others.

18 It unifies the regulation of the ACR of administrative procedures with the different instruments for the improvement of regulatory quality. The regulation was approved by Legislative Decree No. 1565 of May 28, 2023.

19 It is a supervised, controlled and temporary testing space, designed to evaluate new or modified rules, mechanisms and regulations in strategic and/or priority sectors.

20 Includes: the development of the National Network for Regulatory Quality Improvement by the Ministry of Public Management within 120 days from February 26, 2025, the National Regulatory Improvement Observatory, the Regulatory Innovation Laboratory and the National Regulatory Improvement Index.

21 Resolution of the Secretariat of Public Management N°003-2024-PCM/SGP of Aug. 31, 2024.

Opportunities to improve the quality of regulation in Peru

The regulatory cycle requires periodic evaluations of existing regulations to determine whether they have achieved their intended objectives and to keep them up to date, including the identification of undesirable effects. Different approaches are used in the region to initiate and carry out reviews of existing regulations. For example, Brazil and Mexico use ex post evaluation, codification, legal consolidation, sunset clauses²² and review, while Peru uses only ex post evaluation and expiration clauses.

With respect to implementation, challenges persist, particularly in local governments. There is a limited, although growing incorporation of standardized administrative procedures (PAE)²³ for prioritized common procedures (such as access to public information and operating licenses) in the single texts of administrative procedures (TUPA)²⁴; the lack of an implementation of the AIR Ex Ante with a specific schedule to measure progress; and there is room for improvement in terms of digitization²⁵, among others.

Considering the best international practices and the opportunities to improve the regulatory quality of the country, it would be possible to: (i) provide more resources and gradually create decentralized offices of the Undersecretariat of Simplification and Regulatory Analysis (SSAR) that operate efficiently; (ii) strengthen with budgetary resources and qualified personnel all units and institutions involved in the regulatory improvement process based on meritocratic criteria, with governance that minimizes the risk of political interference, so that it promotes efficient oversight; (iii) strengthen human capital capabilities, mainly in subnational governments, by providing more resources that allow institutions in charge of issuing authorizations for the business environment to comply with deadlines; (iv) accelerate administrative simplification by expanding the application of positive administrative silence and automatic approval, and advance in the implementation of the SAPs in subnational governments in those areas that can benefit from standardization; (v) incorporate the improvement of regulatory quality as part of the Budget by Results tool of the MEF; (vi) expand the application of the AIR Ex Ante to subnational governments and the Legislative Branch, with specialized technical teams; and (vii) improve the provision and use of statistical information that serves as evidence to adequately support regulatory preparation.

Finally, it would be advisable to promote digitalization in order to comply with legal deadlines in a timely manner and to have a meritocratic and stable civil service and an adequate application of regulatory quality standards.

22 According to OECD (2024), codification consolidates amendments made over a period of time to a given law, while legal consolidation brings together in a single document several subordinate laws or regulations governing a particular area. Meanwhile, sunset clauses are used to ensure that a particular law ceases to have effect after a stipulated period (OECD, 2012). See: OECD (2012). The evaluation of laws and regulations: The case of the Chamber of Deputies of Chile.

23 The PAE are simplified and uniform procedures that eliminate differentiated practices not contemplated in the current regulations that harm people. See: SGP-PCM (2024). Guidelines that establish the criteria for the development and implementation of administrative procedures and services provided in standardized exclusivity in public administration entities.

24 As of 7-Mar-2025, the TUPAs of all ministries already incorporate the PAE of access to public information, and the TUPAs of 9 regional governments incorporate the prioritized sectoral PAE (energy and mines, transport and communications, production, tourism, education, among others). As of 12-Feb.-2025, only 11.3 and 7.5 percent of local governments have incorporated in their TUPAs the PAE for operating licenses and technical safety inspections in buildings, respectively (SGP-PCM).

25 In Peru, as of 28-Feb.-2025 only 15 percent of municipalities had a Digital Government Plan in place and 29 percent had a Digital Government and Transformation Committee in place. See: Digital Transformation Indicators. Progress Report on Government and Digital Transformation. <https://indicadores.digital.gob.pe/>



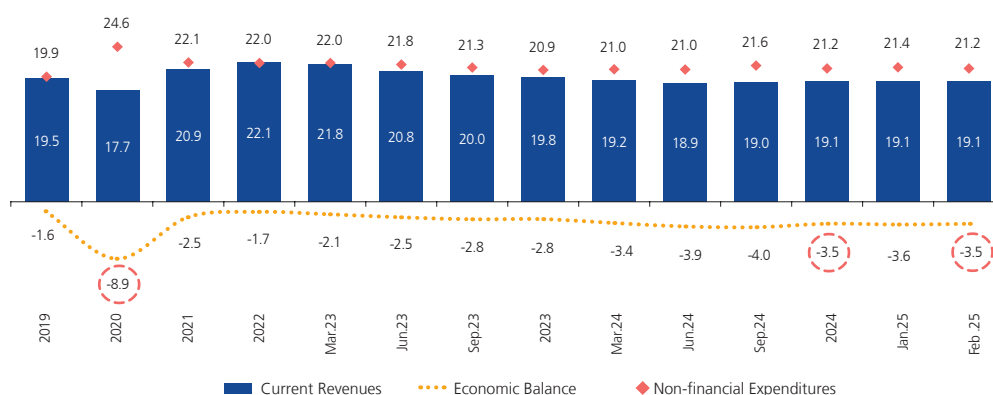


IV. Public Finance

54. The **fiscal deficit** increased from 2.8 to 3.5 percent of GDP between 2023 and 2024, mainly due to the fall in current revenues as a percentage of GDP, affected by the lagged effect of lower economic activity and falling export prices in 2023. Also contributing to higher deficit the strong growth in capital expenditures and wage increases, which expanded non-interest expenses. In addition, there was a deterioration in Petroperu's cash flow.

The cumulative fiscal deficit over the last twelve months remained at 3.5 percent of GDP between December 2024 and February 2025. Revenues and expenditures remained constant in terms of output.

Graph 58
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2019-2025
(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.

Current income of the General Government grew 3.5 percent in real terms (accumulated twelve months to February with respect to the same accumulated February of last year). According to components, there was an increase in the collection of the Value Added Tax (VAT), both on domestic sales and on imports, income tax (IR); as well as

higher revenues from social contributions, transfer of deductions, special mining tax, own resources and fines. This growth occurred in a favorable context of economic activity, higher prices of export metals and an increase in the value of imports. In addition, there was an increase in tax amnesty and fractionation revenues due to the new temporary special regime applicable as of September 2024.

Non-financial expenditures showed an expansion of 7.1 percent in real terms. Growth was observed at all three levels of government, although gross capital formation stood out. Higher expenditures in other capital expenditures due to the capitalization of Petroperu in 2024 and the increased granting of the housing bonus in 2025 also contributed, as well as higher expenditures in remunerations, due to salary increases granted to the different labor regimes in the public sector.

55. The **fiscal deficit** is projected to decline from 3.5 to 2.2 percent of GDP between 2024 and 2025, eventually falling to 1.8 percent of GDP by the end of the projection horizon. Both figures coincide with the limit established by the transitory fiscal rule of Legislative Decree No. 1621.

The 2025 projection considers an increase in current revenues, with respect to the previous year, driven by higher payments for regularization and coefficients of payment on account of the IR, as a result of the lagged effect of the acceleration of economic activity and the high prices of export minerals in 2024, which generate a higher balance to be regularized. Likewise, the expected higher GDP growth and export prices for this year will favor the collection of corporate income tax, VAT, mining royalties, special mining tax and social contributions. The application of the VAT to digital services provided by non-domiciled companies, the excise tax (ISC) and the tax on remote gambling will also contribute. Finally, an increase in extraordinary revenues is expected, partly due to the sale of companies in the electricity sector in 2024.

In addition, this projection contemplates a moderation in the growth of non-financial expenditures and that there will be no new capitalizations of Petroperu, which will allow spending to fall from 21.2 to 20.9 percent of GDP between 2024 and 2025. On the other hand, a higher primary result is expected from state-owned companies (excluding the effect of Petroperu's capitalization in 2024). Considering an expansion in Petroperu's market share and the full operation of the Talara refinery, however, the interest burden is expected to keep the company with a negative economic result over the projection horizon.

By 2026, the deficit is expected to continue to shrink, reaching a level of 1.8 percent of GDP. The projected fiscal consolidation process is based on a decrease in non-financial expenditures as a percentage of GDP, where current expenditure would be reduced from 15.0 to 14.8 percent of output between 2025 and 2026, and spending on gross capital formation would fall from 5.2 to 5.0 percent of GDP. Finally, the recovery in the primary result of state-owned companies, especially Petroperu, is expected to continue.

The projection assumptions for the fiscal accounts consider: (i) extraordinary income revenues in 2025, derived in part from the sale of companies in the electricity sector; (ii)





the continuity of Sunat's auditing actions; (iii) a prudent management of tax policy and public expenditure programming; and (iv) a higher primary result of public companies, net of Petroperu's capitalization operation in 2024. Under these assumptions, the fiscal deficit is expected to converge to the limits established by the fiscal rule, helping Peru to remain one of the economies with the lowest country risk in the region.

The prudent behavior of public expenditure is especially important at this juncture, in order to comply with fiscal rules and converge to deficits compatible with a downward trajectory of public debt. On the one hand, due to the capitalization of Petroperu, the non-financial expenditure growth rule was not complied with in 2024, which, given the fiscal regulations, will imply a downward adjustment in the limit to public expenditure growth in 2025.

In the same line, the successful promotion of the agreements for Works for Taxes (OxI) in 2024 (awards for more than S/ 4.0 billion), will generate an upward pressure on public spending (due to the issuance of regional and local public investment certificates) in the period 2025 and 2026. Likewise, the application of the recent Constitutional Court ruling on Law No. 31729, which authorized the issuance of recognition bonds for contributions after 2001, could generate in the short term a drop in revenues from social contributions and an increase in public debt.

These factors determine that even though tax revenues may exceed those projected in the Multiannual Macroeconomic Framework 2025-2028, potential supplementary appropriations to the 2025 public budget will be limited.

Table 28
NON-FINANCIAL PUBLIC SECTOR
(% GDP)

	2024	2025*			2026*	
		February ^{1/}	IR Dec.24	IR Mar.25	IR Dec.24	IR Mar.25
1. General government current revenues	19.1	19.1	20.5	20.4	20.3	20.2
<i>Real % change</i>	2.4%	3.5%	10.8%	11.7%	2.3%	2.3%
2. General government non-financial expenditure	21.2	21.2	21.0	20.9	20.4	20.4
<i>Real % change</i>	7.1%	7.1%	1.5%	3.0%	0.6%	1.0%
<i>Of which:</i>						
Current expenditure	15.0	14.8	15.1	15.0	14.8	14.8
<i>Real % change</i>	1.4%	1.1%	3.6%	4.5%	1.0%	2.0%
Gross capital formation	5.0	5.1	5.2	5.2	5.1	5.0
<i>Real % change</i>	15.8%	13.0%	4.7%	7.0%	1.1%	0.9%
3. Others 2/	0.2	0.3	0.0	0.0	0.1	0.1
4. Primary balance (1-2+3)	-1.8	-1.8	-0.4	-0.5	0.0	-0.1
5. Interests	1.7	1.7	1.8	1.7	1.8	1.8
6. Economic Balance	-3.5	-3.5	-2.2	-2.2	-1.8	-1.8

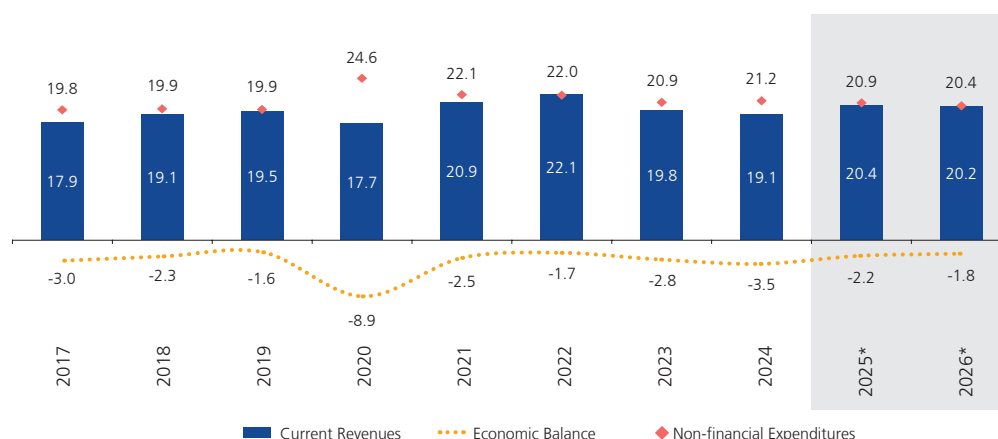
1 / Ratios on % of GDP and real % changes represent accumulated in the last 12 months as of February.

2 / Includes capital income of the general government and primary balance from state-owned companies.

* Forecast

IR: Inflation Report.

Graph 59
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2017 - 2026
 (% 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

56. **Current income** is expected to show a real expansion of 11.7 percent in 2025 and as a percentage of GDP to represent 20.4 percent, a level 1.3 percentage points higher than that recorded at the end of 2024.

The real increase in revenues is due to an increase in payments for regularization and coefficients of payments on account of the IR, benefiting from the favorable evolution of economic activity and the high prices of export metals (gold, zinc and copper) in 2024. Likewise, it is expected that the greater dynamism of domestic demand and the increase in the value of imports will generate an increase in the collection of VAT, both in domestic sales and that applied to imports; as well as in the excise tax.

On the other hand, higher revenues related to the mining sector are expected, due to a higher projection for export metal prices. At the same time, the growth of employment and the average formal income will increase the collection of personal income tax and social contributions. Finally, higher extraordinary revenues are expected, derived from the sale of companies in the electricity sector and revenues from amnesty and regularization (special fractionation of tax debts).

By 2026, revenues are estimated to reach 20.2 percent of output, 0.2 percentage points lower than projected for 2025. This decrease is mainly explained by the extraordinary revenues in 2025, which would limit real revenue growth by 2.3 percent, a rate lower than output growth and, therefore, would result in a drop in the revenue ratio as a percentage of GDP. However, in line with the projected evolution of GDP, export metal prices and the value of imports, an increase in the collection of corporate income tax, VAT, excise tax and revenues related to the mining sector is expected.





In addition to the above, in the projection horizon, a positive impact is expected from tax measures and control actions, such as the application of the VAT to digital services and the import of intangible goods, the tax on remote gaming and sports betting; as well as the control of subjects without operational capacity and the non-renewal of legislative initiatives in tax matters that reduce revenues.

Compared to the previous Report, the projection of current revenues as a percentage of GDP is revised downward from 20.5 to 20.4 percent for 2025 and from 20.3 to 20.2 percent for 2026. While real revenue growth for 2025 has been adjusted upward, the level of revenue as a percentage of output in 2024 was lower than projected in December –19.1 instead of 19.2 percent–. In addition, the lower crude oil price projection for 2026 led to a downward revision in revenue from the hydrocarbon sector, further affecting the revenue ratio for that year.

Table 29
CURRENT REVENUES OF THE GENERAL GOVERNMENT
(% GDP)

	2024	2025*			2026*	
		February ^{1/}	IR Dec.24	IR Mar.25	IR Dec.24	IR Mar.25
TAX REVENUES	14.7	14.8	16.0	15.9	15.8	15.8
Income tax	6.1	6.0	7.1	7.0	6.8	6.8
Value Added Tax (VAT)	8.1	8.2	8.4	8.3	8.5	8.4
Excise tax	0.8	0.8	0.8	0.8	0.8	0.8
Import duties	0.1	0.1	0.2	0.1	0.2	0.1
Others tax revenues	1.8	1.9	1.9	1.9	1.8	1.9
Tax returns	-2.2	-2.3	-2.3	-2.3	-2.3	-2.3
NON-TAX REVENUES	4.4	4.3	4.5	4.5	4.5	4.5
Contributions to social security	1.9	1.9	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	0.6	0.6	0.7	0.7	0.7	0.7
Rest	0.9	0.8	0.8	0.8	0.8	0.8
TOTAL	19.1	19.1	20.5	20.4	20.3	20.2

^{1/} Represents accumulated in the last 12 months as of February.

* Forecast

IR: Inflation Report.

Non-financial expenditure

57. By 2025, **non-financial expenditure** is expected to grow by 3.0 percent in real terms and to reach 20.9 percent of GDP, 0.3 percentage points lower than in 2024.

This real growth includes an increase in salaries, as a result of the salary increases contemplated in the Budget Law 2025. In addition, higher spending on gross capital formation at the three levels of government will contribute to this increase, in line with the progress in project execution so far in 2025. Likewise, higher spending is expected in the acquisition of goods and services (such as those for maintenance and

defense spending) and in current transfers, due to higher subsidies for social programs. This projection assumes that there will be no new capitalizations of Petroperu, which would dampen spending growth in 2025.

By 2026, spending is expected to continue reducing, reaching 20.4 percent of GDP, as a result of a moderation in its growth rate, especially in the current component. On the other hand, the growth of expenditure on gross capital formation will be influenced by the change of authorities in the National Government. These factors would lead current expenditure to decrease from 15.0 to 14.8 percent of GDP between 2025 and 2026, while spending on gross capital formation would fall from 5.2 to 5.0 percent of GDP.

Compared to what was foreseen in the last Report, the projection of non-financial expenditures as a percentage of GDP is reduced from 21.0 to 20.9 percent of GDP for 2025. This revision is mainly attributed to a lower starting point than what was foreseen in December (21.2 percent of GDP instead of 21.4), explained by lower progress in current expenditures and subnational government investment.

Table 30
NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT
(% GDP)

	2024	2025*			2026*	
		February ^{1/}	IR Dec.24	IR Mar.25	IR Dec.24	IR Mar.25
Current expenditure	15.0	14.8	15.1	15.0	14.8	14.8
National Government	9.4	9.3	9.6	9.5	9.4	9.4
Regional Governments	3.8	3.8	3.8	3.8	3.7	3.7
Local Governments	1.7	1.7	1.7	1.7	1.7	1.6
Capital expenditure	6.2	6.3	5.8	5.9	5.6	5.6
Gross capital formation	5.0	5.1	5.2	5.2	5.1	5.0
National Government	2.0	2.0	2.0	2.1	2.0	2.1
Regional Governments	1.3	1.3	1.4	1.3	1.3	1.2
Local Governments	1.8	1.8	1.8	1.8	1.8	1.7
Others	1.2	1.2	0.7	0.7	0.6	0.6
TOTAL	21.2	21.2	21.0	20.9	20.4	20.4
National Government	12.5	12.5	12.2	12.2	11.9	12.1
Regional Governments	5.1	5.1	5.2	5.1	5.1	4.9
Local Governments	3.6	3.6	3.6	3.5	3.5	3.4

1 / Represents accumulated in the last 12 months as of February.

* Forecast.

IR: Inflation Report.

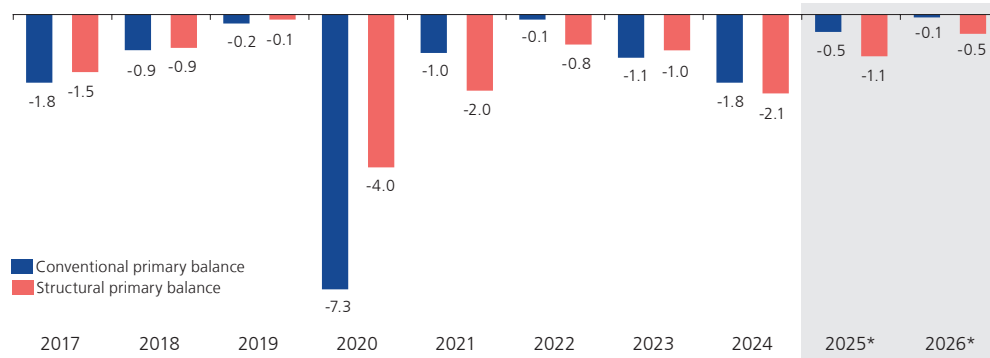
Fiscal stance

58. The **structural primary balance** is a measure that discount from the fiscal accounts the impact of cyclical, transitory and extraordinary components impacting the economy to assess changes in the fiscal balance associated with discretionary fiscal policy measures. The structural primary deficit is estimated to be 1.1 and 0.5 percent of potential GDP in 2025 and 2026, respectively.





Graph 60
CONVENTIONAL AND STRUCTURAL PRIMARY BALANCE OF THE
NON-FINANCIAL PUBLIC SECTOR: 2017-2026
(% GDP and Trend GDP)



* Forecast.

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

Financing and debt

59. **Financing requirements** are expected to decrease in 2025 with respect to the previous year, mainly due to lower domestic debt amortization, in turn attributed to a statistical effect associated with the Debt Management Operation (DMO) carried out in June-July 2024, as well as the expected lower fiscal deficit. By 2026, an increase in public debt amortizations is projected, in line with sovereign and global bond maturities. In terms **of funding sources**, the projection for 2025 assumes no new bond issuance under an DMO and a lower use of deposits.

Compared to the December Report, projected financing requirements remain relatively constant for 2025 and 2026.

Table 31
FINANCIAL REQUIREMENT AND FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR
(Million S/)

	2024	2025*			2026*	
		Jan-Feb	IR Dec.24	IR Mar.25	IR Dec.24	IR Mar.25
I. USES	69,876	1,759	32,301	32,277	35,763	35,807
1. Amortization	31,711	379	7,300	7,002	13,773	13,438
a. Externa	9,625	286	6,559	6,285	9,012	8,677
b. Interna	22,086	92	741	717	4,761	4,761
Of which: recognition bond 1/	500	65	550	520	550	550
2. Economic Balance 2/	38,165	1,381	25,001	25,276	21,990	22,369
II. SOURCES	69,876	1,759	32,301	32,277	35,763	35,807
1. Disbursements and others	50,949	3,349	28,581	28,363	35,473	35,305
a. External credits	7,331	343	8,981	8,763	5,473	5,305
b. Global and Sovereign bonds 3/	43,618	3,006	19,600	19,600	30,000	30,000
2. Variation in deposits and others 4/	18,928	-1,589	3,720	3,914	290	502

Note:

% GDP

Gross public debt balance

Net public debt balance

Balance of public deposits

1/ Does not consider the implementation of the Constitutional Court's ruling regarding new recognition bond issues.

2/ A positive sign indicates a deficit.

3/ Includes the Lima Municipality bond issue in 2024.

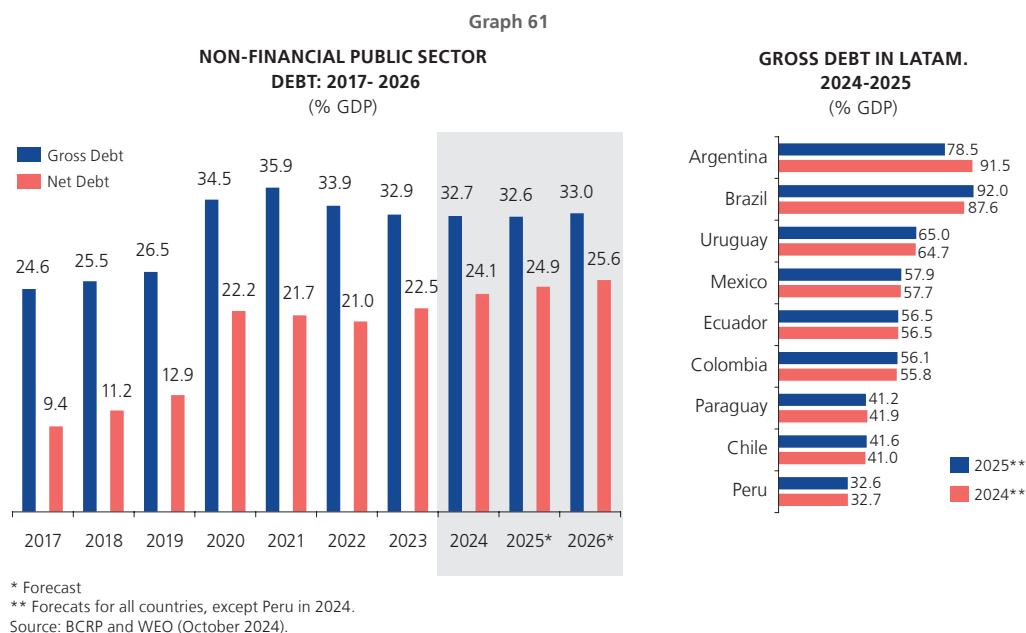
4/ A positive sign indicates a reduction in deposits.

* Forecast.

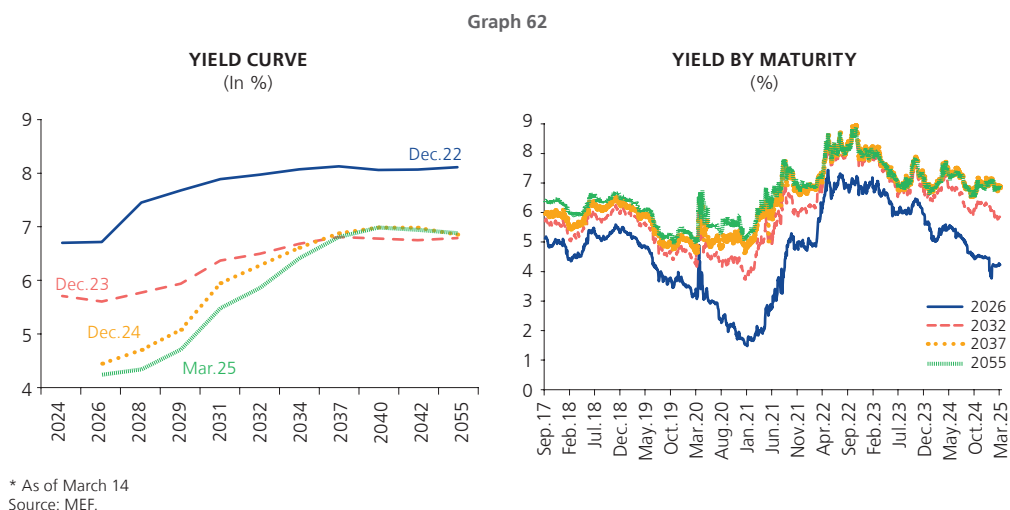
IR: Inflation Report.

60. **Debt** –net of Non-Financial Public Sector deposits– is projected to increase from 24.1 to 24.9 percent of GDP between 2024 and 2025 and to stand at 25.6 percent of GDP by the end of the projection horizon. Non-Financial Public Sector gross debt is projected to increase from 32.7 to 32.6 percent of GDP between 2024 and 2025, to reach 33.0 percent of GDP by 2026.

The difference between the change in net debt and gross debt projected to 2026 is due to the expected evolution of financial assets, whose percentage of GDP is projected to decrease from 8.6 to 7.4 percent of GDP between 2024 and 2026. The public debt projection will continue to be among the lowest in the region.



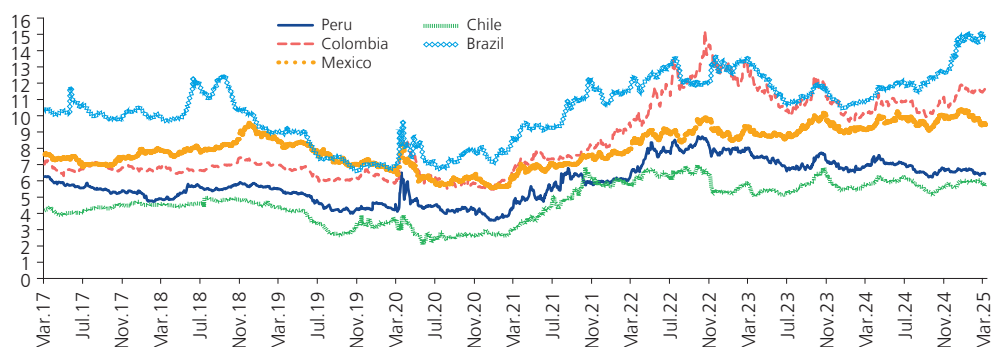
61. Yields on fixed interest rate Public Treasury Bonds (BTP) in soles have decreased an average 21 basis points between December 2024 and March 2025, mainly for bonds in the short and medium tranche of the yield curve, in line with the reduction of the BCRP reference rate and of the yields on US Treasury securities with terms between 1 and 30 years (average of 20 basis points).





A comparison of 10-year government bond yields in the region between December 30, 2024 and March 14, 2025 shows a reduction in all countries. Thus, the bonds of Colombia, Chile, Brazil and Mexico decreased by 23, 25, 35, and 98 basis points, respectively. Peruvian bond's yield decreased from 6.62 to 6.42 percent so far in the first quarter of 2025.

Graph 63
10 YEAR SOVEREIGN BOND YIELDS IN LOCAL CURRENCY
(%)



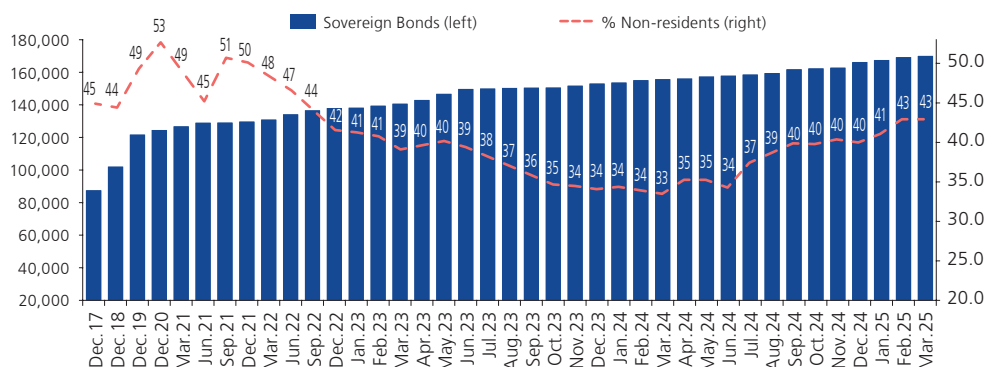
* As of March 14.

Source: MEF and Reuters.

Similarly, yields on Peruvian global dollar-denominated bonds accumulated an average reduction of 18 basis points, influenced by the evolution of U.S. government bonds, which decreased by an average of 15 basis points. In particular, the yield on Peruvian 10-year bond decreased from 5.87 to 5.67 percent, while the yield rate of the U.S. bond fell from 4.53 to 4.31 percent. On the other hand, the EMBIG Peru rose from 160 to 167 basis points during the period analyzed.

62. As of March 14, the balance of sovereign bonds stood at S/ 169.8 billion, S/ 3.7 billion higher than the balance as of December 2024. In the first quarter, banks and AFPs were the main bidders, while on the demand side, foreign investors stood out. The participation of non-resident investors increased from 40 to 43 percent between December 2024 and March 2025, continuing the growing trend observed since June 2024.

Graph 64
SOVEREIGN BOND BALANCE AND PARTICIPATION OF NON-RESIDENT INVESTORS
(Amounts in millions of soles and participation in %)



* As of March 14.

Note: For the participation of Non-Residents in the holdings of sovereign bonds, as of February 2021, excludes inflation-linked bonds, Global Depository Notes (GDN) and Euroclear transactions of non-residents. As of March 2021, nominal sovereign bonds and VAC are included and GDN are excluded.

Source: BCRP, CAVALI, MEF and SBS.

Box 3
EVOLUTION OF THE RATES OF RETURN
ON GOVERNMENT BONDS
IN PERU AND LATIN AMERICA (2019-2025)

This box describes the evolution of the yield and interest rate differential of Peruvian and Latin American government bonds²⁶, for the period from January 2019 to February 2025. During this period, financial markets experienced changes in risk appetite, which generated a heterogeneous outflow of capital, the depreciation of local currencies against the dollar and an increase in risk premiums in emerging economies. This occurred in the context of: (i) the Covid-19 pandemic (2020-2021) and the expansionary monetary policies adopted to mitigate the effects of the health emergency; (ii) global inflationary pressures (2021-2023); (iii) political uncertainty derived from the 2021 presidential elections in the case of Peru; (iv) changes in the outlook and rating of Peruvian debt²⁷ (2022 to 2024); (v) geopolitical tensions between Russia and Ukraine from 2022; (vi) the approval of extraordinary withdrawals of Pension Fund Administrators (AFP) contributions between 2020 and 2024; and (vii) changes in the expectation of monetary policy normalization in the United States (2024).

Size of the government bond market

In the region, the total balance of government bonds²⁸ increased from USD 2,371 billion in December 2019 to USD 2,847 billion in December 2024. Brazil and Mexico are the main issuers, accounting for 58 percent and 27 percent of the total, respectively. In the case of Peru, the balance of government bonds, including securities in soles, inflation-adjusted value soles (VAC), dollars and euros, grew from USD 47 billion in December 2019 to USD 72 billion in December 2024, equivalent to a 49 percent increase in its balance. Peru's share in the region is around 3 percent as of December 2024 (2 percent in December 2019). In terms of Gross Domestic Product (GDP), Peru's government, in bonds, debt represents 27 percent, while the regional average as of December 2024 stands at around 49 percent as of the fourth quarter of 2024.

Besides, placements in the international market have shown fluctuations in recent years due to various factors. Between 2019 and 2021, there was sustained growth in issuance, driven mainly by the need to finance spending associated with the Covid-19 pandemic. In 2022, bond issuance slowed significantly in a context of rising US Treasury bond yields, which increased the cost of borrowing for countries in the region. In 2023 and 2024, international issuance regained momentum under more favorable financing conditions.

26 Brazil, Chile, Colombia, Mexico and Peru are analyzed.

27 On December 12, 2022, the rating agency Standard & Poor's revised the outlook for Peruvian debt from stable to negative due to political risk; while on April 25, 2024 the same agency downgraded the long-term credit rating in foreign currency from BBB to BBB- and in local currency from BBB+ to BBB due to political uncertainty that would limit growth.

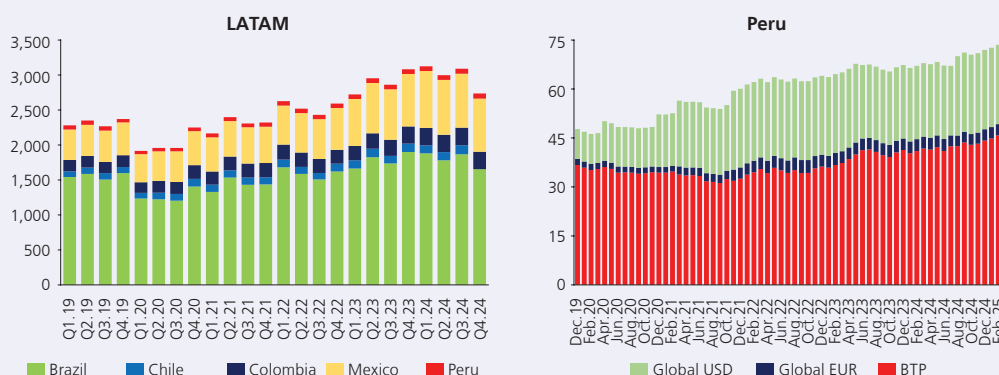
28 Considers government bonds in local currency, adjusted for inflation and foreign currency in each country.





BALANCE OF GOVERNMENT DEBT AND CHARACTERISTICS OF BONDS IN PERU

(Billions USD)



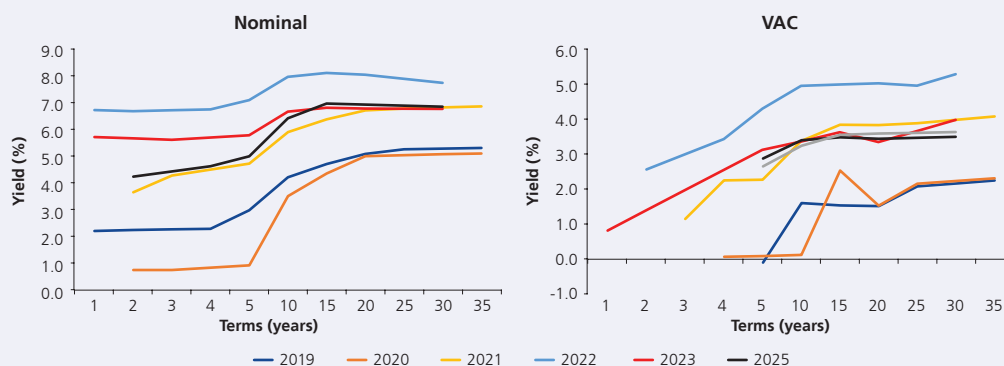
Source: The Institute for International Finance for Brazil, Chile, Colombia and Mexico and Ministry of Economy and Finance for Peru.

Evolution of Government Bond Yield Curves

Between December 2019 and February 2025, the yield curve of Peruvian soles fixed-rate bonds (nominal BTP) recorded an average reduction of 60 basis points in their yield rates. In 2020, the yield curve of Peruvian soles bonds decreased by an average of 105 basis points, mainly in the short and medium tranche (167 basis points), in line with the regional average (131 basis points) and with the decrease in U.S. treasury bond yields (130 basis points). This decrease was influenced by the expansive monetary policies implemented both local and global to face the COVID-19 crisis. However, during the same period, bond yield volatility in Peru increased due to the approval of the first extraordinary withdrawals of pension funds.²⁹

GOVERNMENT BOND YIELD CURVES

(%)

AVERAGE VARIATION OF YIELDS
(in basis points)

	Nominal						VAC					
	2020	2021	2022	2023	2024	2025*	2020	2021	2022	2023	2024	2025*
Peru	-105	242	190	-142	-31	-24	-7	207	112	-144	-14	-1
LA5	-131	342	218	-142	148	-31	-35	161	110	-67	71	-11
USA	-130	43	328	22	-4	-20	-156	-14	335	11	13	-57

* As of February 28.

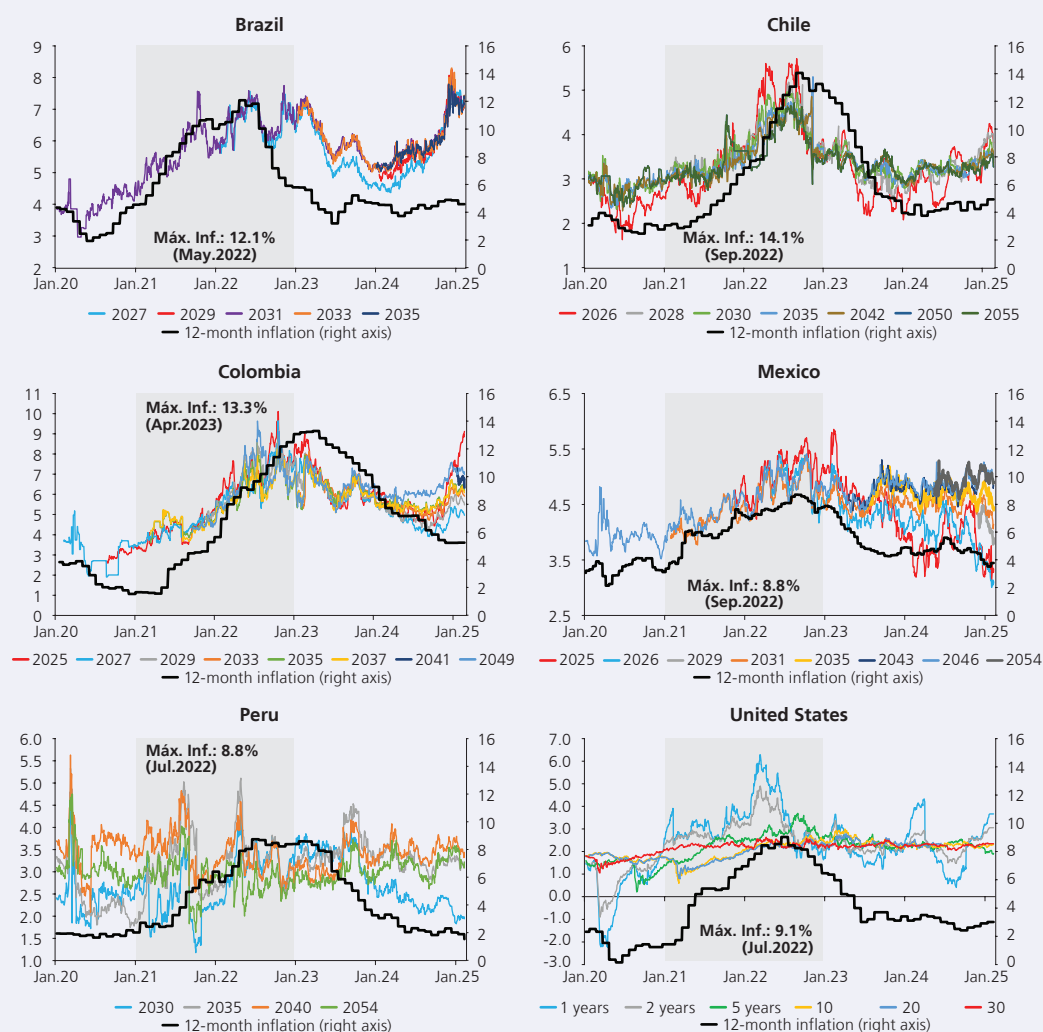
Source: Bloomberg and MEF.

29 Total withdrawals were S/ 115.3 billion (S/ 33.7 billion in 2020; S/ 32.2 billion in 2021; S/ 22.0 billion in 2022; and S/ 27.3 billion in 2024).

In 2021 and 2022, Peruvian sovereign bond yields increased by an average of 242 and 190 basis points, respectively, below the regional average (342 and 218 basis points, respectively).

The higher inflationary pressures in the region observed in 2021 and 2022 were reflected in the Latin American bond market through an increase in nominal bond interest rates, as well as in the *spread* between nominal and inflation-adjusted bonds. In this context, the average *spread* between nominal bonds and Peruvian VACs increased in 2021 and 2022 by around 207 and 112 basis points, following a trend similar to that of other countries in the region and the US. In particular, when year-on-year inflation in Peru peaked in the period (8.8 percent in June 2022), the average *spread* between nominal BTP 2029 and VAC 2030 presented an upward trend, reaching 3.73 percent in July 2022 (4.30 percent in May 2022), and then gradually declining to the current level of 1.97 percent. It is important to note that, in most of the countries of the region analyzed, both year-on-year inflation and the *spread* between nominal and inflation-adjusted bond rates reached the highest levels of the analysis period in 2022.

LATAM AND USA: SPREAD BETWEEN NOMINAL AND INFLATION-ADJUSTED BONDS; AND 12-MONTH INFLATION (%)



The shaded area corresponds to the years 2021 and 2022.
Source: Bloomberg.



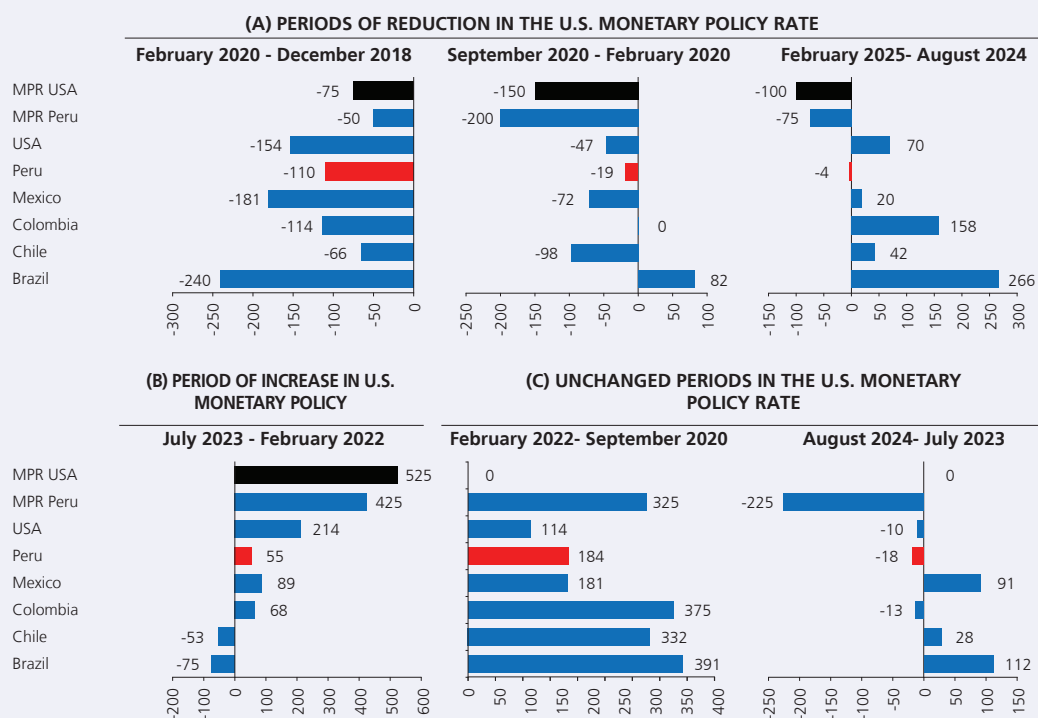


On the other hand, between 2023 and 2025, Peruvian bond yields have shown a downward trend, mainly in the short end of the yield curve, in line with the evolution of the BCRP benchmark interest rate and lower inflation expectations.

During the period under analysis, a key factor that continues to influence the performance of government fixed-income securities in local currency, as in other emerging economies, is the evolution of expectations regarding the speed of monetary policy normalization in the US. In the first place, in recent episodes of reduction in the US monetary policy rate, long-term interest rates in the region presented a heterogeneous behavior. In Peru, during the period in which the US policy rate decreased by 75 basis points (from December 2018 to February 2020), the 10-year bond yield decreased by 110 basis points, while the US bond rate decreased by 154 basis points. On the other hand, during the 2020 health crisis intensification period (February to September), the Peruvian 10-year bond yield decreased by 19 basis points.

CHANGES IN 10-YEAR LOCAL CURRENCY SOVEREIGN BOND YIELDS

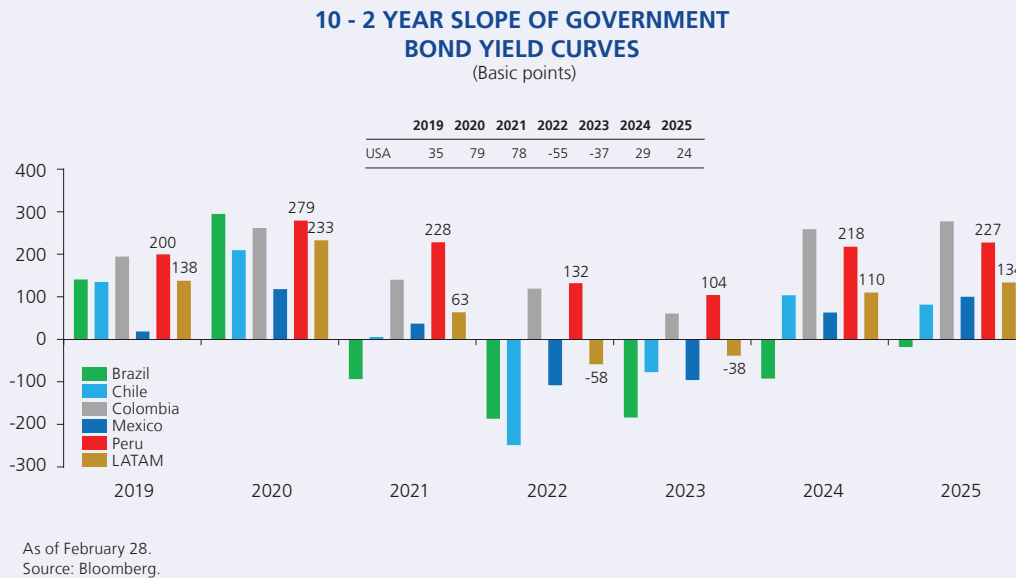
(In basis points)



Source: Bloomberg.

In the case of the slope of the yield curve, measured as the *spread* between 2- and 10-year sovereign bonds, it has remained positive on average over the 2019-2025 period. In 2020, the curve showed a notable steepening due to a significant reduction in short-term bond rates (-149 basis points) compared to the more moderate drop in long-term bonds (-70 basis points). On the other hand, in 2023, the slope reached its lowest level in the period analyzed (104 basis points), as the yield on

the 10-year BTP (-130 basis points) fell by a greater magnitude than that of the 2-year bond (-101 basis points).



Long-Term Interest Rate Differential

A recent trend in sovereign bond yields has been the increase in the *spread* between long-term local currency bond rates in the region and the U.S. bond. This spread has fluctuated over time and has shown differentiated behavior by country. Common factors that have contributed to the widening of these spreads include rising inflation premiums, and expectations that US monetary policy rates will remain high for longer. An analysis of the interest rate spread between Latin American government bonds and the 10-year US bond, together with the evolution of the exchange rate shows that, Chile has maintained the lowest spread in each year since 2019, although its currency has shown a heterogeneous evolution, with episodes of depreciation in 2019, 2021, 2023 and 2024, influenced by idiosyncratic factors such as the social protests in 2019. For its part, Peru recorded a rate differential and a more pronounced depreciation of the sol in 2020 and 2021, due to the impact of Covid-19 and the political uncertainty associated with the presidential elections. In 2024, the average spread was the lowest in recent years, while the sol depreciated by 1.5 percent, in an environment of lower volatility.

The main factors that explain the heterogeneity of spreads in Peru, compared to the region, are a combination of structural and cyclical factors:

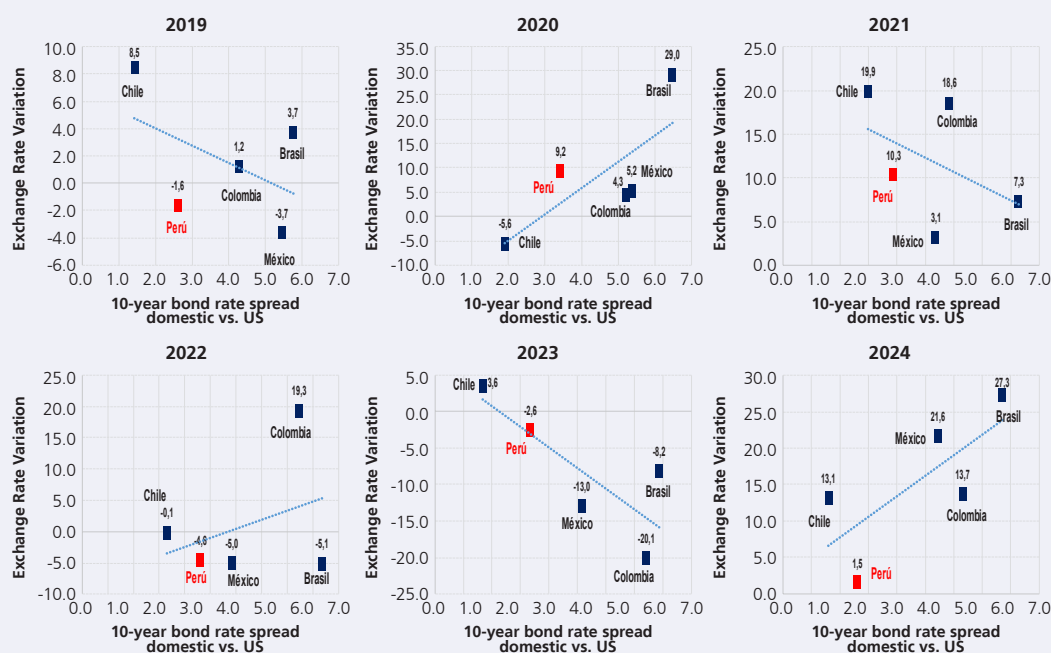
Domestic risk premium: in recent years Peru has faced political uncertainty, which has increased the risk premium required by investors to hold long-term sovereign debt.





AVERAGE 10-YEAR BOND RATE SPREAD AND EXCHANGE RATE VARIATION

(%)



Source: Bloomberg.

Likewise, in Peru, extraordinary pension fund withdrawals have affected the demand for sovereign bonds, generating bond liquidation in a short period of time and putting upward pressure on interest rates³⁰. In Chile, although pension fund withdrawals were also allowed, the impact on the fixed income market was smaller due to its relative size. Thus, while in Chile there was a higher withdrawal in terms of amounts and percentage of GDP (USD 44.3 billion and 14.6 percent, respectively), total withdrawals as a percentage of the investment portfolio (21 percent), is significantly lower than in Peru (59 percent of the portfolio value as of December 2019). In addition, extraordinary withdrawals in Peru have continued until 2024.

PENSION FUND WITHDRAWALS IN PERU AND CHILE

	Withdrawals (billion USD)	Withdrawal (% GDP)	Withdrawals /Portfolio AFP *
Peru	30.4	11.5	59
Chile	44.3	14.6	21

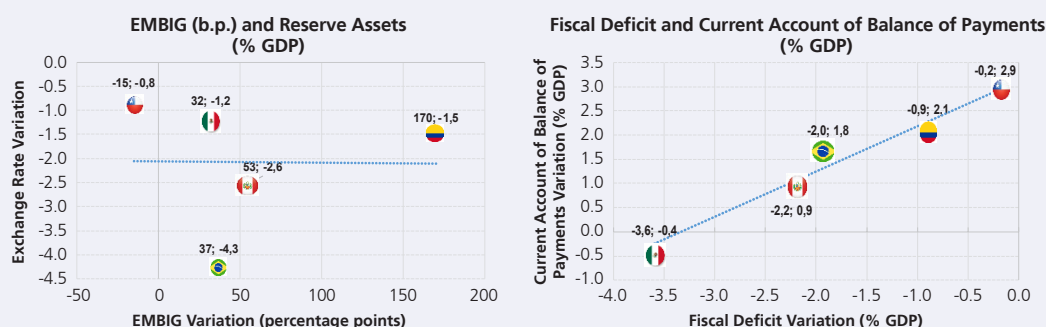
* Total withdrawals as a percentage of the AFPs' investment portfolio as of December 2019.

Source: Superintendency of Pensions of Chile and Superintendency of Banking, Insurance and AFPs.

For its part, Peru's foreign currency debt credit rating has experienced changes in its outlook, mainly due to political instability, a behavior that also occurred in the other countries of the region. Between 2019 and 2024, the EMBIG Peru increased by 53 percentage points, above Chile, Mexico and Colombia, but lower than Colombia (increase of 170 percentage points).

30 It should be noted that the direct repo operations implemented by the BCRP mitigated this effect. In total, the BCRP carried out repo operations for S/ 32.6 billion.

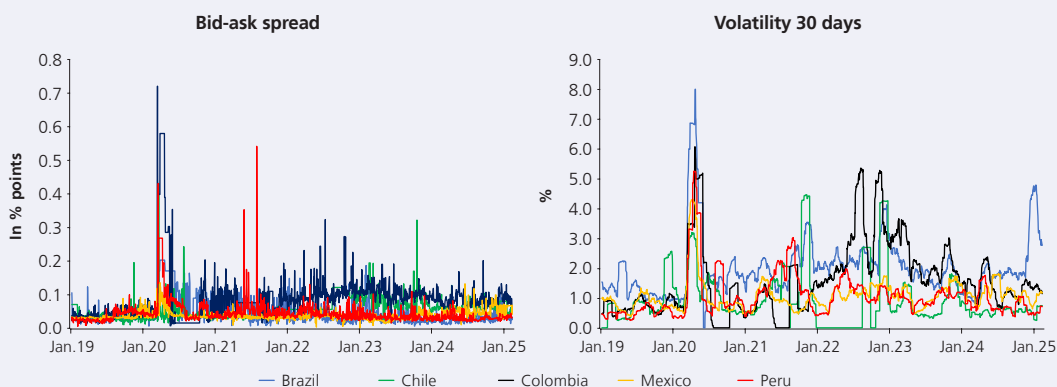
CHANGE IN INDICATORS (2019-2024)



Source: Bloomberg and International Monetary Fund. Reserve assets are obtained from each central bank.

Liquidity and market depth: in terms of sovereign bond liquidity, between 2019 and 2025, the average *bid-ask spread* of the representative 10-year bond presents two episodes of pressures. The first occurred in March 2020 in the Covid-19 pandemic and in July 2021 in the presidential election period when the *spread* stood at 0.54 percentage points (July 30, 2021), above the average level of 2019 and 2020 (0.03 and 0.07 percentage points, respectively). Similarly, cumulative daily volatility over the last 30 days rose considerably in April 2020 (5.3 percent), in line with the behavior of the region's bonds (regional average of 4.6 percent).

LIQUIDITY AND VOLATILITY* OF 10-YEAR GOVERNMENT BONDS



* Standard deviation of the daily variation of the last 30 days.
Source: Bloomberg.

Conclusions

Over the last five years, the evolution of government bond yields in Peru and the region has been influenced by both global and local factors. Volatility in financial markets, driven by changes in risk appetite, monetary policy tightening in the U.S. and domestic political uncertainty, has generated an increase in rate spreads and interest rates themselves. In the case of Peru, the rate differential has been influenced by structural elements such as the smaller size and liquidity of the sole bond market, as well as by cyclical factors, including domestic uncertainty and extraordinary withdrawals of pension funds. The downward trend in rates in recent years reflects a reduction in inflationary expectations in Peru, compared to other countries in the region.





V. Monetary policy and financial conditions

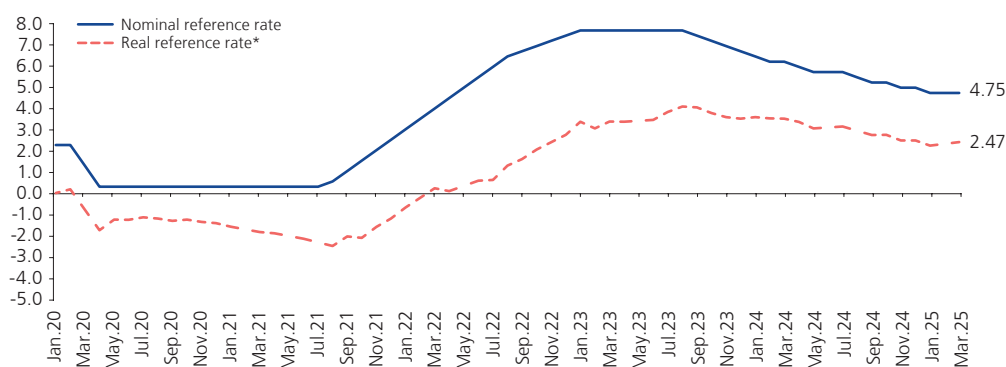
Monetary policy actions

63. In the first quarter of 2025, the Board of Directors of BCRP decided to reduce the monetary policy benchmark by 25 basis points in the monthly Monetary Program meeting in January, and it was agreed to maintain the benchmark rate in the February and March meetings. At the close of this Inflation Report, the benchmark rate stands at 4.75 percent. With this, the real benchmark rate, currently at 2.47 percent, is close to the level estimated as neutral (around 2.0 percent)³¹, which is consistent with the normalization of the monetary policy stance. The neutral real interest rate is defined as consistent with a scenario in which the economy remains at its potential level of production, and inflation rate is at its long-term equilibrium level.

In the January, February, and March releases, the Board reiterated its message that future adjustments to the benchmark rate will be conditional on new information on inflation and its determinants. Likewise, in the communiqués, the Board of Directors reaffirmed its commitment to take the necessary actions to keep inflation within the target range.

During the monetary policy rate cutting cycle, between September 2023 and March 2025, the benchmark interest rate accumulated a reduction of 300 basis points. In the current cycle, the twelve-month inflation rate has declined from 5.6 percent in August 2023 to 1.5 percent in February 2025, within the target range. At all times, the BCRP's real monetary policy rate remained one of the lowest among the larger countries in the region, and Peru has been the first of this group to return to the center of its inflation target range.

Graph 65
REFERENCE INTEREST RATE
(In %)



* With expectation on inflation.
Source: BCRP.

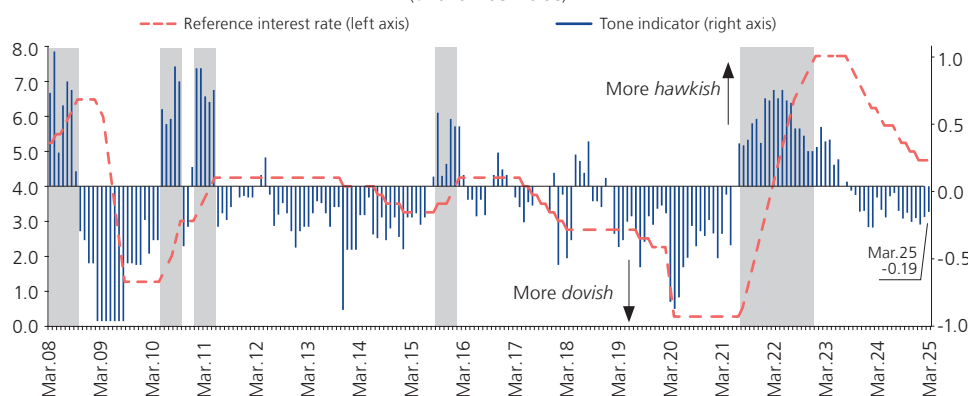
31 See Box 5 in the September 2023 Inflation Report. (<https://www.bcrp.gob.pe/docs/Publicaciones/ReporteInflacion/2023/setiembre/reporte-de-inflacion-setiembre-2023-recuadro-5.pdf>)

64. Since May 2024, the monetary policy communiqués highlighted that the Board will be attentive to new information on inflation and its determinants, including the evolution of non-food and energy inflation (SAE). This indicator has been on a declining path since the last quarter of 2024, standing at 2.1 percent at the end of February, and is projected to remain around 2 percent.

In particular, year-on-year inflation excluding food and energy: (i) reflects more clearly the demand components on which monetary policy acts, and (ii) is more persistent than the rest of the components of the Consumer Price Index (CPI), so that its more inertial behavior could affect inflation expectations.

65. During the quarter, the monetary policy interest rate has remained unchanged in February and March. These decisions are partly supported by: (i) the evolution of economic activity, which has shown higher growth in recent months, reaching around its potential level, and (ii) the increased volatility in international financial markets related to the high uncertainty associated with the impact of restrictive measures on foreign trade.
66. 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 continuation of monetary policy normalization.

Graph 66
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

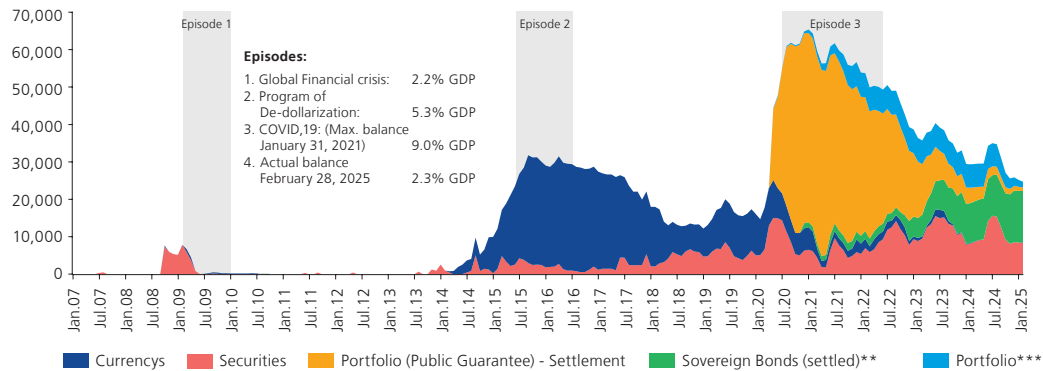
67. The BCRP's operations were oriented to ensure adequate levels of liquidity in the interbank market.

The total balance of injection operations was S/ 24,742 million as of February 28, 2025, while the balance of BCRP Certificates of Deposit (BCRP CD) was S/ 39,131 million as of the same date. In terms of GDP, at the end of February, the balance of liquidity injection operations is equivalent to 2.3 percent of GDP, of which S/ 934 million correspond to Government-secured Repos.





Graph 67
BALANCE OF MONETARY INJECTION OPERATIONS OF BCRP
(In mill. S/)



As of February 28, 2025.

** Purchase of Public Treasury bonds, in line with article 61 of the BCRP Organic Law.

*** Credit portfolio repurchase transactions.

Source: BCRP.

68. Regarding the composition of the BCRP's balance sheet, the balance of BCRP's injection operations decreased from 4.3 to 3.9 percent of BCRP's net assets between the end of November 2024 and February 28, 2025, mainly due to a decrease in the share of Portfolio Repos (from 0.8 to 0.5 percent). In the same period, the share of public sector deposits in BCRP's net liabilities decreased from 19.8 to 17.4 percent; while that of financial system deposits increased from 27.7 to 28.4 percent. Finally, the BCRP's sterilization instruments (BCRP CD (BCRP CDs and *overnight* and over-the-counter time deposits) increased their share of BCRP net liabilities from 12.3 percent in November 2024 to 13.4 percent in February 2025; and currency in circulation's share increased from 23.9 percent to 24.5 percent in the same period.

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

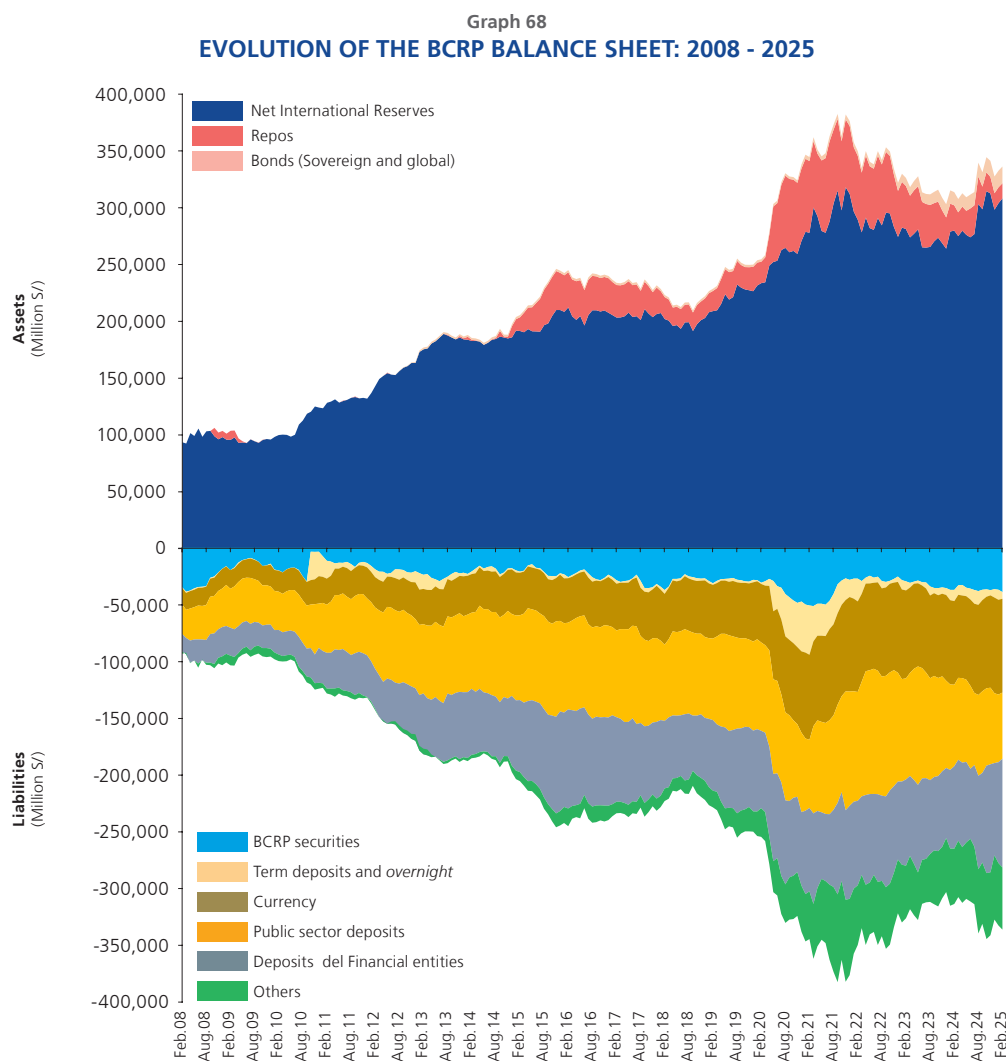
	Dec.22	Dec.23	Nov.24	Dec.24	Jan.25	Feb.25
I. Net assets	100%	100%	100%	100%	100%	100%
1. Net International Reserves	85.2%	87.1%	91.6%	91.1%	91.4%	91.7%
In millions of USD	71,883	71,033	83,228	78,987	81,596	83,661
2. BCRP injection instruments	12.6%	9.1%	4.3%	4.4%	4.2%	3.9%
Security repos	2.4%	3.6%	2.4%	2.6%	2.6%	2.5%
Currency repos	0.3%	0.1%	0.0%	0.0%	0.0%	0.0%
Portfolio repos	2.0%	2.1%	0.8%	0.7%	0.6%	0.5%
State Guaranteed Portfolio repos	5.8%	1.6%	0.4%	0.4%	0.3%	0.3%
Auction of Public Treasury Deposits	2.0%	1.7%	0.6%	0.7%	0.7%	0.7%
3. Bonds (Sovereign and Global)	2.2%	3.8%	4.1%	4.5%	4.4%	4.4%
II. Net liabilities	100%	100%	100%	100%	100%	100%
1. Total public sector deposits	29.8%	25.4%	19.8%	18.8%	17.9%	17.4%
In domestic currency	26.2%	19.9%	13.5%	12.6%	12.2%	11.8%
In foreign currency	3.5%	5.5%	6.3%	6.2%	5.7%	5.6%
2. Total financial system deposits	21.3%	20.3%	27.7%	24.9%	26.7%	28.4%
In domestic currency	4.1%	4.8%	4.1%	4.3%	3.9%	4.6%
In foreign currency	17.2%	15.5%	23.6%	20.5%	22.7%	23.9%
3. BCRP instruments	9.4%	13.7%	12.3%	13.4%	13.8%	13.4%
CD BCRP	3.9%	11.6%	11.0%	11.2%	11.2%	11.7%
CDR BCRP	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%
CDV BCRP	4.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Term deposits	1.1%	1.1%	0.7%	1.8%	2.6%	1.5%
Overnight deposits	0.4%	0.9%	0.6%	0.4%	0.1%	0.2%
4. Currency	24.9%	24.9%	23.9%	25.7%	25.1%	24.5%
5. Others*	14.7%	15.7%	16.3%	17.2%	16.5%	16.3%

* Includes equity and other accounts.

** Information as of 28 February, 2025.

Source: BCRP.

Regarding the size of the BCRP's balance sheet, in February 2025, BCRP assets amounted to S/ 335,774 million, equivalent to 30.5 percent of GDP, lower than that observed at the end of November 2024 (31.7 percent).



Source: BCRP.

69. Between the end of November 2024 and February 2025, the residual term of injection operations decreased by 30 days (from 101 days to 71 days). This drop is mainly explained by the amortization of Government-secured Repos, the net maturity of Securities Repo, the net maturity of Public Treasury Deposit Auctions and the maturity of Portfolio Repo (rescheduling and long-term credit expansion programs).

The residual term of sterilization operations was reduced by 25 days (from 120 days to 95 days) between November 2024 and February 2025. This reduction is explained by the higher amount of CD BCRP placements at 3-month terms compared to longer maturities.

As a result of the reduction in the residual maturity of sterilization operations, between the end of November 2024 and the end of February 2025, the weighted net





residual maturity of BCRP operations³² increased by 6 days. Thus, the average term of monetary sterilization instruments (BCRP liabilities) outweighed liquidity injection instruments (BCRP assets) by 57 days.

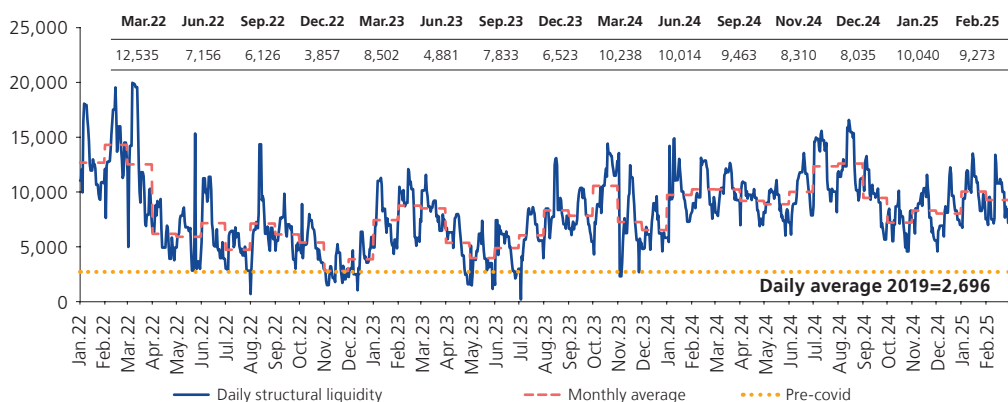
Graph 69
WEIGHTED NET RESIDUAL TERM OF BCRP OPERATIONS
(In days)



As of February 28.
Source: BCRP.

Between the end of November 2024 and February 2025, the banks' average daily liquidity before operations³³ increased from S/ 8,310 million to S/ 9,273 million. This increase is mainly explained by the fiscal injection registered in the first half of January.

Graph 70
STRUCTURAL LIQUIDITY OF BANKS
(In millions S/)



As of February 28.
Source: BCRP.

- 32 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 as per formula: $\text{Plazo Residual Neto Ponderado} = \frac{\text{Saldo Inyección}}{\text{Saldo Inyección} + \text{Saldo Esterilización}} * PR \text{ Inyección} - \frac{\text{Saldo Esterilización}}{\text{Saldo Inyección} + \text{Saldo Esterilización}} * PR \text{ Esterilización}$, where *PR* refers to the residual terms of injection and sterilization operations, respectively.
- 33 It considers the aggregate current account of banks at the BCRP at the beginning of the day. Specifically, it considers the balance before transactions 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

70. Financial conditions in local currency continued to ease in the first quarter of 2025. The high liquidity before banking institutions' operations, together with the 25 basis points reduction in the reference rate in January, continue to influence interest rates in the money, credit and bank deposit markets, especially those of shorter terms and with lower credit risk.

In the uncollateralized interbank lending market, the *overnight* interbank interest rate quickly converged to its new reference level of 4.75 percent, and the average daily amount traded in the first quarter was lower than in the fourth quarter (S/ 1,298 million versus S/ 1,571 million). January's monthly average amount (S/ 767 million) was the lowest since March 2022 (S/ 603 million). This lower volume of transactions is linked to the high level of liquidity of banking companies. February and March saw a recovery in the level of trading (S/ 1,338 million and S/ 1,790 million, respectively).

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

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Sep.24	Dec.24	Mar.25	Historical average /2
Passive									
90-day corporate prime	2.8	0.2	2.6	8.1	6.7	4.8	4.5	4.5	3.9
TIPMN	2.3	1.0	1.1	3.0	3.5	2.6	2.4	2.4	2.4
FTIPMN	1.5	0.1	1.0	3.7	3.1	2.5	2.2	2.5	2.3
Deposits up to 30-day	2.3	0.0	1.9	7.4	6.7	4.5	4.4	4.3	3.6
Individuals	1.6	0.2	0.7	3.7	3.3	3.1	3.3	3.0	2.5
Business	2.3	0.0	1.9	7.4	6.7	4.5	4.4	4.3	3.6
On 31 to 90-day term deposits	2.7	0.2	2.2	7.5	6.6	4.7	4.4	4.2	3.8
Individuals	1.8	0.5	0.8	3.7	6.1	4.4	3.9	3.6	2.3
Business	2.8	0.2	2.2	7.8	6.8	4.9	4.7	4.5	3.9
On 91 to 180-day term deposits	3.0	0.4	2.4	7.6	6.2	4.4	4.1	3.9	3.9
Individuals	2.3	0.5	0.9	4.8	5.9	4.2	3.7	3.6	2.9
Business	3.1	0.3	2.6	8.5	6.9	4.8	4.8	4.5	4.1
On 181 to 360-day term deposits	3.3	0.7	2.9	7.6	5.7	4.3	4.2	4.0	4.1
Individuals	3.3	1.3	2.9	6.9	5.0	3.9	3.7	3.6	3.8
Business	3.3	0.4	2.9	7.8	6.2	4.7	4.6	4.4	4.3
Deposits of more than 360 days	3.5	1.1	3.2	6.8	5.4	4.4	4.1	3.9	4.3
Individuals	3.5	2.0	3.1	5.9	5.0	4.1	3.7	3.4	4.3
Business	3.5	0.6	3.4	7.8	6.0	4.8	4.5	4.4	4.3
CTS	2.2	1.9	2.3	2.6	2.0	2.4	2.0	3.6	3.0
Active									
90-day corporate prime	3.3	0.7	3.1	9.2	7.5	5.5	5.1	5.0	4.7
TAMN	14.4	12.1	11.2	14.5	15.9	14.7	15.0	14.8	15.6
FTAMN	18.2	17.6	20.9	28.3	28.4	26.6	27.5	30.7	21.6
Corporates	3.8	2.5	3.2	8.9	8.1	6.4	5.8	5.6	5.4
Large companies	6.0	4.6	5.7	10.6	10.2	8.5	8.4	7.8	7.1
Medium-sized enterprises	9.3	6.1	8.8	14.1	13.3	12.3	10.3	10.8	10.4
Small business	18.0	17.2	19.3	22.5	22.9	22.0	19.8	20.8	20.4
Micro business	31.3	30.1	32.3	35.7	37.7	42.4	46.3	64.7	33.9
Micro business 3/	44.5	22.6	38.8	39.3	43.9	46.7	48.8	53.7	40.8
Consumer	40.9	39.5	41.8	49.6	56.9	56.5	59.9	57.2	43.8
Consumer 3/	43.1	41.5	40.4	47.7	54.3	58.5	55.6	57.5	47.5
Mortgage	7.0	6.4	6.9	9.9	9.1	8.4	8.2	8.1	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 March 14.

Source: BCRP and SBS.

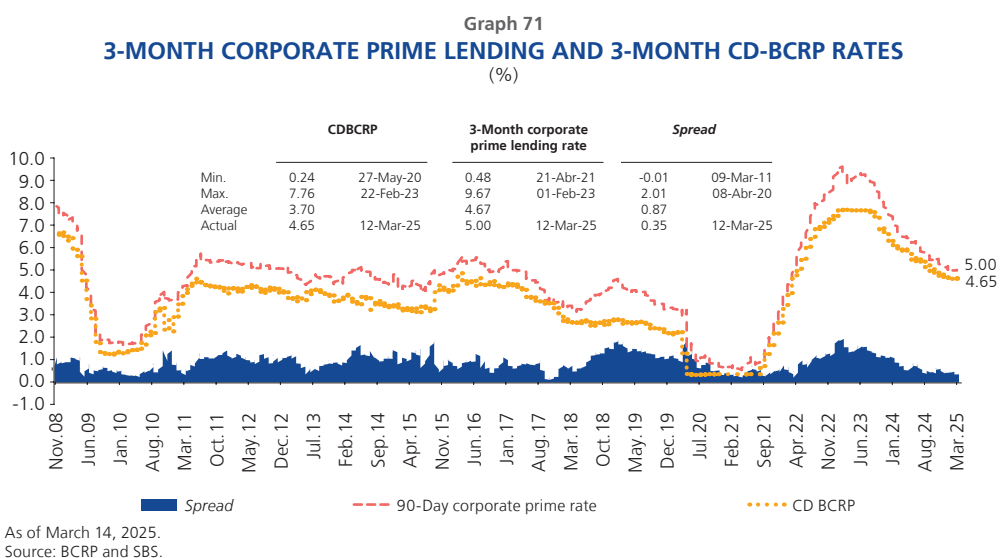
In the case of lending and deposit prime interest rates, which are highly representative of the market and the financial conditions of banking companies and which absorb changes in the reference interest rate more quickly, decreased less in the first quarter of 2025 compared to the fourth quarter of 2024. This behavior would reflect the market's expectation of the culmination of the monetary policy rate reduction cycle. Thus, between December 2024 and March 2025, *overnight* and six-month lending





rates accumulated reductions between 8 and 12 basis points in terms; while the twelve-month interest rate rose by 1 basis point. On the other hand, the *overnight* and twelve-month term deposit rates accumulated reductions between 6 and 8 basis points. On the other hand, the term premiums of the prime lending rates with respect to the reference rate are below their historical averages at 1, 3, 6 and 12 months.

The *spread* between the corporate prime lending rate and the 3-month CD BCRP in March 2025 (35 basis points) continues its downward trend, from one of the highest levels reached in the last two years (193 basis points in February 2023).



71. In the case of bank loans, lending rates in local currency for banking companies in the sectors with the lowest credit risk decreased during the first quarter of 2025, but by a smaller amount than in the fourth quarter. Interest rates in the corporate and large corporate sectors decreased by 24 and 59 basis points, respectively. On the other hand, the microenterprise segment stands out with the largest increase in its interest rate.

Over the same horizon, the mortgage sector interest rate decreased from 8.21 to 8.05 percent, in line with the recent evolution in the yield rate of the Peruvian and U.S. 10-year sovereign bond (down 15 and 22 basis points, respectively). The mortgage credit balance of banking companies increased from S/ 58.4 billion in December 2023 to S/ 62.2 billion in January 2025.

In the bank deposit market, most interest rates decreased in the first quarter of 2025, mainly corporate prime rates. By type of depositor, interest rates paid to individuals decreased more than those paid to companies (down 18 and 14 basis points, respectively). On the other hand, corporate prime rates for overnight and twelve-month terms also recorded a reduction (average of 8 basis points). On the other hand, the interest rate on CTS deposits increased from 2.01 percent in December 2024 to 3.55 percent in March 2025. The balance of this type of deposits in local currency decreased from S/. 5,775 million in May 2024 to S/. 4,412 million in January 2025, associated to the liberalization of accumulated funds in accordance with Law No. 32027, which allows new CTS funds withdrawals until December 2024.

72. The BCRP and Federal Reserve (Fed) monetary policy rate differential has decreased from 2.25 percentage points in August 2023 to 0.25 percentage points in March 2025. In that period, the Fed rate decreased from 5.50 to 4.50 percent, while the BCRP's benchmark interest rate decreased from 7.75 percent in August 2023 to 4.75 percent in March 2025. This reduction in the policy rate differential was passed through from June 2024 to some financial system interest rates. The cases of negative spreads are mainly explained by larger reductions in interest rates in soles compared to those in dollars.

Table 34
INTEREST RATE DIFFERENTIALS IN SOLES AND US DOLLARS
(In %)

MONEY MARKETS											
	Dec.21	Dec.22	Aug.23	Dec.23	Mar.24	Jun.24	Sep.24	Dec.24	Jan.25	Feb.25	Mar.25
Monetary Policy	2.25	3.00	2.25	1.25	0.75	0.25	0.25	0.50	0.25	0.25	0.25
Interbank	2.25	2.60	2.25	1.25	0.75	-0.08	0.25	0.44	0.25	0.32	0.25
Active Corporate Preference											
1 Month	2.10	3.39	2.90	1.26	0.57	-0.05	-0.08	0.30	0.45	0.38	0.50
3 Months	2.08	3.25	2.63	1.22	0.41	-0.01	-0.03	0.32	0.52	0.41	0.55
6 Months	2.15	3.10	2.29	1.16	0.33	-0.16	0.12	0.14	0.44	0.42	0.57
Corporate Passive Preference											
1 Month	2.26	3.49	2.89	1.58	0.85	0.41	0.29	0.67	0.61	0.74	0.78
3 Months	2.29	3.43	2.65	1.45	0.67	0.35	0.25	-0.27	0.66	0.69	0.74
6 Months	2.35	3.37	2.47	1.32	0.60	0.26	0.38	0.53	0.61	0.66	0.75
CREDIT MARKETS											
	Dec.21	Dec.22	Aug.23	Dec.23	Mar.24	Jun.24	Sep.24	Dec.24	Jan.25	Feb.25	Mar.25
Credit											
Corporate	1.17	2.76	1.86	0.58	-0.18	-0.80	-0.33	-0.44	-0.32	-0.12	0.00
Large companies	1.33	2.85	2.08	1.39	0.60	0.58	0.59	0.86	0.82	0.65	0.57
Medium-sized enterprises	2.88	5.34	4.56	3.50	3.16	2.04	3.25	1.18	1.33	1.64	1.85
Small business	9.00	10.31	10.07	9.61	8.84	8.35	8.50	9.77	10.15	10.19	10.98
Micro business	24.93	23.02	21.96	22.21	29.94	30.41	32.02	35.60	33.87	44.88	51.17
Micro business 1/	21.72	29.93	29.14	27.77	34.97	35.00	34.40	38.11	39.31	41.26	41.26
Consumer	8.43	8.58	10.52	10.95	9.63	11.61	8.57	11.58	8.94	8.32	9.15
Consumer 1/	6.50	10.63	10.47	13.48	11.78	9.78	12.08	7.94	8.14	9.01	9.01
Mortgage	1.83	1.61	1.36	1.20	1.17	1.34	1.50	1.12	1.04	0.81	0.83
TAMN-TAMEX	4.49	5.19	5.29	5.00	4.68	4.68	3.93	4.47	4.60	4.89	4.78
FTAMN-FTAMEX	13.27	17.43	17.05	15.48	14.84	12.40	13.79	15.17	16.95	17.23	18.64
DEPOSIT MARKETS											
	Dec.21	Dec.22	Aug.23	Dec.23	Mar.24	Jun.24	Sep.24	Dec.24	Jan.25	Feb.25	Mar.25
Persons											
Up to 30 days	0.54	2.59	1.14	-0.11	0.05	-0.17	-0.07	0.41	-0.03	-0.09	0.10
31-90 days	0.63	1.97	3.52	2.22	1.86	1.32	1.09	0.84	0.94	0.88	0.85
91-180 days	0.67	2.68	3.36	2.64	1.73	1.02	0.97	0.82	0.88	0.92	0.88
181-360 days	2.45	3.64	3.21	2.31	1.98	1.35	0.77	1.03	0.93	0.91	0.96
More than 360 days	2.33	2.99	3.23	1.99	1.99	1.35	1.40	1.27	1.20	1.11	1.07
Legal Entities											
Up to 30 days	1.74	3.79	2.80	1.62	0.60	0.43	0.21	0.67	0.79	0.79	0.81
31-90 days	2.03	4.33	3.25	1.63	0.93	0.70	0.20	0.65	0.71	0.77	0.79
91-180 days	1.97	3.87	3.31	1.86	0.64	0.44	0.27	0.86	0.94	0.83	0.90
181-360 days	2.14	2.96	2.71	0.71	0.63	-0.05	0.69	0.72	0.70	1.01	1.56
More than 360 days	2.46	3.07	2.96	0.74	0.52	0.22	0.34	0.40	0.81	0.70	0.66
Total											
Saving	0.10	0.06	0.49	0.04	-0.01	-0.02	-0.09	-0.01	-0.03	0.23	0.26
Up to 30 days	1.74	3.79	2.80	1.62	0.60	0.44	0.21	0.67	0.79	0.79	0.81
31-90 days	1.97	4.19	3.25	1.81	1.05	0.82	0.38	0.59	0.70	0.80	0.80
91-180 days	1.92	4.26	3.57	2.64	1.51	0.53	0.81	0.97	1.08	1.03	1.06
181-360 days	2.30	3.79	3.37	2.28	1.68	0.89	0.88	1.05	0.90	1.18	1.34
More than 360 days	2.38	3.25	3.19	1.25	1.50	1.10	1.22	0.50	1.18	1.36	1.33
In terms	1.79	3.80	2.84	1.63	0.64	0.47	0.23	0.67	0.78	0.79	0.81
CTS	1.35	1.53	1.38	1.13	2.37	1.36	1.34	1.11	1.38	2.04	2.36
TIPMN - TIPMEX	0.87	1.88	2.06	1.61	1.24	0.91	0.59	0.69	0.75	0.80	0.83
FTIPMN-FTIPMEX	0.89	1.40	0.85	-0.18	-0.36	-0.78	-0.81	-0.62	-0.39	-0.17	-0.14

As of March 14.
Source: BCRP and SBS.

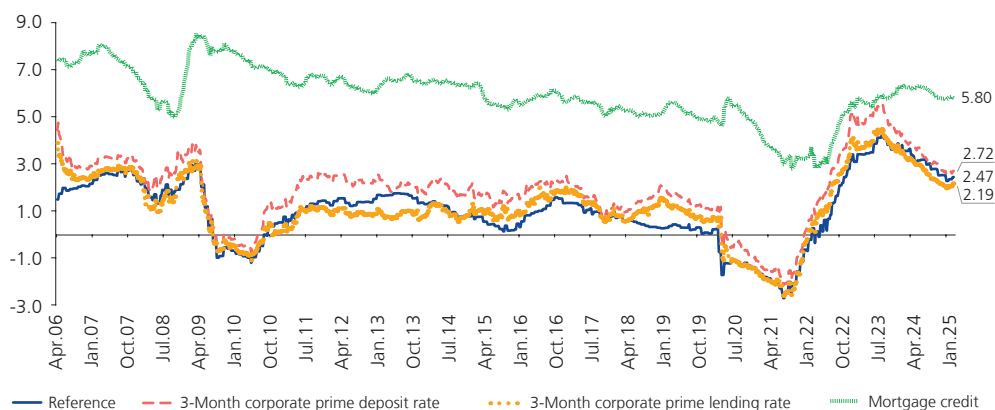




In 2025, as of March 14, the corporate credit segment maintained a negative spread in January and February; while, in the deposit market, individuals up to 30 days presented a negative spread in January, February and March 2025 (-0.03, -0.09 and -0.06 percentage points, respectively). In the case of total savings deposits, the spread was negative in January 2025 (-0.03 percentage points).

73. Most real interest rates increased during the first quarter of 2025, in line with the smaller reduction in nominal interest rates and stable inflation expectations within the target range. Thus, the 3-month corporate prime lending and deposit rates increased by 5 and 11 basis points, respectively. The reference rate in real terms decreased from 2.55 percent in December 2024 to 2.47 percent in March 2025. In the case of the mortgage credit rate in real terms, it increased from 5.76 to 5.80 percent over the same horizon.

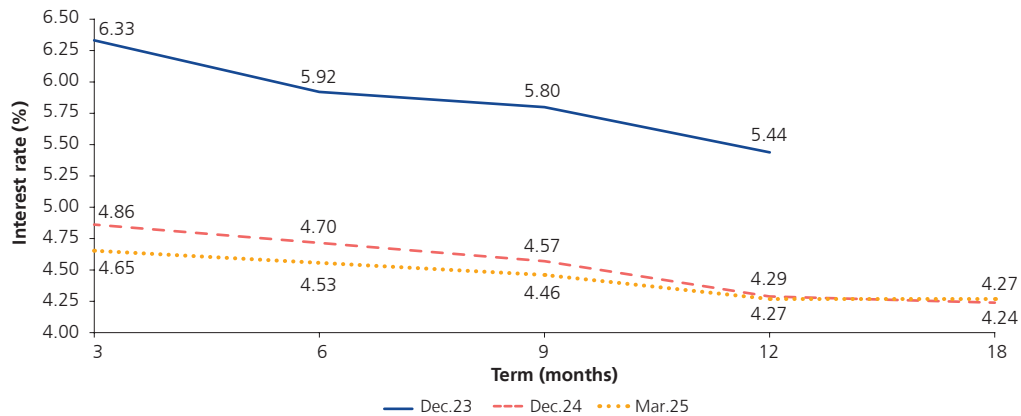
Graph 72
REAL EX-ANTE INTEREST RATES IN SOLES
(%)



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

The yield rates of the Certificates of Deposit (CD BCRP) curve incorporated the reduction of 25 basis points in the benchmark rate between December 2024 and March 2025. Since the beginning of the third quarter, the BCRP has been regularly conducting CDBCRP auctions at long maturities (between 12 and 18 months), and with this the new benchmark is helping the formation of a short term curve for the private sector. The slope of the yield curve continues to be negative and reflects the market's expectation of expected movements in the benchmark interest rate in the coming months. Thus, for example, interest rates between December 2024 and March 2025 have fallen by 21 and 11 basis points at 3- and 9-month terms, respectively.

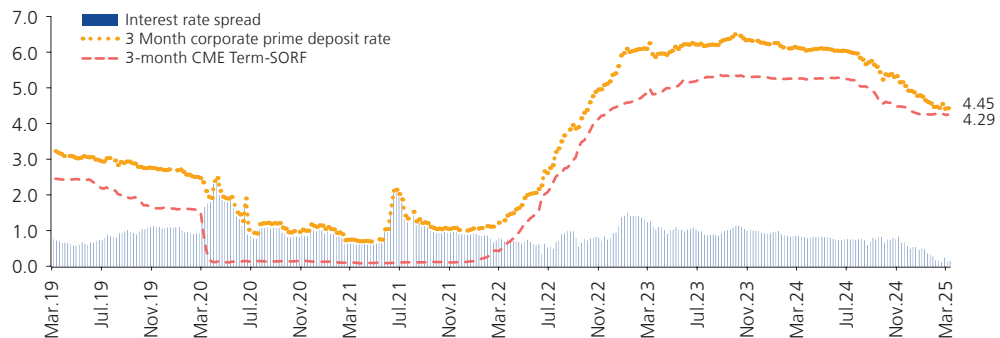
Graph 73
YIELD CURVE OF CD-BCRP SECURITIES ^{1/}
(%)



^{1/} Yield rate of the primary and secondary market of BCRP CDs.
As of March 14.
Source: BCRP.

74. In the dollar money market, most interest rates declined in the first quarter of 2025, associated with the high level of liquidity of banking companies and the futures market's expectation of additional Federal Reserve rate cuts. In the interbank market, the *overnight* interest rate remained at 4.75 percent in January and February, in line with the U.S. policy rate. The 1-, 3- and 6-month prime lending and deposit rates decreased by an average of 39 and 53 basis points, respectively, while the 3-month *Term SOFR* decreased by 4 basis points. The *spread* between the prime lending rate and the 3-month *Term SOFR* decreased from 0.47 percentage points in December 2024 to 0.16 percentage points in March 2025.

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



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





In the foreign currency banking credit market, in the first quarter of 2025, interest rates for lower credit risk decreased. On the one hand, the corporate segment stands out with the largest quarterly reduction (68 basis points), while, on the other hand, the microenterprise sector accumulated the largest increase. The mortgage interest rate increased from 7.09 percent in December 2024 to 7.22 percent in March 2025, while the yield on the 10-year global bond decreased by 20 basis points.

On the other hand, most of the rates on dollar deposits decreased in the first quarter of 2025, mainly those paid to companies. Thus, while interest rates paid to individuals decreased by 8 basis points, those paid to companies fell by an average of 42 basis points. In the case of the interest rate on CTS deposits in banking companies, it increased from 0.90 percent in December 2024 to 1.19 percent in March, while the balance of this type of deposit fell from USD 510 million in December 2023 to USD 430 million in January 2025.

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

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Sep.24	Dec.24	Mar.25	Historical average 2/
Passive									
90-day corporate prime	1.6	0.2	0.3	4.7	5.3	4.6	4.8	3.7	1.6
TIPMEX	0.8	0.3	0.2	1.2	1.9	2.0	1.7	1.5	0.7
FTIPMEX	1.2	0.1	0.1	2.3	3.3	3.3	2.8	2.6	1.0
Deposits up to 30-day	1.4	0.1	0.1	3.6	5.1	4.3	3.7	3.5	1.3
Individuals	1.3	0.0	0.1	1.1	3.4	3.2	2.8	2.9	0.9
Business	1.4	0.1	0.1	3.6	5.1	4.3	3.7	3.5	1.3
On 31 to 90-day term deposits	1.5	0.3	0.2	3.3	4.8	4.3	3.8	3.4	1.5
Individuals	1.0	0.2	0.2	1.7	3.8	3.3	3.1	2.8	1.0
Business	1.6	0.3	0.2	3.4	5.1	4.7	4.1	3.8	1.6
On 91 to 180-day term deposits	1.3	0.3	0.5	3.4	3.6	3.6	3.1	2.8	1.4
Individuals	1.0	0.2	0.3	2.1	3.2	3.3	2.9	2.7	1.1
Business	1.6	0.3	0.6	4.6	5.0	4.5	3.9	3.6	1.7
On 181 to 360-day term deposits	1.4	0.3	0.6	3.8	3.5	3.4	3.1	2.7	1.5
Individuals	1.2	0.3	0.4	3.2	2.7	3.1	2.7	2.7	1.4
Business	1.8	0.3	0.7	4.9	5.5	4.0	3.9	2.9	1.8
Term deposits de More than 360 days	1.6	0.5	0.8	3.5	4.1	3.2	3.6	2.5	1.6
Individuals	1.3	0.5	0.8	2.9	3.0	2.7	2.4	2.4	1.5
Business	1.9	0.6	0.9	4.8	5.2	4.5	4.1	3.8	1.9
CTS	1.3	1.0	0.9	1.1	0.9	1.1	0.9	1.2	1.5
Active									
90-day corporate prime	2.7	1.0	1.0	6.0	6.3	5.5	4.8	4.4	2.6
TAMEX	7.6	6.1	6.7	9.3	10.9	10.8	10.6	10.0	8.0
FTAMEX	7.1	6.3	7.6	10.9	13.0	12.8	12.4	12.1	8.4
Corporates	3.2	2.0	2.1	6.1	7.5	6.8	6.3	5.6	3.6
Large companies	5.5	4.5	4.3	7.8	8.8	7.9	7.5	7.2	5.8
Medium-sized enterprises	6.6	5.9	5.9	8.8	9.8	9.1	9.1	9.0	8.0
Small business	8.8	5.3	10.3	12.2	13.2	13.5	10.0	9.8	11.7
Micro business	11.0	8.5	7.4	12.7	15.5	10.4	10.7	13.5	15.8
Micro business 3/	7.7	4.8	17.1	9.4	16.1	12.3	10.7	12.4	13.2
Consumer	36.1	35.1	33.4	41.0	45.9	47.9	48.3	48.1	32.9
Consumer 3/	35.3	33.5	33.9	37.1	40.8	46.5	47.6	48.4	38.7
Mortgage	5.6	5.4	5.0	8.3	7.9	6.9	7.1	7.2	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.

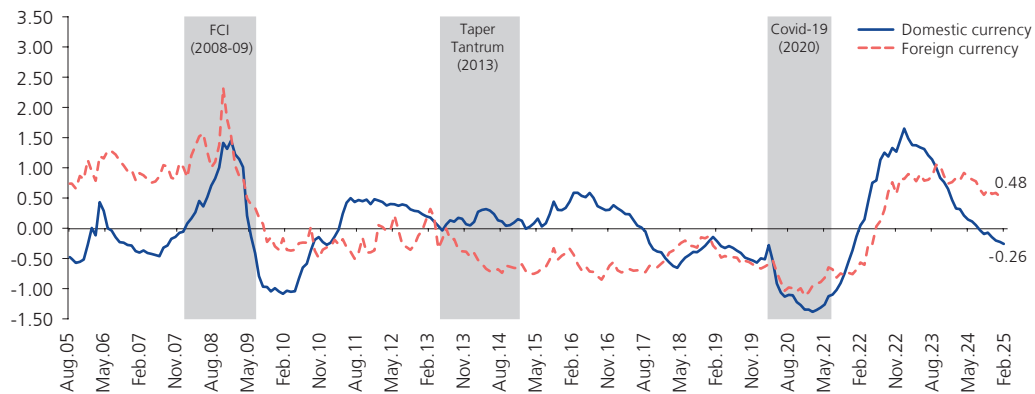
As of March 14.

Source: BCRP and SBS.

75. In the case of financial conditions as of February 2025, in domestic currency, they reflect a greater easing with respect to December 2024, in line with the evolution of interest rates in the financial system and partially offset by the increase in sovereign bond yields, which is slightly below neutral. Likewise, financial conditions in foreign

currency eased in the first quarter with respect to December 2024, although uncertainty remains regarding the Federal Reserve's monetary policy.

Graph 75
PERU: FINANCIAL CONDITIONS INDICES (2005-2025)*

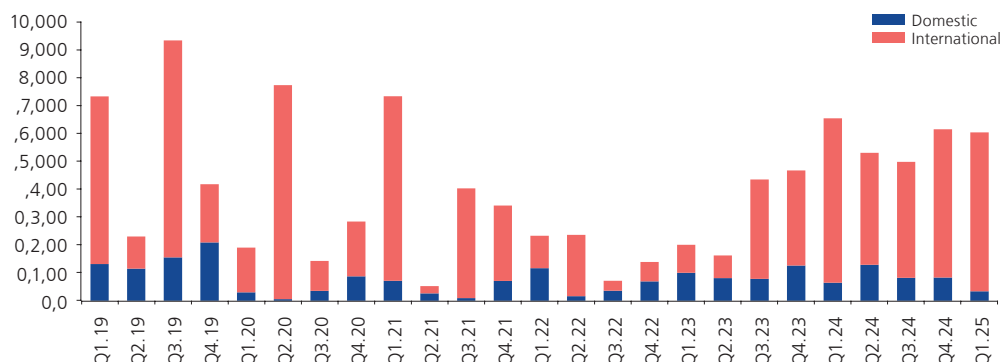


* Based on the document "New Indicators for Measuring Financial Conditions in a Financially Dollarized Economy" by Pérez, Fernando (2024). Working Papers 2024-012. BCRP. As of February 28, 2025. Source: BCRP.

Fixed income market

76. In the first quarter of 2025, private sector bond placements maintained the dynamism observed in the fourth quarter of 2024, mainly due to issues in the international market. The lower cost of financing at a global level and the recovery of business expectation indicators explain the positive performance. In the local market, a total of S/ 337 million were placed in public offerings between January and March 2025, below the level of the fourth quarter of 2024 (S/ 833 million). In the international market, USD 1,450 million were placed³⁴, above the total issued in the previous quarter (USD 1,200 million).

Graph 76
PRIVATE SECTOR BOND PLACEMENTS
(Million S/)



As of February 28.
Source: Reuters and SMV.

34 The companies Kallpa Generación, Banco Internacional del Perú and Buenaventura issued 7 to 10 year maturities.





In the case of non-resident entities that issue securities in soles, so far in the first quarter of 2025 they have placed S/ 623 million in terms between 3 months and 10 years, significantly higher than the total placed in the fourth quarter of 2024 (S/ 239 million). The total placed in 2024 (S/ 1,049 million) is below the total of 2023 (S/ 1,347 million) and 2022 (S/ 1,883 million).

77. The value of the portfolios managed by institutional investors showed a slight recovery, mainly due to the growth of the mutual fund portfolio.

In the case of the PFAs, the investment portfolio increased slightly from S/ 107.0 billion to S/ 107.4 billion between December 31, 2024 and March 7, 2025. This reduced variation was mainly due to the negative return of the assets comprising the managed portfolio. During 2024, approximately 4.3 million members requested a withdrawal of S/ 27.3 billion, which decreased the value of the managed portfolio from S/ 122.8 billion in December 2023 to S/ 107.0 billion in December 2024. In order to avoid the liquidation of securities, of significant amounts in a short period of time, which could have undesirable impacts on BTP interest rates, the BCRP carried out repo operations with the PFAs for terms of 1 and 3 months for close to S/ 15.3 billion.

Table 36
AFP MANAGED PORTFOLIO

(Million S/)

	Balance			Variation	
	Dec.19	Dec.24	Mar.25	Mar.25-Dec.24	Mar.25-Dec.19
A. Local Investments	95,347	58,516	57,341	-1,175	-38,006
1. Fixed income	66,309	28,522	27,641	-881	-38,668
Government Bonds	40,431	19,738	19,034	-704	-21,396
Private Sector Bonds	25,878	8,190	7,994	-197	-17,885
Financial entities	8,232	2,206	2,260	54	-5,972
Non-Financial System	17,647	5,984	5,734	-251	-11,913
2. Variable income	19,589	17,734	17,044	-690	-2,545
3. Current Accounts	884	108	463	355	-,421
4. Deposits in the financial system	2,969	5,267	5,778	511	2,809
5. Mutual and Investment Funds	5,336	3,996	3,795	-,202	-,541
6. Short Term (CD, Commercial Paper)	0	1,713	1,432	-,280	1,432
7. Others	261	1,176	1,188	12	927
B. Investments Abroad	78,448	49,563	51,087	1,523	-27,361
1. Fixed income	7,237	3,880	3,588	-,293	-,3,649
2. Variable income	32	2,364	2,413	49	2,381
3. Deposits	151	183	411	228	261
4. Mutual and Investment Funds	70,705	42,119	43,518	1,400	-,27,187
5. Current Accounts	323	521	741	219	417
6. Others	0	497	873	376	873
Operations in transit	1,028	-,103	-,1,007	96	-,2,035
Managed Portfolio	174,823	106,976	107,420	444	-67,403
<i>Inv. Abroad / Adm. Portfolio</i>	<i>44.9%</i>	<i>46.3%</i>	<i>47.6%</i>	<i>1.2%</i>	<i>2.7%</i>
<i>Degree of portfolio dollarization</i>	<i>56.5%</i>	<i>60.9%</i>	<i>62.0%</i>	<i>1.1%</i>	<i>5.5%</i>
<i>Deposits in the local and ext SF. / Adm Portfolio</i>	<i>1.8%</i>	<i>4.9%</i>	<i>5.8%</i>	<i>0.8%</i>	<i>4.0%</i>
<i>Exchange rate (Soles per dollar)</i>	<i>3.384</i>	<i>3.757</i>	<i>3.654</i>		

As of March 7, 2025.
Source: SBS.

For mutual funds, assets under management increased from S/. 32.9 billion in December 2023 to S/. 49.3 billion in February 2025. The number of participants rose from 346.5 to 424.1 thousand in the same period, which is the highest level in the last forty-six months. As of January 2025, individuals represent 84 percent of participation in the portfolio managed by local mutual funds. In the case of insurance companies, their managed portfolio increased from S/ 61.8 billion to S/ 68.4 billion between December 2023 and December 2024.

Foreign Exchange Market

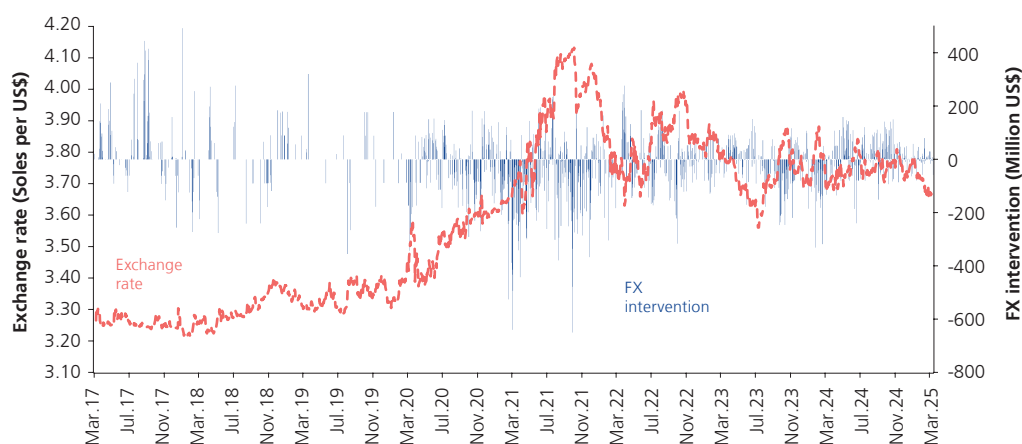
78. The exchange rate dropped from S/ 3.761 per dollar in December 2024 to S/ 3.657 per dollar in March 2025, as of March 14, 2025, with which the sol accumulated an appreciation of 2.8 percent so far in the first quarter of 2025, in an environment of oscillation in global risk appetite due to uncertainty over the U.S. tariff policy and net demand for dollars in the local exchange market.

In January, during the first two weeks of the month, the exchange rate showed an upward trend, in a context of a strengthening dollar at a global level. This movement was influenced by uncertainty regarding the new U.S. government's tariff policies; the expectation that the monetary policy rate would remain unchanged for longer; and the release of solid employment data in the United States. However, this behavior was offset by an increase in the price of copper in the period. Starting in the second half of January, the sol appreciated; influenced by the weakening of the dollar globally, as a result of a moderation in relation to trade and tariff policies; the publication of moderate inflation levels in the United States; and by the Fed's January statement, which confirmed the pause in the monetary policy rate.

In February, the exchange rate maintained its downward trend, and the sol accumulated an appreciation of 0.9 percent in the month, while the DXY index weakened by 0.7 percent and the price of copper rose by 5.5 percent. The delay in the imposition of tariffs on Canada and Mexico and the expectation of a higher monetary policy rate for longer, favored the performance of the sol. In the local exchange market, agents net bid USD 88 million (USD 319 million in the *spot market*).

In March, as of March 14, the sol accumulated an appreciation of 1.0 percent, despite the negative sentiment towards risky assets; while the DXY index has weakened by 3.6 percent. On March 5, the exchange rate stood at S/ 3.651 per dollar, the lowest level since August 2023. In the local exchange market, agents have a net demand position of around USD 246 million, mainly in the *spot market*.

Graph 77
EXCHANGE RATE AND FX INTERVENTION 1/



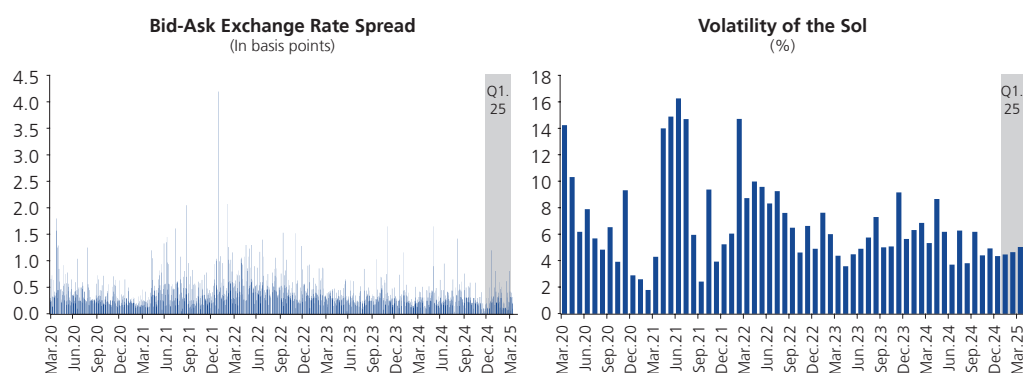
1/ Includes Net purchases of US\$ in the spot market and placement of CDLD BCRP, CDR BCRP, and FX swaps.
As of March 14.
Source: BCRP.





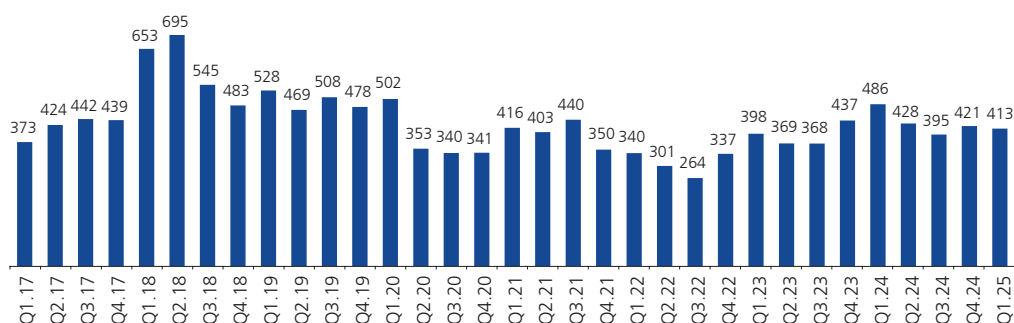
In terms of volatility of the sol, it stands at 4.5, 4.6 and 5.0 percent, in January, February and March 2025, respectively. During the first quarter, the exchange rate fluctuated between S/ 3.651 and S/ 3.782 per dollar, and presented daily appreciations in 56 percent of the days (daily maximum of 0.59 percent on February 3). In quarterly terms, volatility in the first quarter amounted to 4.6 percent, below the regional average (9.8 percent). Exchange rate *bid-ask* spreads fluctuated between 0.06 and 0.81 basis points between January and March 2025, below the fourth quarter 2024 range (0.00 and 1.20 basis points).

Graph 78
SPREAD AND EXCHANGE RATE VOLATILITY



Average daily trading in the interbank *spot* foreign exchange market so far in the first quarter of 2025 (USD 413 million) is lower than in the fourth quarter of 2024 (USD 421 million) but higher than in the third quarter (USD 395 million).

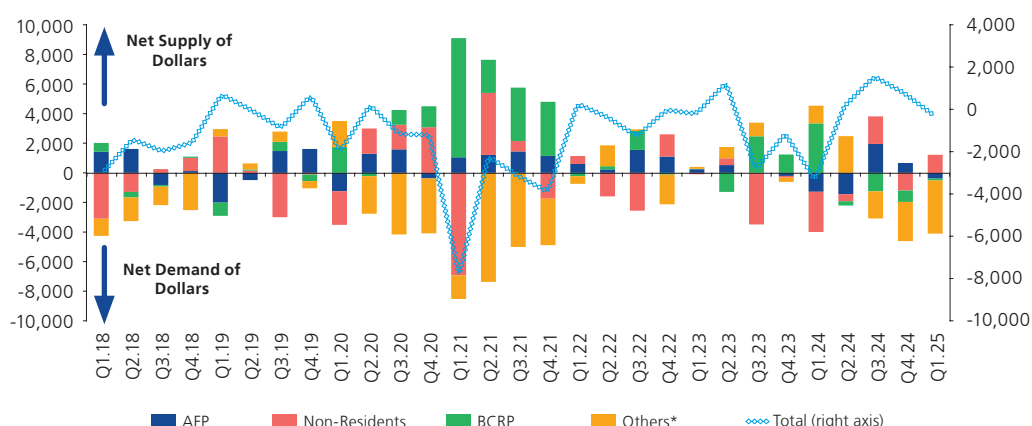
Graph 79
AVERAGE AMOUNT TRADED IN INTERBANK SPOT MARKET
(Million USD)



As of March 14.
Source: BCRP.

79. Market participants' exchange flows in the first quarter of 2025, as of March 14, are net demand for dollars (USD 238 million), a change from the net supply in the fourth quarter of 2024 (USD 830 million). In the *spot market* there was a net demand for dollars (USD 601 million), mainly driven by companies in the corporate sector and AFPs; while on the supply side, mining companies and non-residents stood out. In the derivatives market, there was a net supply (USD 362 million) from the AFPs.

Graph 80
FLOWS TO THE FOREIGN EXCHANGE MARKET: SPOT AND DERIVATIVES
(Million USD)



	2021	2022	2023	Q1.24	Q2.24	Q3.24	Q4.24	2024	Q1.25**
Spot	-6,892	1,281	-71	730	928	2,520	1,972	6,150	-601
Derivatives	-10,279	-2,535	-2,766	-4,040	-723	-906	-1,142	-6,811	362
Total	-17,171	-1,254	-2,837	-3,310	205	1,614	830	-661	-238
Change in Global Exchange Position of Banks	-335	120	405	-25	83	-367	-61	-369	372
BCRP intervention	17,506	1,134	2,433	3,334	-288	-1,246	-770	1,030	-133

* Other includes companies from the corporate sector, mining and retail sectors. A positive sign indicates supply and a negative sign indicates demand. In the case of the banking exchange position, a positive sign indicates a decrease in the position.

** As of March 14.

Source: BCRP.

Non-resident investors have a net dollar supply of USD 1,137 million in the first quarter of 2025, mainly in the USD 1,437 million), a change from the net demand in the fourth quarter of 2024 (USD 1,437 million) (USD 1,437 million), a change from net demand in the fourth quarter of 2024 (USD 1,190 million). In the derivatives market, around USD 300 million was net demanded in the first quarter. Between January 3 and February 28, foreign investors bought net S/ 5,922 million of BTP.

In the first quarter of 2025, the PFAs demanded around USD 387 million, a change with respect to the net offer in the fourth quarter of 2024 (USD 666 million). In the *spot market* they demanded USD 589 million, in contrast to the net supply in the fourth quarter (USD 467 million); while in the derivatives market they net bid USD 203 million, higher than in the previous quarter (USD 199 million). With the completion of





the seventh withdrawal of affiliates, the AFPs continue to purchase external securities, which amounted to USD 504 million in the first quarter, above the net purchases of the fourth quarter of 2024 (USD 624 million).

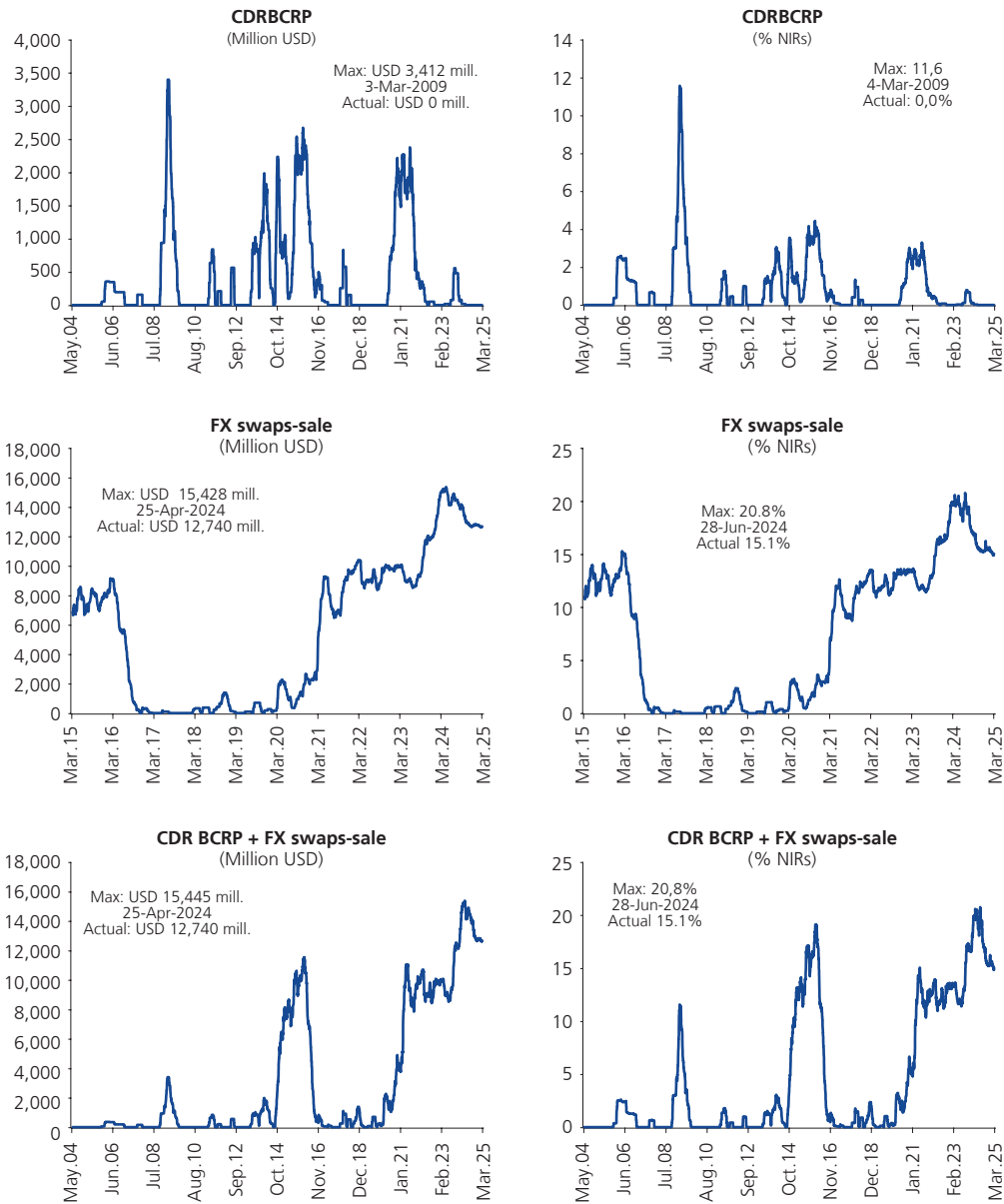
In the case of the non-financial sector, between January and March 2025, entities presented a net demand of USD 764 million: (i) corporate sector companies: net demand of USD 3 577 million, mainly in the *spot market* (USD 3 381 million), above the total registered in the fourth quarter (USD 2 647 million); (ii) mining sector companies: net supply of USD 2 873 million in the *spot market*, below the net supply of the fourth quarter (USD 3 144 million); (iii) retail sector: net demand of USD 68 million in the *spot market*, a change from the net supply of the fourth quarter (USD 1 433 million); (iv) retail sector: net demand of USD 1 834 million in the *spot market*, a change from the net supply of the fourth quarter (USD 1 433 million). (USD 3,144 million); (iii) retail sector: net demand of USD 68 million in the *spot market*, a change from the net supply in the fourth quarter (USD 1,433 million).

For banking companies, the overall position decreased from USD 71 million in December 2024 to USD - 300 million in March 2025. The *Non-Delivery Forward* (NDF) balance of net bank sales with non-resident investors increased from USD 13,841 million in December 2024 to USD 13,911 million in March 2025. USD 13,841 million in December 2024 to USD 13,911 million in March 2025.

In this context, in the first quarter of 2025, the BCRP has placed foreign exchange *swaps* through auctions in the variable rate modality to partially offset the maturities of foreign exchange instruments; in order to reduce the volatility in the price of the sol against the dollar, in a context of increased risk aversion in global financial markets. Thus, S/ 28,304 million (USD 7,614 million) of S/ 28,304 million (USD 7,614 million) were placed for 3, 6, 9 and 12 months at variable rates, and S/ 29,139 million (USD 7,748 million) matured at variable rates.

The total balance of foreign exchange instruments (foreign exchange *swaps* sale and CDR BCRP) as of March 14 stands at USD 12,740 million, equivalent to 15.1 percent of Net International Reserves (NIR), lower than the level as of December 30, 2024 (USD 12,874 million and 16.3 percent of NIR). Likewise, the BCRP CDR balance as of May 8, 2024 is zero. The maturities of SCV and CDR have allowed the balance of foreign exchange instruments to decrease from the maximum levels registered between 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. So far in 2025, as of March 14, the balance of derivative instruments has been reduced by USD 134 million. On the other hand, the balance of Net International Reserves (NIR) as of the same date amounted to USD 84,411 million, higher by USD 4,674 million with respect to the end of 2024, and the BCRP's Exchange Position amounted to USD 54,709 million, higher by USD 1,155 million with respect to the end of 2024.

Graph 81
BCRP BALANCE OF FOREIGN EXCHANGE INSTRUMENTS
(In million USD and % of NIRs)



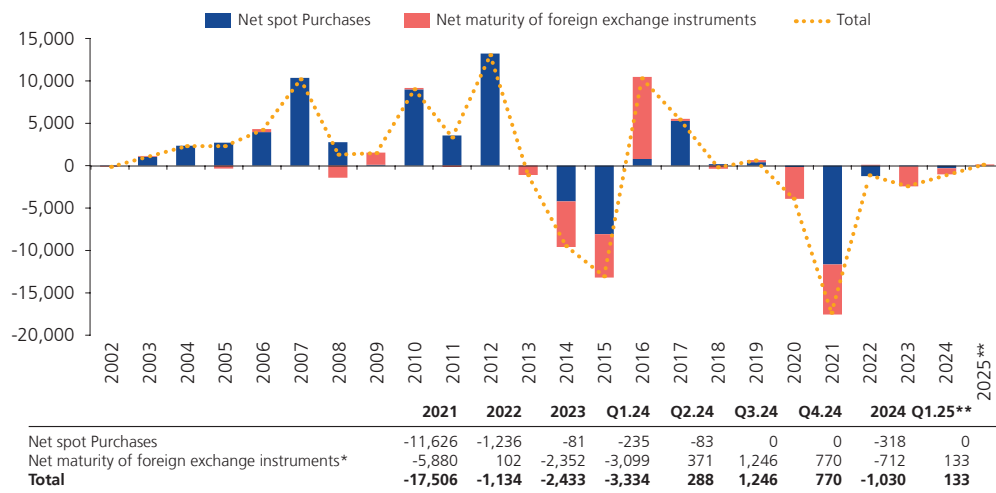
As of March 14, 2025.
Source: BCRP.

As of March 14, the BCRP had a net demand of USD 133 million in the foreign exchange market, as the maturity of foreign exchange swaps (USD 7,748 million) was greater than the placement of foreign exchange swaps (USD 7,614 million).





Graph 82
BCRP INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET
(Million USD)



* Includes the net maturities of CDR BCRP and foreign exchange swap sales; CDLD net placements and exchange purchase swaps.

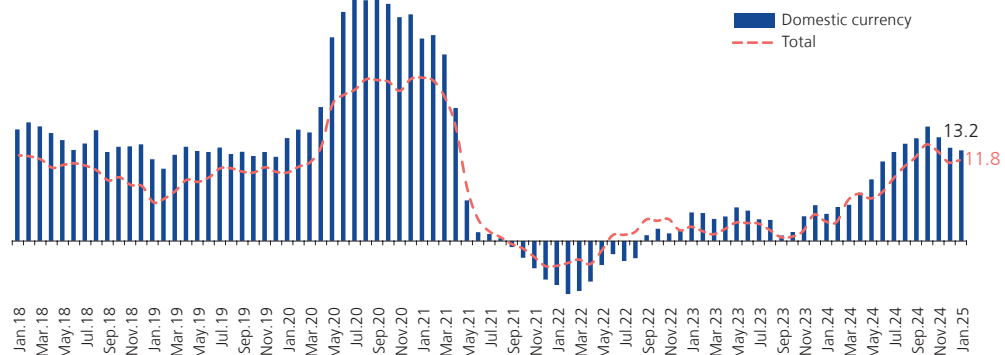
** As of March 14, 2025.

Source: BCRP.

Liquidity

80. The year-on-year growth rate of private sector deposits stood at 11.8 percent in January 2025. By currency, deposits in soles increased by 13.2 percent year-on-year, while dollar-denominated deposits increased by 9.1 percent year-on-year in the same period.

Graph 83
PRIVATE SECTOR DEPOSITS BY CURRENCY*
(Annual % chg.)



* Total at constant exchange rate of S/ 3.77 per USD as of December 2024.

Source: BCRP.

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	Dec.24	Jan.25	Dec.25*	Dec.26*
Currency in circulation (End-of-period)	4.7	37.3	16.0	-3.8	-5.6	11.5	12.4	4.0	0.0
Deposits in domestic currency	12.2	33.0	-5.6	1.6	5.2	13.6	13.2	15.0	9.0
Total deposits 1/	10.0	23.7	-3.7	1.5	3.8	11.5	11.8	11.9	7.4
Liquidez in domestic currency	10.5	32.2	-0.9	0.5	3.9	13.1	12.8	9.4	7.0
Total broad money 1/	9.6	25.2	-0.4	0.9	3.0	11.1	11.4	8.5	6.2
Credit to the private sector in domestic currency	10.1	19.4	5.5	2.4	0.8	1.6	2.3	6.0	4.5
Credit to the private sector total 1/	7.0	10.8	4.0	4.5	1.3	0.5	1.2	5.0	4.0
Total credit to the private sector (without Reactiva Peru Program) 1/	7.0	-5.5	8.9	11.2	5.0	1.6	2.2	5.5	4.0

1/ The December 2024 constant exchange rate is maintained.

* Forecast.

Source: BCRP.

81. The financial savings ratio increased from 55.5 percent of GDP in 2019 to 64.9 percent of GDP in 2020, driven by precautionary savings associated with the health crisis. Subsequently, the ratio declined below the figures observed prior to the COVID-19 pandemic, mainly influenced by the approval of the availability of CTS and AFP contributions, as well as capital outflows observed in 2021. Thus, the ratio stood at 43.4 percent of GDP in December 2024, slightly decreasing with respect to December 2023. As of January 2025, this ratio remains at 43.4 percent of GDP.

Table 38
FINANCIAL SAVINGS/GDP RATIO
 (%)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Dec.24	Jan.25
Deposits	26.3	33.5	27.0	27.0	26.0	26.4	26.2
Of which: CTS	3.0	3.1	1.4	1.2	0.9	0.8	0.8
AFP	22.3	22.6	15.0	11.2	12.1	9.8	9.7
Mutual Funds	4.7	6.2	3.3	2.7	3.1	4.2	4.4
Rest 1/	2.2	2.5	2.4	2.6	3.0	3.0	3.1
TOTAL	55.5	64.9	47.6	43.5	44.2	43.4	43.4

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

* As of January 2025, the concept of financial savings is presented as a measure of savings in medium- and long-term assets; therefore, demand deposits and immediate obligations are excluded from this concept. The main components of these savings are public savings and time deposits, mutual fund holdings, and workers' pension savings in the private pension system (the assets of private pension funds).

Source: BCRP.

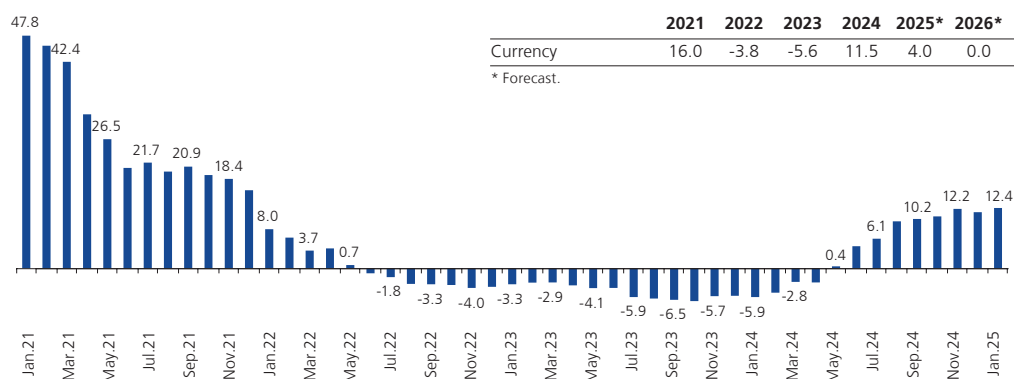
82. The **circulating currency** increased 11.5 percent in December 2024. From May to November 2024, circulating currency increased, especially in higher denomination banknotes. In December 2024, it slowed slightly; however, in January 2025, it grew 12.4 percent (highest year-on-year rate since December 2021). A slight moderation in circulating currency growth rates is expected for the coming months. Thus, a year-on-year rate of change of 4.0 percent is projected for 2025. Towards the end of the projection horizon, the circulating currency would experience zero growth,





which implies a substitution effect due to the expected advance in the use of digital payments.

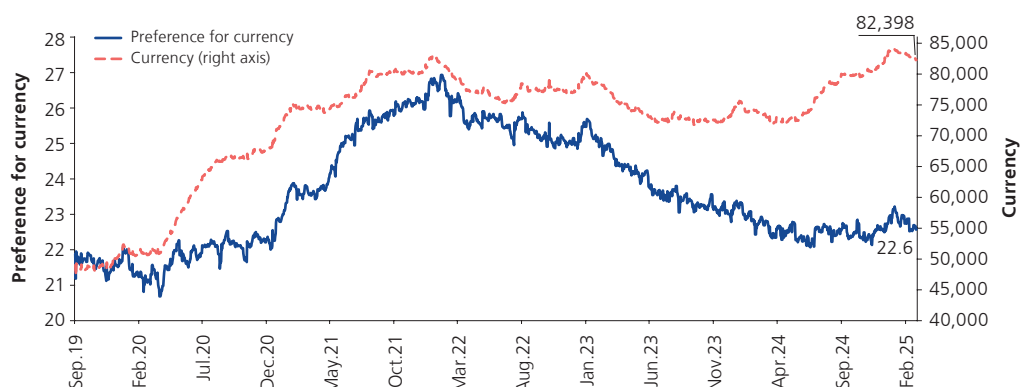
Graph 84
CURRENCY IN CIRCULATION
(Annual % change)



* Forecast.
Source: BCRP.

83. The preference for working capital decreased continuously from February 2022 to November 2024, after growing steadily between April 2020 and January 2022. Subsequently, until January 2025, it grew slightly and then returned to a decreasing trend. Thus, as of February 2025 it stands at 22.6 percent, which would also be associated with the use of digital payments.

Graph 85
CURRENCY IN CIRCULATION AND PREFERENCE FOR CURRENCY IN CIRCULATION*
(In millions of Soles and in %)

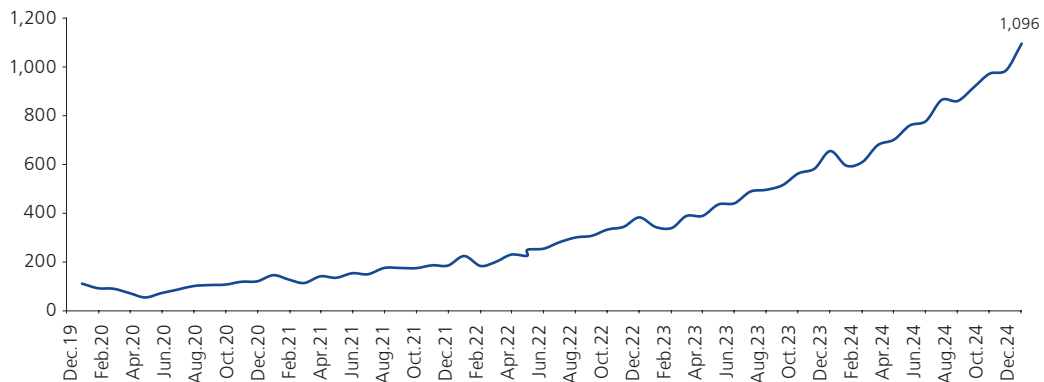


Note: Preference for currency is equal to currency of depository business divided by liquidity in domestic currency of depository business.
* As of February 28, 2025.
Source: BCRP.

84. Part of the explanation for the reduction in the preference for cash is related to the significant increase in the use of digital payments in recent years. These

continued their upward trend, and in December 2024 they reached 1,096 million transactions.

Graph 86
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

85. **Credit to the private sector** grew 1.2 percent in annual terms in January 2025 (0.5 percent in 2024). Excluding credits from the Reactiva Peru program, the year-on-year credit growth rate amounted to 2.2 percent in the same period (1.6 percent in 2024). Credit to the private sector recovered in January, which could be explained by the MSE segment associated with the recovery of economic activity.
86. The year-on-year growth of credit to individuals remains positive, and in the last month increased at the fastest pace since June 2024. Thus, it grew 1.5 percent in January 2025 (1.3 percent in 2024). This acceleration in lending to individuals is mainly due to the greater dynamism of vehicle loans (3.2 percent in January 2025). Meanwhile, mortgage credit has maintained its steady pace of growth in recent months, registering a year-on-year increase of 5.2 percent in January 2025.
87. Corporate credit showed a drop in December 2024 and recovered in January 2025, which would be associated to the reduction of delinquency in the MSE segment. In January 2025, credit to companies increased by 1.0 percent (higher than the 0.1 percent drop in December 2024); while, excluding Reactiva Peru loans, it increased by 2.7 percent (1.8 percent in December 2024). The corporate and large companies segment showed an increase of 7.9 percent, while medium, small and micro companies contracted by 6.6 percent.





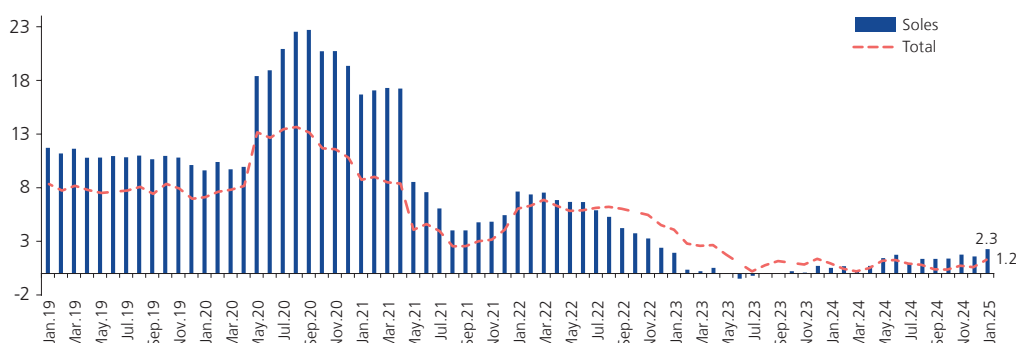
Table 39
CREDIT TO THE PRIVATE SECTOR 1/
(Annual growth rates)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Dec.24	Jan.25
Businesses	4.3	20.0	3.7	-1.5	-2.3	-0.1	1.0
Corporate and large companies	4.3	6.6	8.1	0.9	-0.3	5.5	7.9
Medium-sized enterprises and Micro business 2/	4.2	35.9	-0.4	-4.0	-4.6	-6.3	-6.6
Individuals	11.5	-3.2	4.8	15.9	7.1	1.3	1.5
Consumer	13.3	-7.1	3.1	21.8	8.3	-1.1	-0.9
Car loans	12.0	-2.2	7.5	16.0	11.4	2.8	3.2
Credit cards	13.4	-20.3	-41.1	32.7	10.4	-5.0	-5.9
Rest	13.4	-0.5	21.5	19.8	7.7	-0.3	0.1
Mortgage	8.7	3.0	7.2	8.0	5.4	5.0	5.2
TOTAL	7.0	10.9	4.1	4.5	1.3	0.5	1.2
Memo:							
Businesses without Reactiva	4.3	-6.9	11.6	8.3	3.6	1.8	2.7
Total without Reactiva Peru	7.0	-5.5	8.9	11.2	5.0	1.6	2.2

1/ Resolution No. 02368-2023, which modifies the definition of the classification of loans to companies by segment, will come into force as of October 2024.
2/ Due to the change in the definition of each segment, several companies have been reclassified between the medium-sized and MSME segments, so a greater disaggregation is not presented on this occasion. Likewise, a portion of loans to medium-sized companies could have been reclassified as consumer loans.
Note: The constant exchange rate as of December 2024 is maintained.
Source: BCRP.

88. There has been a recovery in soles credit growth and a smaller contraction in dollar-denominated credit in the last month. As of January 2025, credit in soles grew by 2.3 percent, while dollar-denominated credit fell by 2.4 percent in the same period.

Graph 87
CREDIT TO THE PRIVATE SECTOR: TOTAL AND IN DOMESTIC CURRENCY
(Annual growth rates)



	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Dec.24	Jan.25
CREDIT TO THE PRIVATE SECTOR 1/ (Annual % chg.)							
Domestic currency	10.1	19.4	5.5	2.4	0.8	1.6	2.3
Foreign currency	-0.3	-11.0	-0.8	12.1	3.1	-3.2	-2.4
Total 1/	7.0	10.9	4.1	4.5	1.3	0.5	1.2

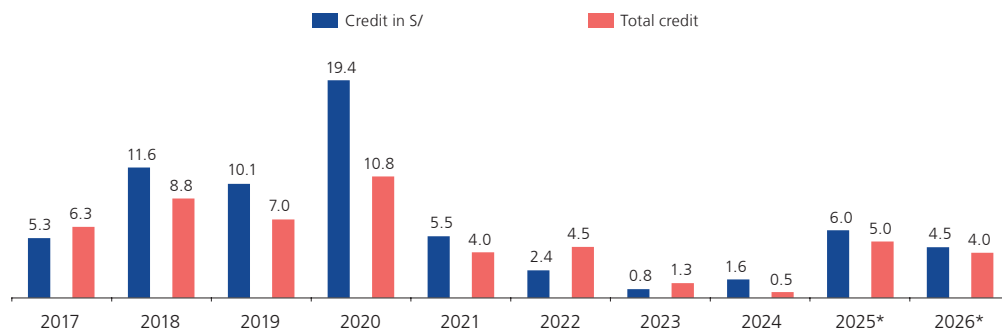
1/ The constant exchange rate as of December 2024 is maintained.
Source: BCRP.

Projected credit to the private sector

89. Credit in local currency is expected to increase in line with the evolution of economic activity. This would bring the projected growth of credit to the private sector in local currency to 6.0 percent in 2025. For next year, a growth rate of 4.5 percent would be observed, taking into account the completion of the amortization of loans granted under the Reactiva Perú program. Thus, total credit would grow 5.0 percent in 2025 (5.5 percent without the Reactiva Peru program); while a growth rate of 4.0 percent is estimated for 2026.

Similarly, in 2025 and the following year, 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.

Graph 88
CREDIT TO THE PRIVATE SECTOR
(% change)

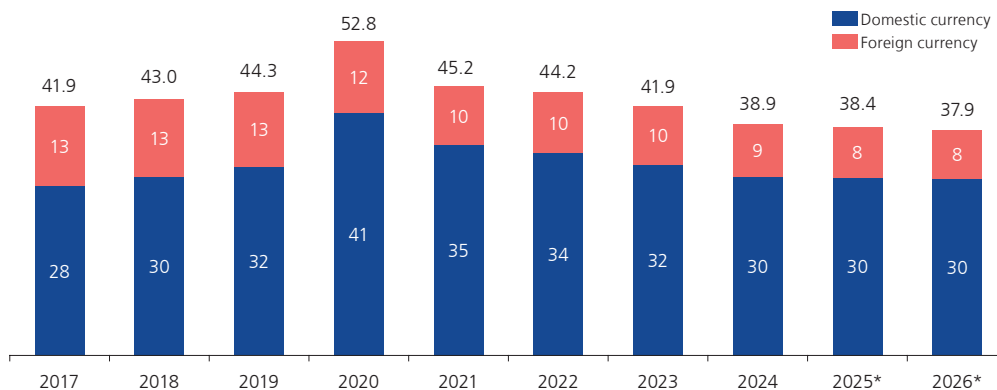


Note: calculated at constant exchange rate (December 2024).

* Forecast.

Source: BCRP.

Graph 89
CREDIT / GDP RATIO
(%)



Note: Calculated at constant exchange rate (December 2024).

* Forecast.

Source: BCRP.

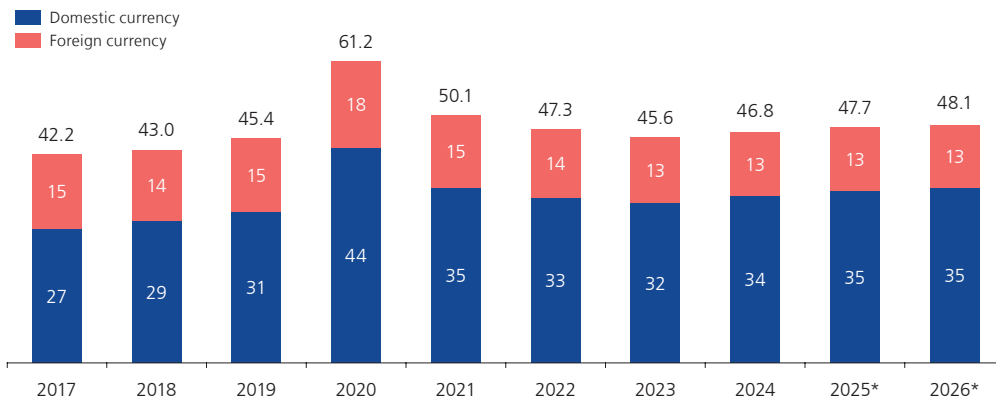




Likewise, the growth rate of working capital would be lower than that of nominal GDP over the projection horizon. Meanwhile, the growth rate of total liquidity would be higher than that of nominal GDP in this year and the next, mainly explained by the evolution of deposits. The ratio of liquidity to GDP would increase from 46.8 percent in 2024 to 47.7 percent in 2025 and would reach 48.1 percent in 2026.

The ratio of depository corporations' working capital to GDP would fall from 7.7 percent in 2024 to 7.6 percent in 2025 and 7.2 percent in 2026. These reductions lead to an even higher level than that recorded prior to the COVID-19 pandemic.

Graph 90
LIQUIDITY / GDP RATIO
(%)



Note: Calculated at constant exchange rate (December 2024).

* Forecast.

Source: BCRP.

Box 4

EVOLUTION OF CREDIT BY STRUCTURAL FACTORS

The evolution of credit to the private sector in the economy is the result of the aggregation of real supply and demand factors, as well as the evolution of credit supply and demand conditions, and the availability of liquidity in each currency. This box analyzes credit dynamics in the years following the COVID-19 pandemic, after the implementation of extraordinary countercyclical measures in 2020.

Credit in soles grew at a year-on-year rate of 1.6 percent in December 2024, while credit in foreign currency fell by 3.2 percent in the same year. It can be seen that in recent years credit growth rates in both currencies have been below those recorded in past decades. This box explores the structural macroeconomic determinants of credit growth in recent years.

CREDIT TO THE PRIVATE SECTOR (% chg.)

Year	DC	FC	Total*
2021	5.5	-0.8	4.0
2022	2.4	12.1	4.5
2023	0.8	3.1	1.3
2024	1.6	-3.2	0.5

* At constant 2024 exchange rate (S/ 3.77 per USD).
Source: BCRP.

Firstly, although credit dynamics are linked to the evolution of economic activity (with a highly positive correlation), there were also some periods in which there was growth in activity, but low credit growth, such as in 2002 and 2003 and in the year just elapsed, 2024.

CREDIT AND GDP GROWTH (1997-2024)



Year	GDP	Total credit	Year	GDP	Total credit
1997	6.5	26.7	2011	6.3	24.4
1998	-0.4	8.3	2012	6.1	16.2
1999	1.5	-2.4	2013	5.9	12.1
2000	2.7	-3.0	2014	2.4	9.3
2001	0.6	-8.0	2015	4.6	6.7
2002	5.5	-0.5	2016	4.0	5.5
2003	4.2	-1.1	2017	2.5	6.3
2004	5.0	4.6	2018	4.0	8.8
2005	6.3	13.7	2019	2.2	7.0
2006	7.5	12.4	2020	-10.9	10.8
2007	8.5	34.6	2021	13.4	4.0
2008	9.1	29.2	2022	2.0	4.5
2009	1.1	8.3	2023	-0.4	1.3
2010	8.3	17.7	2024	3.3	0.5

* Credit from other deposit-taking companies at constant exchange rates.
* Real GDP in year-over-year variations.
Source: BCRP.

Likewise, there were periods of lower activity growth and relatively high credit growth, for example, during the 2020 pandemic when credit grew 10.8 percent and GDP decreased by 10.9 percent,

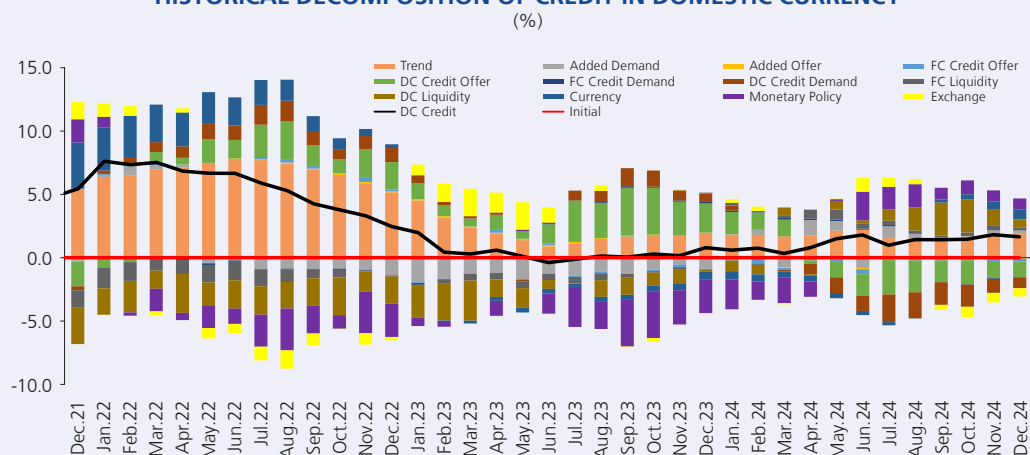




due to the confinement measures and the Reactiva Peru program to avoid a break in the economy's chain of payments. Additionally, in the last 28 years, there have only been 3 years of negative GDP growth, 5 years of negative credit growth and no year in which both (credit and GDP) showed negative growth at the same time.

The following is a structural explanation of the evolution of year-on-year credit growth by currency. This is obtained from an autoregressive vector model that considers non-linear elements, and where structural shocks are identified through restrictions of zeros and signs³⁵. Based on this model, the factors that explain the low growth of credit in local currency in the last year are the demand and supply of credit in soles, which have a negative contribution. This effect was offset by the positive contribution of monetary policy, given the lower interest rates and the greater provision of liquidity, as well as the higher demand for money observed in the monetary aggregates³⁶. The slowdown in soles credit between 2022 and 2023 is partly explained by the lower demand and supply of credit, mainly from companies, given the maturity of the government-guaranteed reporting operations associated with the Reactiva Peru program. This effect was already internalized by the market, given the maturity date announced at the beginning of the program, and the fact that this type of measures are only used in an exceptional context of crisis. Credit growth in soles also slowed down, to a lesser extent, due to a restrictive monetary policy stance (higher interest rates and lower demand for money), given the increase in global inflation and the consequent need to contain the inflationary pressures observed at that time, and where inflation expectations were above the upper limit of the target range (3 percent).

HISTORICAL DECOMPOSITION OF CREDIT IN DOMESTIC CURRENCY



CONTRIBUTIONS TO CREDIT GROWTH IN DOMESTIC CURRENCY

(%)

Year	Credit Offer DC	Credit Demand DC	Monetary Policy	Liq.+Curr. DC	Added offer	Added Demand	Trend	Rest*	DC Credit % chg.
2021	-2.0	-0.3	1.8	0.7	-0.2	0.0	5.4	0.0	5.5
2022	2.2	1.1	-2.6	-1.9	-1.4	0.1	5.2	-0.2	2.4
2023	2.3	0.7	-2.7	-0.8	-0.8	0.0	2.0	0.1	0.8
2024	-1.2	-0.8	0.9	1.4	0.2	-0.1	1.9	-0.7	1.6

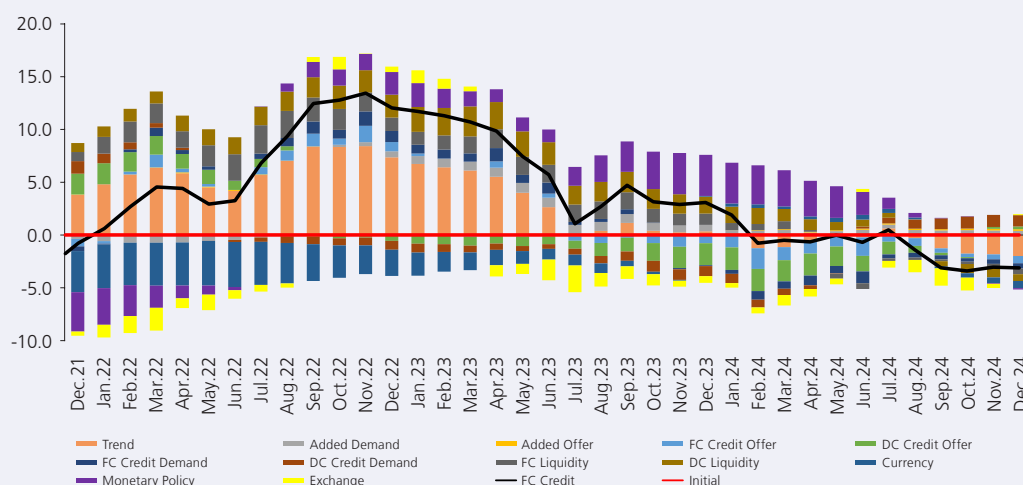
* Includes factors of supply and demand for credit in dollars, liquidity in foreign currency and exchange rate.

35 See Pérez Forero (2024): "Forecasting Peruvian Monetary Aggregates in a Nonlinear and Uncertain Environment," Working Papers 2024-010, Banco Central de Reserva del Perú.

36 The transmission mechanism of these structural shocks is explained in Pérez Forero (2024). In brief, supply factors are related to a greater flow of credit accompanied by a reduction in lending rates. On the other hand, the demand for credit is given by a greater flow and upward pressures on lending rates.

In the case of foreign currency loans, their dynamics are mainly influenced by financial conditions in that currency. Thus, since the end of 2022 there has been a slowdown in year-on-year growth, which has even turned into a fall since the middle of last year. The main factors contributing to this deceleration include both credit supply and demand, as well as liquidity in dollars and the effects of the depreciation of the local currency. However, this decline has eased in the last quarter of last year, although growth continues to be negative.

HISTORICAL DECOMPOSITION OF CREDIT IN FOREIGN CURRENCY (%)



CONTRIBUTIONS TO CREDIT GROWTH IN FOREIGN CURRENCY (%)

Year	Credit offer FC	Credit demand FC	Monetary policy**	FC Liquidity	Added offer	Added demand	Trend	Rest*	Total
2021	-0.7	-0.4	-3.7	0.9	-0.4	0.0	3.8	-0.3	-0.8
2022	0.9	1.0	2.1	1.3	0.6	0.0	7.4	-1.2	12.1
2023	-0.7	-0.1	3.9	1.1	0.6	0.0	0.4	-2.0	3.1
2024	-0.7	-0.5	-0.1	-0.5	0.4	0.2	-2.0	0.1	-3.2

* Includes factors related to credit supply and demand in soles, liquidity in domestic currency, and the exchange rate.

** From the BCRP. Represents the currency substitution effect due to interest rate movements in soles.

In conclusion, it can be seen that credit supply and demand factors are important determinants of credit evolution, beyond other structural macroeconomic factors relevant to the Peruvian economy. The identification of these factors, together with the quantification of the dynamic effects they bring with them, also serve as a starting point for making projections of credit to the private sector. In particular, the levels of liquidity observed in the last year suggest that there is room for credit to recover and reach higher growth rates in the 2025-2026 horizon, which would also be in line with the recovery of economic activity.

**Box 5****LIQUIDITY AND INTEREST RATES: EXPLORING THE RELATIONSHIP**

This box explores the relationship between liquidity before operations³⁷ and corporate prime bank rates. Liquidity before operations is defined as the aggregate balance of the current account at the issuing entity of the entities participating in the interbank market at the beginning of the day. In other words, it is the current account before operations with the BCRP after considering the net maturities of injection and sterilization instruments for the day, and the effect of other exogenous factors, such as movements of public sector accounts at the BCRP.³⁸

The availability of liquid funds in the banking system influences interest rates through a liquidity premium. In environments of high (low) liquidity, the abundance (scarcity) of assets decreases (increases) their value, leading to lower (higher) rates. The Peruvian case shows evidence in favor of this relationship: high (low) liquidity environments tend to coincide with reductions (increases) in corporate prime interest rates, as well as in their spreads with respect to a risk-free rate of similar term, such as the yields of BCRP Certificates of Deposit.

Implementation of the monetary policy and liquidity of banking companies.

Under the explicit inflation targeting scheme, the operational monetary policy target of the Central Reserve Bank of Peru (BCRP) is the interbank *overnight* interest rate (TIBO)³⁹. In order to implement its operational target, the BCRP carries out monetary sterilization and injection operations to induce the TIBO to be at the level of the reference interest rate. Thus, the BCRP's liquidity management contributes to balance demand and supply in the interbank market at a level consistent with the reference interest rate.

Evidence suggests that pre-trade liquidity influences interbank market dynamics. In environments of high liquidity, one tends to observe contractions in trading volume⁴⁰ and a less elastic demand curve⁴¹ for interbank loanable funds. On the other hand, the variable would influence bank interest rates and financial conditions in the economy through its effect on liquidity premia⁴². In this box, the analysis focuses on the second point.

37 In the literature, liquidity before operations is also referred to as structural liquidity. See, for example, Bjørlo, M & Hagen, M. (2024). "Structural liquidity: What has driven the historical development and what might occur in the years ahead?" Norges Bank, Staff Memo 2/2024.

38 Bjørlo, M & Hagen, M. (2024): "Structural liquidity: What has driven the historical development and what might occur in the years ahead?" Norges Bank, Staff Memo 2/2024.

39 The TIBO is defined as the weighted average interest rate of uncollateralized loans made between private banking companies in local currency for a term of one business day, excluding extreme values to ensure the representativeness of the indicator.

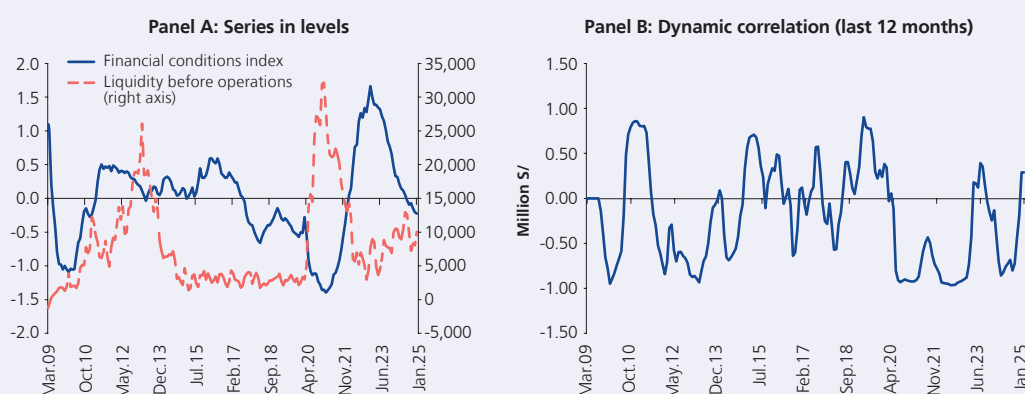
40 Abanto, F. & Butrón, N. (2024). Recent evolution of structural liquidity of banking firms. Revista Moneda N°198.

41 Afonso, G., Giannone, D., Gabriele La Spada, & Williams, J. (2024). Scarce, Abundant, or Ample? A Time-Varying Model of the Reserve Demand Curve, Federal Reserve Bank of New York Staff Reports.

42 Bianchi, J. & Bigio, S. (2022). Banks, Liquidity Management and Monetary Policy. Econometrica, 90(1), 391-454.

The evolution of the financial conditions index (FCI) in local currency⁴³ and liquidity before operations is shown below. Conceptually, the greater the available liquidity, the more flexible the financial conditions are expected to be⁴⁴. In the period between September 2008 and January 2025, the variables register a correlation coefficient of -0.33. When analyzing 12-month moving sub-periods, it is observed that the variables registered a negative relationship in most of the sample (63 percent). This relationship was most pronounced during the periods between January and December 2009 (-0.95), and between May 2021 and July 2022 (-0.97).

INDEX OF FINANCIAL CONDITIONS IN LOCAL CURRENCY AND LIQUIDITY BEFORE OPERATIONS



Thus, periods of increases in liquidity before operations tend to coincide with easing of financial conditions in the economy. The transmission of changes in liquidity to financial conditions would occur mainly through their effect on liquidity premia. To explore this mechanism, we analyze the relationship between pre-operating liquidity, corporate prime interest rates and their spreads with respect to BCRP Certificates of Deposit (CD BCRP) yields of similar maturity.

Liquidity before bank operations and interest rates

According to the literature, the availability of liquid funds of banking companies influences the interest rates they offer to their customers through a liquidity premium. In environments of high (low) liquidity, the relative scarcity of the resource decreases (increases) its value. Thus, the higher (lower) the availability of liquidity, it is expected to observe a reduction (increase) in this premium and in bank interest rates.

43 For methodological details, see: Pérez Forero (2024). New Indicators for Measuring Financial Conditions in a Financially Dollarized Economy. Working Paper No. 2024-012. Central Reserve Bank of Peru.

44 A loosening of financial conditions is reflected in a contraction of the index. A tightening, on the other hand, is reflected in an increase in the index.

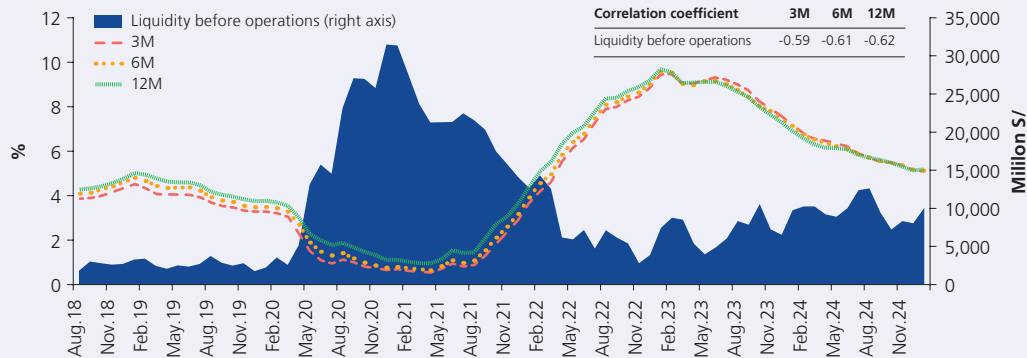




In the period between August 2018 and January 2025, this negative relationship between liquidity before operations and corporate lending and borrowing prime rates is observed. In periods of high liquidity, interest rates tend to decrease, while in periods of low liquidity, interest rates tend to increase. Thus, for transactions with terms between 3 and 12 months, the variables register correlation coefficients in a range between -0.64 and -0.59.

LIQUIDITY BEFORE OPERATIONS AND CORPORATE PRIME LENDING RATE

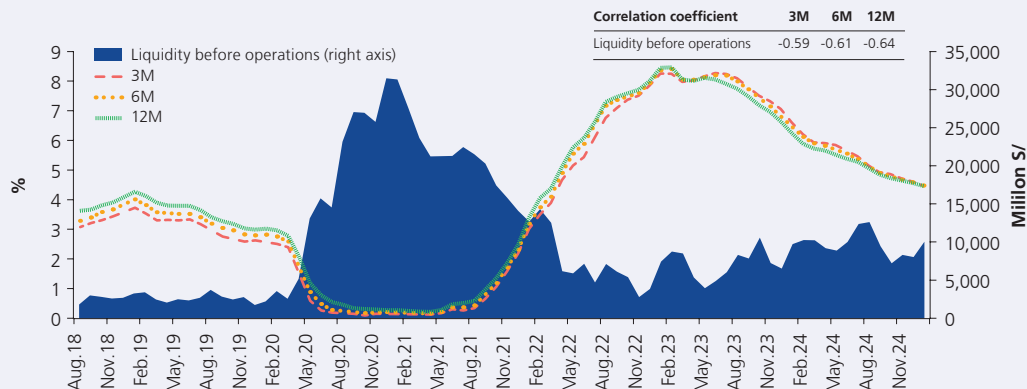
(Terms between 3 and 12 months)



Source: BCRP.

LIQUIDITY BEFORE OPERATIONS AND PASSIVE CORPORATE PRIME RATE

(Terms between 3 and 12 months)



Source: BCRP.

The negative relationship between liquidity before operations and corporate prime interest rates can be influenced by other factors, such as the level and expectations of the benchmark interest rate or the evolution of risk premiums. Next, in order to isolate the relationship between interest variables, we analyze the behavior of corporate prime rate *spreads* with respect to a similar term risk-free rate, such as BCRP CD yields of similar term.⁴⁵

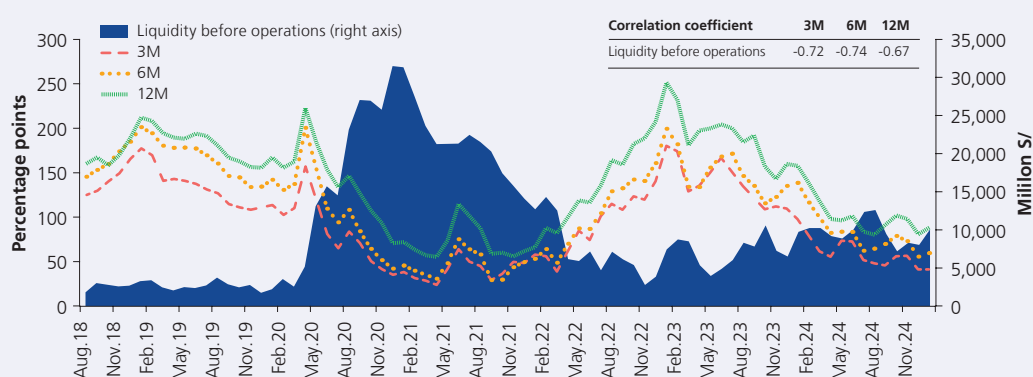
Similarly, in the period between August 2018 and January 2025, a negative relationship between liquidity and *spreads* is observed. Thus, in periods of high liquidity, lending and

45 By incorporating information on BCRP CD yields of similar term, we seek to control for the level and expectations of the reference interest rate, as well as for the existence of term premiums. Additionally, by using preferential interest rates, granted to corporate clients with higher credit ratings, we seek to minimize the incidence of the evolution of risk premiums.

borrowing prime rates tend to decrease by a greater magnitude than BCRP CD yields of similar maturity. In periods of reduced liquidity, on the contrary, these rates tend to increase to a greater extent than BCRP CD yields. For transactions with maturities between 3 and 12 months, the variables register correlation coefficients in a range between -0.74 and -0.67. Thus, it is observed that the negative relationship persists when incorporating information on the yield of risk-free assets that internalize expectations about the reference interest rate.

LIQUIDITY BEFORE OPERATIONS AND SPREADS BETWEEN CORPORATE PRIME LENDING RATE AND CD BCRP YIELDS

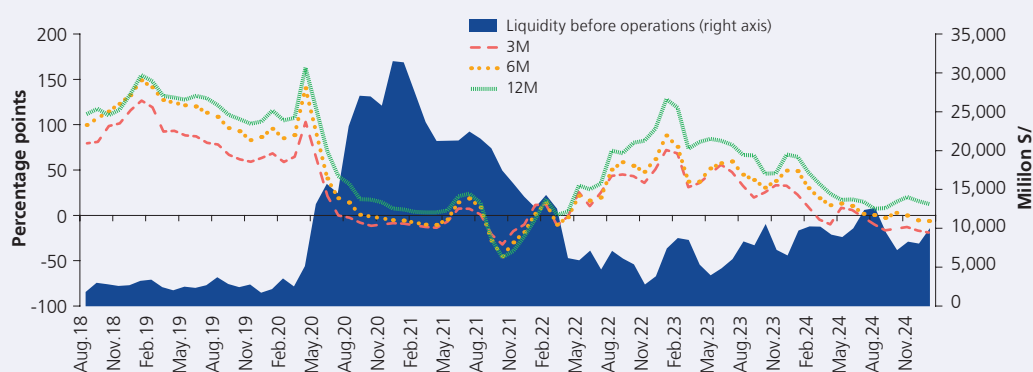
(Terms between 3 and 12 months)



Source: BCRP.

LIQUIDITY BEFORE OPERATIONS AND SPREADS BETWEEN PASSIVE CORPORATE PRIME RATE AND CD BCRP YIELDS

(Terms between 3 and 12 months)



Source: BCRP.

To quantify the magnitude of the relationship, we then estimate the reaction of *spreads* to an increase in changes in pre-trade liquidity. For this purpose, impulse response functions are estimated using *Local Projections*⁴⁶, with an identification scheme analogous to the Cholesky decomposition in the Vector Autoregressive (VAR) literature.⁴⁷

The estimates reinforce the previously observed relationship: increases in liquidity are associated with significant and persistent reductions in *spreads* between prime interest rates and BCRP CD

46 Jordà, Ò. (2005). Estimation and Inference of Impulse Responses by Local Projections. *American Economic Review*, 95(1), 161-182.

47 Jordà, Ò. (2023). Local Projections for Applied Economics. Federal Reserve Bank of San Francisco Working Paper Series.

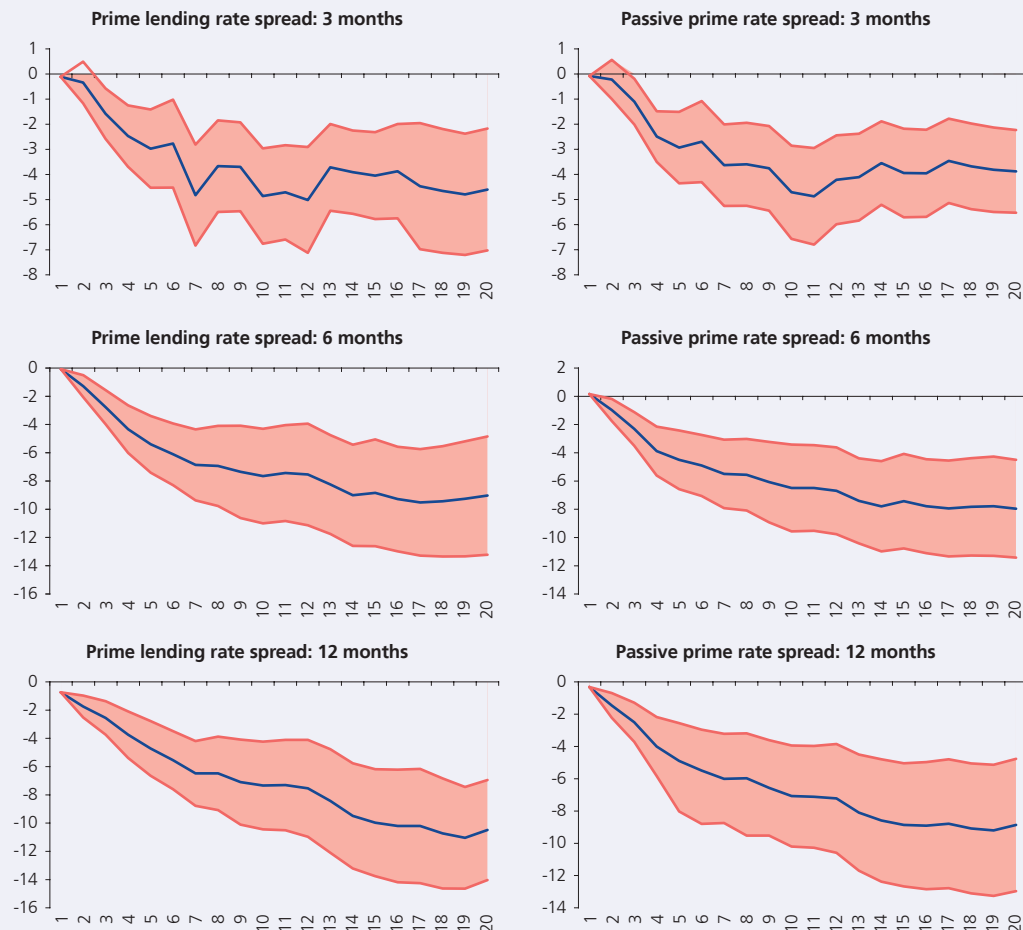




yields of similar maturity. After a temporary increase of 1 standard deviation in the variation of liquidity⁴⁸, maximum contractions are registered in a range between 5 and 11 basis points in *spreads*. The effects of the shock tend to intensify and persist over time, reaching their maximum incidence in a period between 10 and 19 weeks after the initial increase in liquidity.

FIR: SPREAD TO AN EXOGENOUS LIQUIDITY SHOCK PRIOR TO OPERATIONS

(Terms between 3 and 12 months)



Notas:

1. The occurrence of a temporary exogenous shock, with a magnitude of 1 standard deviation, is assumed.
2. In the estimation, liquidity before operations is defined as the moving average of the aggregate current account of banks prior to the BCRP's monetary operations during the last 20 working days.
3. To ensure the stationarity of the variables and a correct specification of the model, the liquidity measure is introduced in first differences.
4. The horizontal axis is measured in weeks and the vertical axis in basis points.
5. 95 confidence intervals.
6. At the 3-month term, the estimate is made with data at weekly frequency for the period between September 2008 and January 2025. At the 6- and 12-month terms, the estimate is made with data at weekly frequency for the periods between January 2018 and January 2025, and between August 2018 and January 2025, respectively.

As a conclusion, the analysis shows that in periods of high (reduced) liquidity, lower (higher) corporate prime interest rates tend to be observed, as well as lower (higher) *spreads* with respect to the yield of risk-free assets, such as BCRP CDs of similar term. This negative relationship reinforces the relevance of the BCRP's liquidity management. Thus, it is observed that liquidity management would be relevant to strengthen the transmission mechanism of monetary policy to the financial conditions of the economy.

48 For the purposes of this analysis, the pre-trade liquidity measure used is a moving average of the last 20 business days. Given its potential non-stationarity, the variable is introduced in the model in first differences.

Box 6

EVOLUTION OF THE CIRCULATING CURRENCY IN PERU: A LATIN AMERICAN COMPARISON

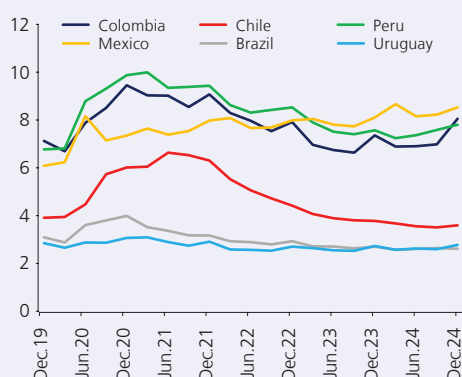
The purpose of this box is to explain the comparative evolution of currency in the countries of the region in recent years, and in particular, to analyze the recent acceleration in demand for currency observed in the second half of 2024 in the Peruvian case. In order to understand the recent evolution of cash, this box analyzes the behavior of the demand for banknotes and coins in Peru between 2020 and 2024, and compares it with the evolution of the circulating currency of a sample of five Latin American countries.

Beginning of the pandemic and circulating growth

In 2020, in the context of the pandemic generated by Covid-19, there was a strong increase in the demand for currency, both in developed and developing countries. This increase in demand for banknotes and coins was explained by the public's greater precautionary savings in the face of the economic and health uncertainty generated by Covid-19 and the social distancing measures implemented to contain it, which counteracted the effect of the substitution of currency through digital payments for transactions, which also grew strongly during this period in the countries analyzed.

In all countries, in 2020, from March and April onwards, there was an increase in demand for banknotes and coins. Although this growth was generalized, the magnitude of the increase varied among the economies of the region, with Chile and Peru showing a higher growth of the circulating currency. Thus, between 2019 and 2020, the circulating currency as a percentage of GDP increased in all countries, linked to higher precautionary demand. In Chile and Peru the ratio grew by 1.6 and 1.5 times, while in Mexico and Uruguay its growth was much more modest, 1.2 and 1.1 times, respectively. Likewise, with respect to the year-on-year growth of working capital, as of December 2020, in Chile and Peru working capital grew by 54.0 and 30.6 percentage points above the average for 2015-2019. Meanwhile, in Mexico and Uruguay, working capital growth was much more moderate (10.5 and 6.1 percentage points above the pre-pandemic average growth rate). Although the level of working capital has been normalizing in recent years after the Covid-19 pandemic, in several countries (for example, Colombia, Mexico or Peru) it still exceeds the levels as a percentage of GDP recorded at the end of 2019.

CURRENCY OVER GDP*
(%)



Date	Colombia	Chile	Peru	Mexico	Brazil	Uruguay
Dec.19	7.1	3.9	6.7	6.0	3.1	2.9
Dec.20	9.5	6.1	9.9	7.3	4.1	3.1
Dec.21	9.1	6.3	9.5	8.0	3.2	2.9
Dec.22	7.9	4.4	8.5	8.0	2.9	2.7
Dec.23	7.3	3.7	7.5	8.1	2.7	2.7
Dec.24	8.0	3.5	7.8	8.6	2.6	2.8
Máx	9.5	6.7	10.0	8.7	4.1	3.2
(Date)	(Dec.20)	(Jun.21)	(Mar.21)	(Mar.24)	(Dec.20)	(Mar.21)

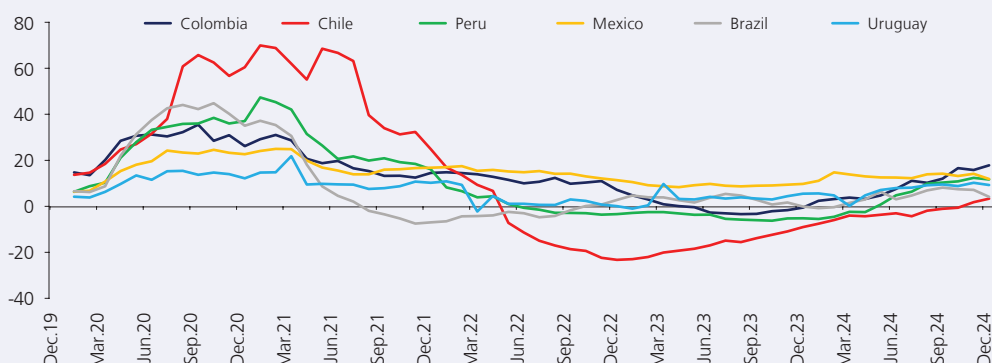
* The currency at the end of the period is considered. To estimate the fourth-quarter GDP of Colombia, Chile, Mexico, and Uruguay, the quarterly growth rate recorded in the same period in 2023 was used.
Source: Central banks.





YEAR-ON-YEAR CURRENCY GROWTH RATES*

(%)



* Currency at the end of the period is considered.
Source: Central banks.

YEAR-ON-YEAR GROWTH RATES OF BANKNOTES BY DENOMINATION*

(%)

Date	Colombia			Chile			Peru			Mexico			Brazil			Uruguay		
	HD	LD	Total	HD	LD	Total	HD	LD	Total	HD	LD	Total	HD	LD	Total	HD	LD	Total
Mar.20	n.a.	n.a.	20.2	21.1	13.3	18.4	11.4	9.2	10.1	11.9	13.1	10.5	17.3	2.7	8.6	4.9	-4.0	6.2
Apr.20	n.a.	n.a.	28.8	22.9	12.7	24.7	20.9	21.7	21.1	15.2	11.8	15.3	29.4	19.1	22.0	5.7	-5.2	9.7
Dec.20	22.3	8.3	26.4	36.8	66.7	60.8	32.9	40.9	37.3	25.9	9.4	23.0	44.4	20.8	35.3	10.2	10.9	12.3
Dec.21	13.2	-8.5	14.5	29.6	0.2	24.9	13.9	11.1	16.0	17.8	8.1	16.8	-0.1	-19.2	-7.4	10.1	8.7	10.3
Dec.22	7.7	7.1	7.0	-20.3	-17.1	-23.7	-3.0	-6.2	-3.8	9.9	6.5	11.1	5.0	-5.2	2.5	-1.5	-5.0	-0.3
Dec.23	-1.1	8.9	-0.9	-9.3	-4.5	-9.3	-3.6	-7.3	-5.6	11.0	6.1	9.5	3.4	-6.6	-0.4	5.4	5.1	5.3
Dec.24	16.5	5.6	17.8	1.0	-2.3	3.1	11.4	5.4	11.5	11.9	5.7	11.7	7.7	-2.2	3.8	9.4	-8.1	9.3
Accumulated (20-24)	71.8	22.0	80.7	29.4	29.2	43.3	57.6	43.5	61.3	102.5	41.2	95.4	68.6	-15.4	32.8	37.8	10.7	42.0
Average (15-19)	10.5	2.5	11.0	7.8	1.4	6.7	6.6	6.3	6.7	14.3	6.0	12.6	11.9	0.4	5.6	n.a.	n.a.	6.2

* The definition of high-denomination banknotes is as follows: a) Colombia and Chile (10,000 pesos or more), b) Mexico and Uruguay (500 pesos or more), c) Peru and Brazil (100 soles and 100 reales or more).
The average corresponds to the period 2015-2019 and the cumulative average corresponds to the period 2020-2024.
HD: High-denomination banknotes, LD: Low-denomination banknotes, Total: Banknotes and coins in public possession, n.a.: Not available.
Source: Central banks.

By denomination of banknotes in circulation, the table above shows that, in the initial month or months of the pandemic period, the growth rate of high denomination banknotes (linked to the demand for money as a store of value) was higher than low denomination banknotes (related to transactional demand). This is consistent with higher precautionary demand and would not necessarily reflect higher transactional demand.

After the resumption of productive activities following the end of the Covid-19 confinement, the growth of the circulating currency was above its pre-pandemic trend, an evolution consistent with the recovery of economic activity. While in 2020, in the sample of six countries analyzed, GDP was on average 6 percentage points below the 2019 level of activity; by the end of 2021, on average, GDP was already 1 percentage point above the 2019 level.

Slowdown and subsequent recovery of the working capital flow

In 2021, working capital continued to grow in all countries except Brazil, although at a more moderate pace than that observed in 2020. In the six countries analyzed, the year-on-year growth rate of working capital was on average 4.4 percentage points above the average growth rate of the

pre-pandemic period. Thus, in all economies, the ratio of working capital to GDP reached record highs between the end of 2020 and the first half of 2021.⁴⁹

During 2022 and 2023, the demand for banknotes and coins experienced a reversal process in Peru and Chile; while in Colombia, Brazil, Uruguay and Mexico the circulating currency continued to increase, but at a slower pace than in the pre-pandemic period. In Peru and Chile, the average year-on-year variation in working capital was negative by 4.7 and 16.5 percent, respectively. With regard to the second group of countries, in 2022 and 2023, they presented an average growth rate of 3.8 and 5.5 percent below the pre-pandemic average.

Current working capital situation

In 2024, for the first time since 2020, all the countries in the region analyzed experienced nominal growth in working capital, with an average expansion rate of 9.6 percent (1.4 percentage points above the pre-pandemic period). However, the growth of working capital was significantly lower in Chile and Brazil than in the rest of the economies in the region. Likewise, as of December 2024, working capital measured in terms of GDP has returned to levels below December 2019 for Chile, Brazil and Uruguay; while, in Colombia, Peru and Mexico, the ratio is above their pre-pandemic levels. The factors behind this normalization of the circulating currency would be (i) the lower growth of the economies with respect to the 2021 and 2022 period, (ii) the terminal phase of the monetary policy rate reduction cycle, and (iii) the lower transactional demand reflecting the greater use of digital payment instruments.

In conclusion, Peru's working capital dynamics between 2020 and 2024 have been similar to those of other economies in the region. In that sense, a strong growth of working capital is observed in 2020 and 2021, which is then followed by a return of working capital in 2022 and 2023 and a subsequent recovery in 2024. In the last year, Peru's working capital grew 11.5 percent, above its average pre-pandemic growth rate (6.7 percent).

49 The only exception is Mexico, whose working capital has presented a positive trend throughout the analysis period (2020-2024). Thus, the maximum ratio of working capital over GDP was reached in 2024.





VI. Inflation and balance of inflation risks

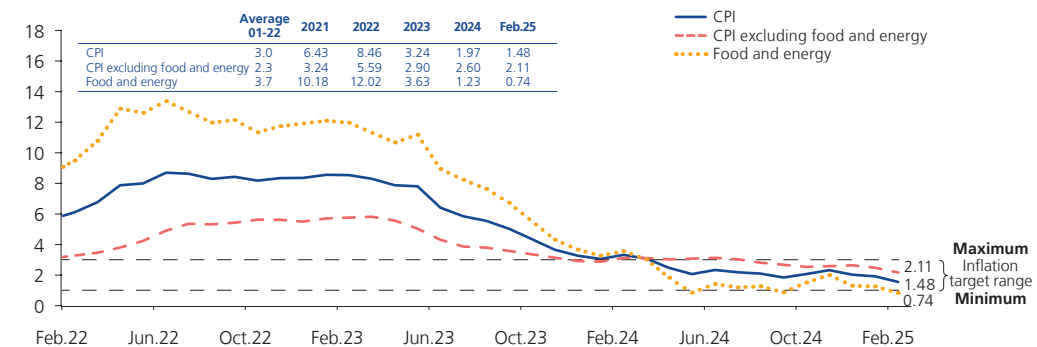
Recent developments

90. Year-on-year **inflation** continued to decline from 2.27 percent in November 2024 to 1.48 percent in February 2025, within the target range. Lower prices of some food items such as fish, chicken, eggs and potatoes contributed to this result.

Year-over-year non-food and energy inflation (AFE) decreased from 2.56 to 2.11 percent in the same period, with slower increases in items such as local transportation, water supply, and motor vehicles. The inflation rate for both goods and services included in the SAE was within the target range.

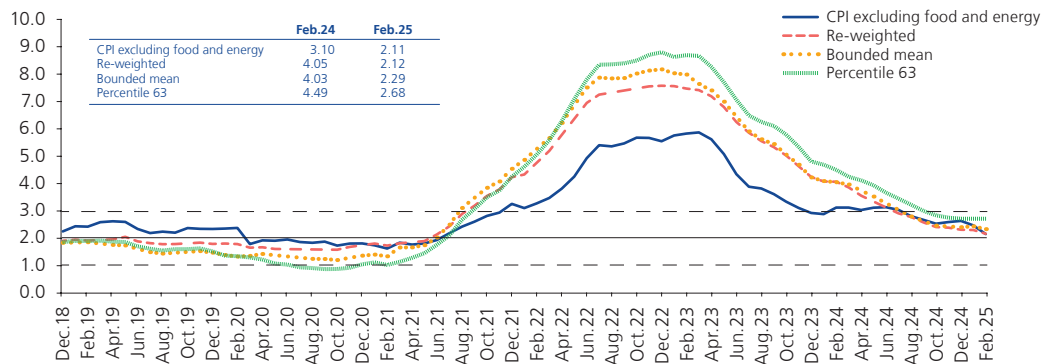
The different inflation trend indicators also showed a decreasing year-on-year trend between November 2024 and February 2025, with the exception of the bounded average which increased in January 2025.

Graph 91
INFLATION
(Last 12-month % change)



Source: BCRP.

Graph 92
INFLATIONARY TREND INDICATORS
(Last 12 months % change)



Memorandum

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. **Percentile 63:** Corresponds to the percentage changes of the item placed in the 63th percentile.

Source: BCRP.

91. Year-on-year non-food and energy inflation (FES) registered a downward trend between January and February 2025, presenting its lowest rate since July 2021. The lowest rate in the goods component of the SAE since March 2021 and in the services component of the SAE since August 2021. ADC inflation and its goods and services components are within the target range.

Graph 93
CPI EXCLUDING FOOD AND ENERGY
(Last 12 months % change)

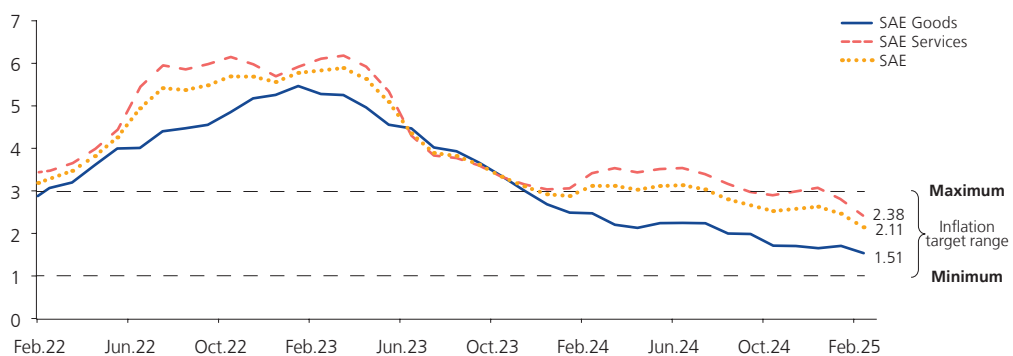


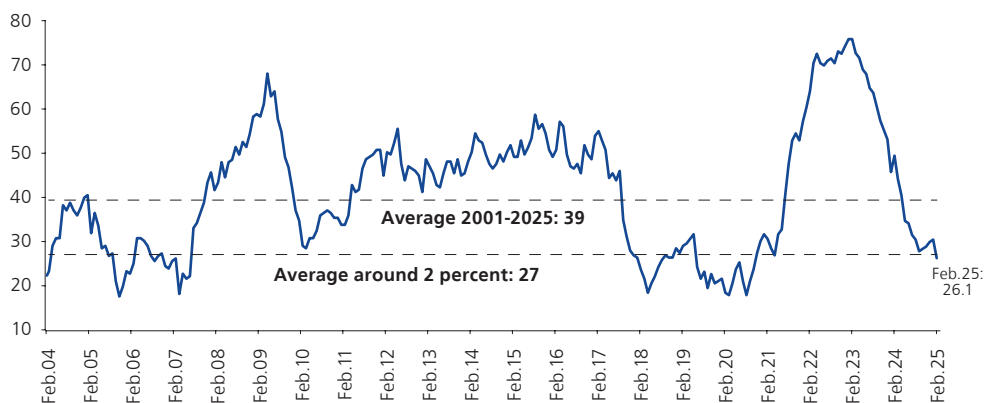


Table 40
SERVICES INFLATION
(% chg. 12-month)

	Peso	Dec.20	Dec.21	Dec.22	Dec.23	Jan.24	Apr.24	Jun.24	Dec.24	Jan.25	Feb.25
Services	37.89	1.91	3.61	5.72	3.01	3.04	3.42	3.52	3.05	2.78	2.38
Education	8.61	1.98	1.60	3.92	6.40	6.40	5.37	5.38	5.09	5.14	5.23
Of which:											
Primary	1.55	2.03	1.64	3.60	10.39	10.39	6.31	6.31	6.31	6.31	6.14
Secondary	1.26	2.03	1.64	3.83	10.74	10.74	6.42	6.42	6.42	6.42	6.40
Higher	4.26	2.03	1.64	4.09	3.86	3.86	5.04	4.69	3.96	3.96	4.18
Post-secondary, not tertiary	0.51	2.03	1.64	6.34	4.03	4.03	3.17	5.03	3.72	4.60	4.88
Transportation	9.14	2.47	3.69	12.30	2.89	3.39	4.50	4.81	3.83	2.56	2.41
Of which:											
National ground	0.27	2.15	19.57	5.78	-5.23	2.09	-10.25	-0.26	12.35	1.38	1.57
Domestic	8.08	2.49	2.97	13.50	3.51	3.70	5.01	4.93	3.62	2.81	2.44
National air	0.24	-3.32	45.44	-21.34	24.20	25.28	6.59	9.64	6.81	-4.68	7.87
International air	0.55	-3.32	45.44	12.13	-9.05	-6.72	2.12	3.48	2.09	1.42	0.34
Health	1.48	1.20	2.82	7.30	3.28	3.09	3.22	2.68	1.59	1.47	1.01
Other services	5.03	2.94	8.92	3.89	3.23	2.99	2.76	2.75	2.43	2.49	2.35
Of which:											
Cultural services	1.13	6.90	6.53	5.47	5.57	5.22	5.03	4.78	3.24	3.31	3.33
Other personal services	3.37	0.99	2.50	2.55	2.39	2.44	2.29	2.04	1.79	1.87	2.04
Public services	5.81	1.10	5.20	3.61	0.71	0.25	2.18	2.18	2.02	2.23	0.18
Of which:											
Water	1.37	3.03	11.57	7.90	1.32	0.00	7.48	7.48	7.48	8.34	0.80
Rentals	4.45	0.50	1.76	2.38	-0.19	-0.19	0.28	0.88	0.57	0.62	0.18

92. Of 188 items in the Consumer Price Index, 26 percent registered a year-on-year variation greater than 3 percent. This indicator reached a peak of 76 percent in February 2023 and has been declining since March 2024.

Graph 94
PERCENTAGE OF CPI ITEMS WITH YEAR-ON-YEAR PRICE CHANGE HIGHER THAN 3%



	Feb.24	Mar.24	Apr.24	May.24	Jun.24	Jul.24	Aug.24	Sep.24	Oct.24	Nov.24	Dec.24	Jan.25	Feb.25
Index	49	44	40	35	34	31	30	28	28	29	30	30	26
Number of items:													
Items with variation higher than 3%	93	83	76	65	64	59	57	52	53	54	56	57	49
Items with variation lower than 3%	95	105	112	123	124	129	131	136	135	134	132	131	139

Note: The average annual inflation corresponding to the long-term average dispersion index period is 2.94 percent.

93. The items most closely linked to the exchange rate, international quotations and contracts linked to the Wholesale Price Index (WPI) contributed -0.30 percentage points to cumulative inflation between January and February (0.09 percent).

Table 41
**ITEMS LINKED TO THE EXCHANGE RATE, INTERNATIONAL PRICES AND
TO THE WHOLESALE PRICE INDEX (WPI)**

	Base Weight Dec.21	% chg. 12 m Dec.22	Weighted contribution Dec.23	% chg. 12 m Dec.23	Weighted contribution Dec.24	% chg. 12 m Dec.24	Weighted contribution Dec.24	% chg. acum. Jan.-Feb.25	Weighted contribution
IPC	100.00	8.46	8.46	3.24	3.24	1.97	1.97	0.09	0.09
Items linked to the exchange rate	14.58	5.19	0.76	1.92	0.27	1.59	0.22	0.07	0.01
Items linked to international prices and exchange rate	7.99	11.40	0.91	1.44	0.12	-1.53	-0.12	-3.56	-0.28
Linked to food commodities	5.84	15.21	0.89	3.96	0.25	-2.94	-0.18	-5.02	-0.30
Linked to Fuels	2.15	1.05	0.02	-6.36	-0.13	3.32	0.06	1.19	0.02
Items related to WPI	1.37	7.90	0.11	1.32	0.02	7.48	0.10	0.80	0.01
Items related to the exchange rate, WPI and international prices	2.62	11.46	0.30	-7.11	-0.19	-0.72	-0.02	-1.39	-0.03
Total items linked to the exchange rate, WPI and international prices	26.56	7.82	2.08	0.82	0.22	0.71	0.18	-1.13	-0.30
Rest	73.44	8.69	6.38	4.10	3.02	2.40	1.78	0.51	0.39

Cumulative inflation in the January-February 2025 period was 0.09 percent. The price of goods increased by 0.3 percent, with a contribution of 0.05 percentage points. Services prices decreased by -0.1 percent, registering a contribution of -0.03 percentage points to inflation. The largest price decrease within the services category was recorded in transportation (-1.2 percent), which was offset by increases in education (0.4 percent), health (0.1 percent) and water (0.8 percent).

Table 42
INFLATION
(Year-on-year % changes)

	Weight	Dec.21	Dec.22	Dec.23	Dec.24	2025	
						Feb.25/Dec.24*	Feb.25/Jan.24
IPC	100.0	6.43	8.46	3.24	1.97	0.09	1.48
1. CPI excluding food and energy	55.3	3.24	5.59	2.90	2.60	0.04	2.11
a. Goods	17.4	2.6	5.3	2.7	1.6	0.3	1.5
b. Services	37.9	3.6	5.7	3.0	3.0	-0.1	2.4
Education	8.6	1.6	3.9	6.4	5.1	0.4	5.2
Health	1.5	2.8	7.3	3.3	1.6	0.1	1.0
Transportation	9.1	3.7	12.3	2.9	3.8	-1.2	2.4
Water	1.4	11.6	7.9	1.3	7.5	0.8	0.8
Others	17.3	1.7	2.8	1.5	1.3	0.3	1.1
2. Food and energy	44.7	10.18	12.02	3.63	1.23	0.16	0.74
a. Food and beverages	40.0	8.0	12.6	4.8	1.2	0.2	0.6
Meals inside the home	24.5	9.8	14.5	3.7	0.2	-0.1	-0.9
Meals outside the home	15.5	4.5	9.7	6.6	2.9	0.7	3.0
b. Fuel and electricity	4.8	24.4	6.8	-6.8	1.0	-0.3	2.1
Fuel	2.1	47.2	1.0	-6.4	3.3	1.2	6.1
Electricity	2.6	9.5	11.5	-7.1	-0.7	-1.4	-1.0

* Cumulative percentage change.

In terms of food prices, the food within the home item decreased by 0.1 percent, contributing -0.03 percentage point. The price of meals away from home increased by





0.7 percent, contributing 0.12 percentage points. Fuel prices increased by 1.2 percent (0.02 percentage points). Electricity rates decreased 1.4 percent (-0.03 percentage points to inflation).

94. The items with the highest positive contribution to inflation in the January-February 2025 period were meals away from home, other fresh fruits, papaya, education, and leaves or stems (0.33 percentage points to inflation). The items with the highest negative contribution during the same period were chicken meat, local transportation, domestic ground transportation, and electricity (-0.44 percentage points to inflation).

Table 43
WEIGHTED CONTRIBUTION TO INFLATION: FEBRUARY 2025

Positive	Weight	% chg.	Contribution	Negative	Weight	% chg.	Contribution
Meals outside the home	15.5	0.7	0.12	Chicken meat	2.7	-12.3	-0.32
Other fresh fruits	0.6	12.4	0.08	Local transportation	8.1	-0.6	-0.05
Papaya	0.2	31.3	0.06	National ground transportation	0.3	-14.6	-0.04
Education	8.6	0.4	0.04	Electricity	2.6	-1.4	-0.03
Leaves or stems	0.2	18.9	0.03	Culinary herbs	0.1	-21.1	-0.02
Whole chili pepper	0.1	54.2	0.03	National air transportation	0.2	-9.2	-0.02
Orange juice	0.1	31.4	0.02	Grape	0.1	-17.2	-0.02
Other tubers	0.1	20.7	0.02	International air transportation	0.5	-2.7	-0.01
Rice	1.2	1.3	0.02	Passion fruit	0.1	-14.3	-0.01
Personal care products	4.0	0.4	0.01	Corn	0.1	-10.1	-0.01
Total			0.43	Total			-0.54

Food

The **“food outside the home”** item increased its price by 0.7 percent, a higher rate than the general price index (0.09 percent) and “food inside the home” (-0.13 percent). The price of the restaurant menu, the main component of this item, increased 0.7 percent due to the greater demand for this service and the increase in costs, mainly the minimum living wage (RMV) and energy (increase in the price of gas).

Weather disturbances, such as rains in the central jungle, affected harvests and the marketing of products such as passion fruit (43.0 percent), which recorded the highest increase in the “other fresh fruit” category. Likewise, rains in the northeastern jungle hindered the transportation of papaya (31.3 percent), which was also affected by higher seasonal demand. Prices of celery (52.2 percent), a product included in the “leaves or stems” category, and chili peppers increased due to lower supplies from the Lima valleys; quality and yields were affected by higher temperatures.

The price of chicken decreased 12.3 percent, registering the largest decline in January (-8.9 percent) due to lower demand following the end-of-year celebrations. The result was also influenced by the higher supply of fish, mainly bonito and jack mackerel.

Services

Both local (-0.6 percent) and national land transportation rates (-14.6 percent) decreased, mainly reflecting the seasonal reversal of increases after the year-end holidays. In the case of domestic air transport, although the average for the January-February period showed a negative variation (-9.2 percent) due to the aforementioned reversal, in February they rose 15.8 percent. This was due to the increase in demand as a result of the rains and landslides that hindered land travel, in the context of a lower supply of air tickets due to flight cancellations.

Energy

The electricity tariff decreased in February (-1.4 percent) as a result of the price update at the generation level (quarterly settlement of the compensation mechanism between regulated users, Resolution 010-2025-OS/CD) and the readjustment of the update of the Electric Social Compensation Fund Surcharge Factor (FOSE) applicable to the period from February 4 to April 30, 2025. The surcharge factor went from 1.032 in the period from November 1, 2024 to February 3, 2025 to 1.028. The FOSE seeks to ensure electricity service to residential users whose monthly consumption is less than or equal to 140 kWh.

Projections

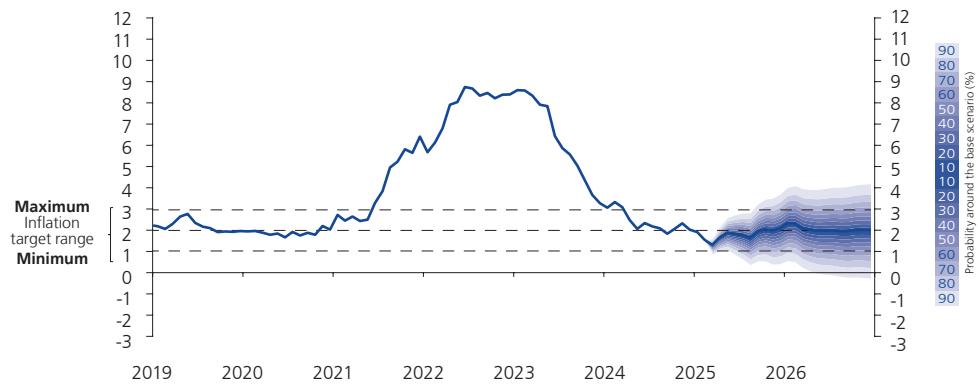
95. The BCRP designs and implements its monetary policy actions in response to the projection of inflation and its determinants. These projections are prepared for a horizon between 18 and 24 months, taking into account all available macroeconomic and financial information. The main elements that influence inflation are: 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 projections includes the quantification of uncertainty through different statistical tools and dynamic macroeconomic models and, subsequently, the specification of risk scenarios together with their probabilities of occurrence. The following is the base 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, taking into account both the magnitude of the deviation and the probability of its occurrence.





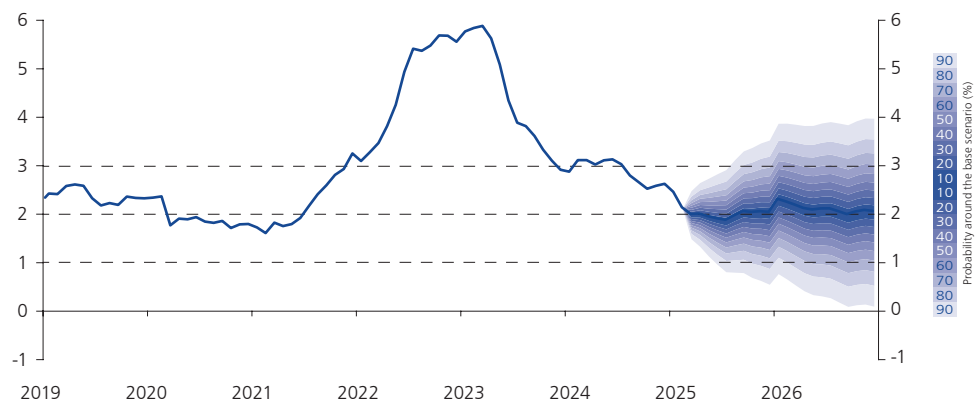
Graph 95
INFLATION FORECAST: 2025 - 2026
(% change last twelve months)



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.

Inflation is expected to be near the center of the target range over the projection horizon, with a rate of 2.0 percent for 2025 and 2026; similar to what was expected in the December Inflation Report.

Graph 96
FORECAST DE INFLATION SIN ALIMENTOS AND ENERGÍA (SAE): 2025-2026
(% change last twelve months)

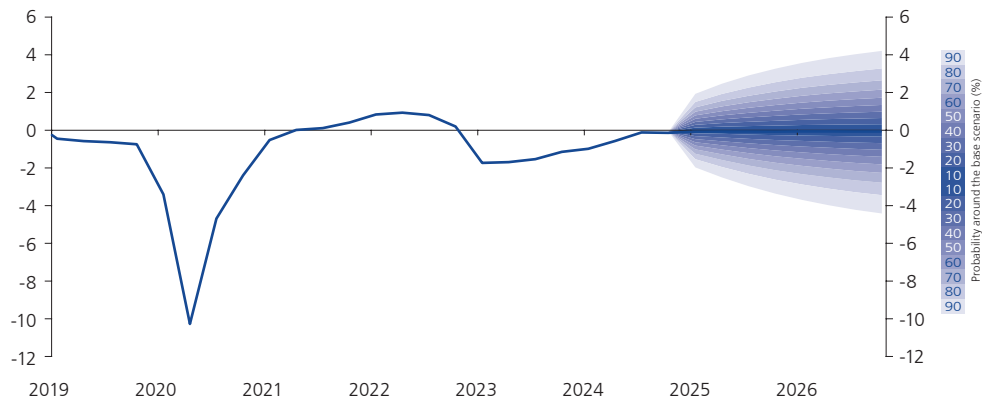


Note: This Fanchart presents the distribution of possible inflation excluding food and energy projection values over the projection horizon. Its central line is the mode of the distribution and shows the baseline scenario projection presented in this Inflation Report. Each pair of Fanchart bands (each 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 projection assumes economic activity around its potential level, and inflation expectations with a decreasing trend towards the middle of the target range.

96. Business confidence, which experienced a recovery process in 2024 after three years in negative territory, continues to increase at the beginning of 2025. On the other hand, the terms of trade are expected to remain at highly favorable levels. This is expected to close the output gap by early 2025.

Graph 97
PROJECTED OUTPUT GAP: 2025-2026
 (Percentage of potential output, quarterly average)

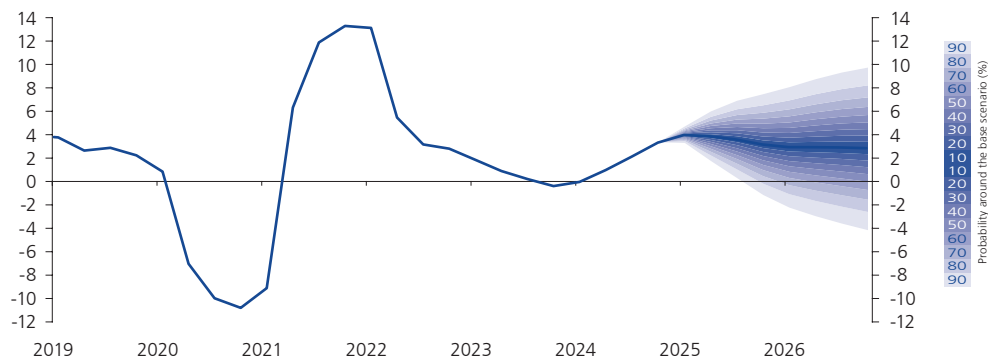


Note: This Fanchart presents the distribution of the possible values of the output gap projection over the projection horizon. Its center line, the mode of the distribution, shows the baseline scenario projection presented in this Inflation Report. Each pair of bands of the fan (each shade) accumulates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

97. In line with the evolution of the output gap and the estimated potential GDP, economic activity is expected to grow by an average of 3 percent in the period 2025-2026.

Graph 98
FORECAST DE GROWTH DEL GDP: 2025-2026
 (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.

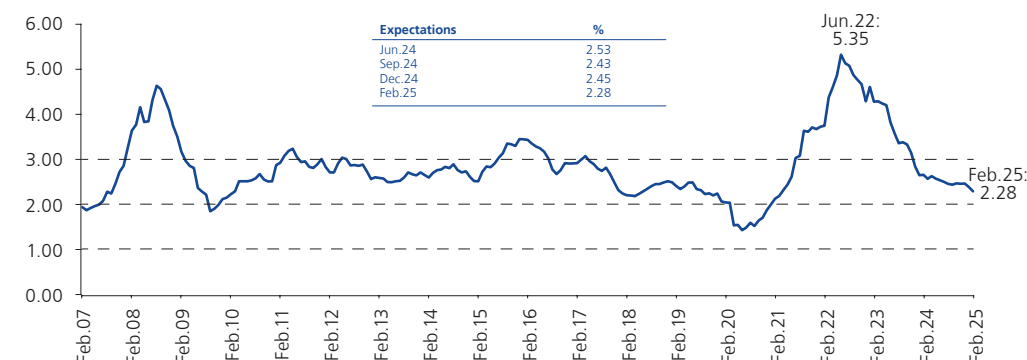
Source: BCRP.

98. Inflation expectations, calculated on the basis of surveys of financial and non-financial companies, as well as economic analysts, reveal a range for the expected inflation rate lower than the December Inflation Report. For 2025 between 2.2 and 2.5 percent, and for 2026 between 2.4 and 2.5 percent. Likewise, 12-month inflation expectations stood at 2.3 percent in February 2025, close to the center of the inflation target range.





Graph 99
TWELVE-MONTH INFLATION EXPECTATIONS
(% points)



Source: BCRP.

Table 44
INFLATION EXPECTATIONS SURVEY
(%)

	IR Sep.24	IR Dec.24	IR Mar.25
Financial entities			
2025	2.40	2.40	2.30
2026		2.50	2.40
Economic analysts			
2025	2.45	2.50	2.20
2026		2.50	2.40
Non-financial firms			
2025	3.00	2.60	2.50
2026		2.80	2.50

* Survey conducted as of February 28.
Source: BCRP.

99. An additional determinant of inflation is the imported component, which combines the effect of the international prices of the products that our country imports (such as oil, wheat, soybeans and corn) with the effect of the variation of the exchange rate (sol against the U.S. dollar).

Thus, average import prices are projected to increase 0.6 percent in 2025 and 1.5 percent in 2026, mainly due to higher prices of some raw materials such as corn and wheat. On the other hand, the expected exchange rate surveys as of February show levels of S/ 3.75 per dollar for 2025; and between S/ 3.77 and S/ 3.80 per dollar for 2026.

Table 45
EXCHANGE RATE EXPECTATIONS SURVEY
(S/ per US\$)

	IR Sep.24	IR Dec.24	IR Mar.25
Financial entities			
2025	3.76	3.80	3.75
2026		3.80	3.77
Economic analysts			
2025	3.80	3.80	3.75
2026		3.80	3.80
Non-financial firms			
2025	3.80	3.80	3.75
2026		3.80	3.80

* Survey conducted as of February 28.
Source: BCRP.

The above-mentioned effects are expected to contribute to inflation continuing to decline toward the middle of the target range (2.0 percent) over the projection horizon.

Inflation projection risk balance

Compared to the last December Report, the neutral bias in the inflation projection is maintained. The expected impact of the risk factors that would lead to higher inflation would be offset by the expected impact of those factors that would lead to lower inflation.

- Supply shocks

Uncertainty remains high regarding the impact of trade policy measures by the United States and the consequent retaliation by the affected economies, as well as the risks derived from the escalation of geopolitical tensions. These events, added to the possibility of natural phenomena of relative intensity, could affect the development of some economic activities, the supply chain and the movement of perishable goods in both domestic and foreign markets, increasing transportation costs and the prices of inputs, consumer and capital goods.

The impact of the partial materialization of these events could be offset by a greater reversal of the shocks that affected the food and energy items in the consumer basket, maintaining the neutral balance of this risk similar to that indicated in the previous Inflation Report.

- Financial shocks

On the external front, an increase in the volatility of international financial markets could generate episodes of capital outflows in both advanced and emerging economies, as investors seek to recompose their portfolios towards safer assets based on their new perceptions of profitability and risk. This higher volatility would be associated with: (i) the high and persistent uncertainty about the impact of the economic measures to be implemented by the new administration in the United States, (ii) the prolonged uncertainty about the pace of monetary policy interest rate cuts in developed economies and the consequent response of international financial markets, (iii) the high levels of indebtedness in many of the world's economies, to which must be added the difficulty of implementing fiscal consolidation and public debt management measures, and (iv) greater global risk aversion due to the possible worsening of geopolitical tensions. On the domestic front, the transit through an electoral period with the possibility of increased political and social uncertainty could increase country risk, and thus amplify or trigger an eventual capital outflow. Both factors could generate upward pressure on the exchange rate, thus contributing to higher inflation. The expected impact of this risk remains unchanged from that reported in December.



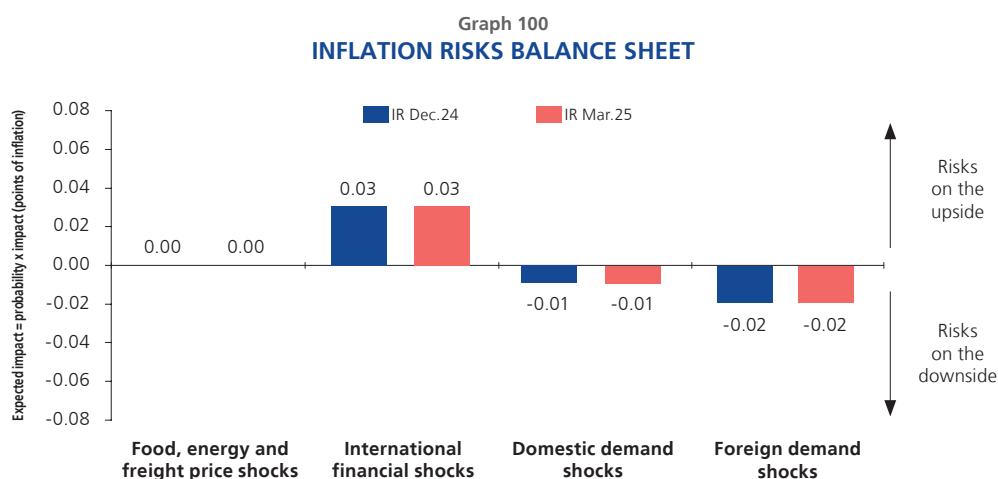


- Domestic demand shocks

The beginning of a new electoral process in 2026 brings with it greater uncertainty at the domestic level, which could be exacerbated if this process were to take place in a context of political instability and social conflict, deteriorating the prospects for growth in consumption and private investment. Lower private investment spending would lead to lower capital accumulation and, therefore, to lower potential growth of economic activity. The expected impact of this risk remains unchanged from the previous Inflation Report.

- External demand shocks

There is still concern about a slowdown in global growth, which would imply a lower demand for our main export products (external demand). This contingent scenario could be generated by the high risk of an escalation of protectionist trade measures among the world's main economies and the worsening of geopolitical tensions, which would generate new disruptions in global supply chains and higher logistics costs associated with international trade. There is also a risk of lower growth in China, higher financing costs in international markets, a greater impact of inflation on global consumption, the pace of monetary policy interest rate reductions in developed economies, and lower terms of trade, mainly associated with the prices of the raw materials we export. The impact of this risk remains the same as presented in the previous Inflation Report.

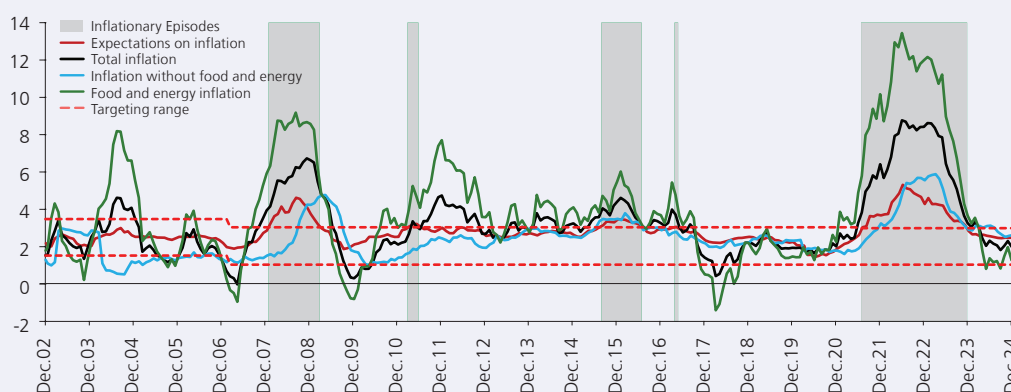


Source: BCRP.

Box 7 INFLATION CONVERGENCE PROCESS TO THE INFLATION TARGET

From mid-2021 to the end of 2023, most economies experienced an almost synchronized inflationary process, and Peru was no exception. The country registered an increase in inflation and its expectations above the inflation target range. This was the fifth inflationary episode since the BCRP adopted the Explicit Inflation Targeting (EIT) scheme⁵⁰. In the Peruvian case, the increase in inflation was a consequence of the accumulation of several external factors, including the disruption of global supply chains during the pandemic, and the increase in food and energy commodity prices following the invasion of Ukraine. In response, central banks implemented progressive increases in interest rates in a frontal effort to contain the rise in inflation and bring it back to target levels. This box summarizes the progress made in the process of reversing this recent inflationary process.

INFLATIONARY EPISODES SINCE THE ADOPTION OF THE INFLATION TARGETING RANGE SCHEME



In several boxes of the Inflation Report, an inflationary episode is defined as those periods in which inflation expectations exceed the upper limit of the target range (3 percent). These episodes have had varying durations, ranging from 2 to 29 months, and have coincided with periods of inflation above 3 percent, which ranged from 9 to 33 months. The longest episode was the last one, which lasted from July 2021 to November 2023. This one stands out notably for its duration, especially when considering that the second longest episode, that of 2008-2009, lasted only 14 months, about half as long. In general, the longest episodes have coincided with peak levels of double-digit annual depreciation of the domestic currency and pronounced, albeit transitory, increases in food and energy (F&E) prices. This contrasts with deviations from the target range of non-food and energy inflation (SAE), which tends to be more moderate, but at the same time, more persistent.

50 These episodes are documented in the box "Monetary Policy Response to Supply Shocks" in the March 2022 Inflation Report.



EVOLUTION OF THE VARIOUS INFLATION MEASURES IN INFLATIONARY EPISODES

Episodes	Fechas	Duration 1/	Max. Expectations on inflation	Max. total inflation	Max. inflation excluding food and energy	Max. food and energy inflation	Max. Exchange rate	Max. 12 month depreciation
Episode 1	Ene08-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-Abr17	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/ In parentheses is the time in which total inflation remains outside the target range.

The fifth episode was characterized by the persistence of the supply shocks experienced, which contrasted with the typically transitory nature of these events⁵¹. During this period, compared to previous episodes, the highest values were recorded in both inflation expectations and inflation rates, as well as in the AE and SAE inflation components, reaching values of 5.4; 8.8; 13.5 and 5.9 percent, respectively.

In December 2023, inflation expectations returned to the target range, reaching 2.8 percent, a level not seen since two months before the start of the fifth inflationary episode. Inflation expectations continued a downward trend, reaching 2.28 percent in February 2025, the lowest level since March 2021. Meanwhile, in 2025, inflation is in the lower range of the target, with values of 1.9 percent in January and 1.5 percent in February. This reduction is attributed to the reversal of the supply shocks experienced during the inflationary episode, which materialized in reduced levels of SAE inflation. However, SAE inflation, which reflects trend inflation, has been converging to the center of the target range, at 2.4 percent in January and 2.1 percent in February 2025.

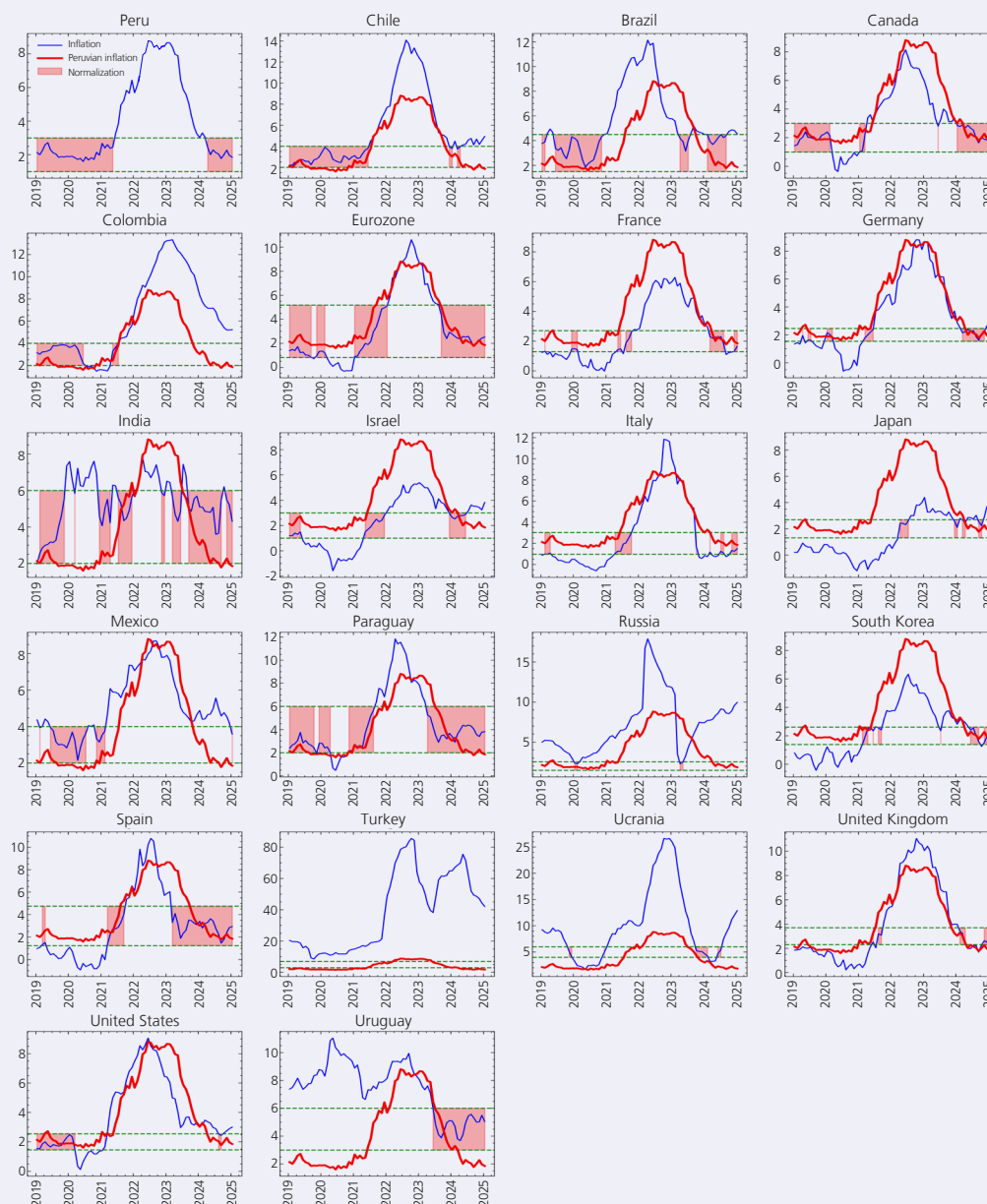
International comparison

The recent inflationary episode was characterized by shocks of a global nature. Since the beginning of 2021, inflation experienced an increase in numerous countries, showing heterogeneous dynamics thereafter. The following graph compares the inflation rate in Peru with that of a sample of 21 countries, highlighting three key points:

1. During this episode, developed economies experienced, on average, lower inflation rates than developing economies. The Peruvian case was one of the exceptions, registering relatively lower rates than those of developed countries.
2. The evolution of inflation in Peru was more similar to that observed in developed economies than in developing economies.
3. The persistence of supply shocks particular to Peru caused the inflation rate to remain above 8 percent for a longer period of time (11 months), but after these shocks were reversed, a rapid convergence to developed country inflation rates was observed.

51 The disruption of the supply chain and the rise in international commodity prices were compounded by the prolongation of the conflict between Russia and Ukraine and persistent idiosyncratic events such as the El Niño 2023 phenomenon and the political and social unrest of the same year.

INFLATION DE PERU AND UNA MUESTRA DE 21 PAÍSES*



* Normal inflation ranges were determined using each country's target ranges. When these were not available, they were calculated by adding and subtracting a pre-pandemic standard deviation from the inflation target.

Source: Statistical offices and central banks of each country.

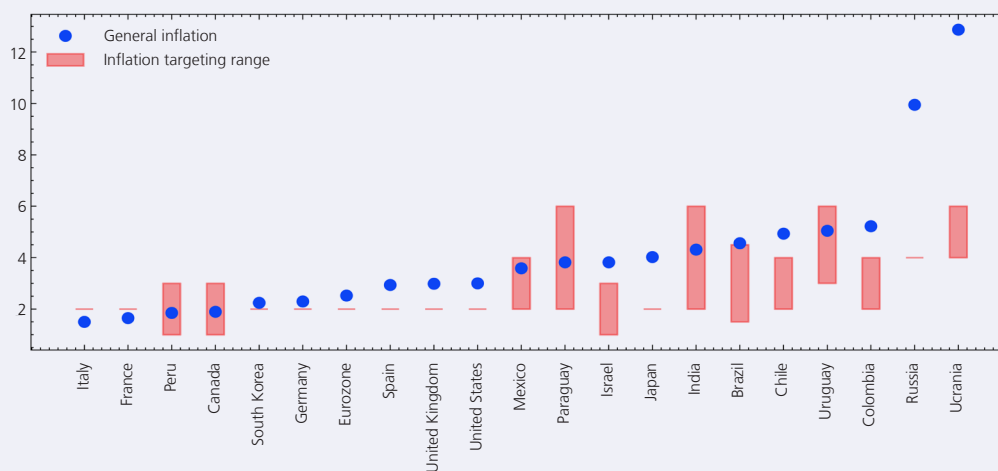
This comparison shows the influence of global factors on Peruvian inflation, identified in the high correlation of Peru's inflation with that of the other countries in the sample, while at the same time allowing us to observe the differences in the inflation dynamics of developed and developing economies in the face of these shocks. It is also observed that in 12 of the 22 countries included in the sample, inflation has not been able to return to its target level or range after the last inflationary episode.

By January 2025, Peru's inflation is slightly below the center of the target range. Within the study sample, Peru stands out as one of the countries with better inflation control compared to developed countries. Countries in the region still maintain inflation rates above their target ranges.





INFLATION RATES IN JANUARY 2025 AND THE INFLATION TARGETING RANGE FOR THE SAMPLE COUNTRIES



Source: Statistical offices and central banks of each country.

The active response of central banks, by raising their monetary policy rates, has facilitated the return of inflation to its target ranges. From this experience, and other inflationary episodes, Ari et al. (2023)⁵² document the following stylized facts:

1. Inflationary shocks are prolonged, with an average duration of successful disinflation of three years, and in 60 percent of the episodes, inflation returned to the target level within five years.
2. Unsuccessful disinflations mostly resulted from disinflationary policies that ended too soon.
3. Countries that successfully reduce high inflation rates implement relatively more contractionary monetary policy responses that coincide with restrictive fiscal responses.
4. These policy responses were not only aligned but also prolonged.
5. With these consistent policy responses, these countries achieved greater nominal exchange rate stability.
6. At the same time, these economies had the lowest nominal wage growth rates.
7. Although the economies that succeeded in controlling inflation experienced less economic dynamism in the short term, in the medium term there was no loss of growth or employment.

In the Peruvian case, the return of inflation to the target range after persistent, global and idiosyncratic supply shocks is attributable to a combination of factors, including the moderation of these shocks and the adequate response and communication of monetary policy.

52 The stylized facts documented by the authors are also discussed in the box “The international and Peruvian historical experience in the face of inflationary shocks” of the December 2023 Inflation Report.

Box 8

RELATIVE PRICE DISTRIBUTION AND DYNAMICS OF INFLATION

Periods of rising inflation are usually related to supply shocks which, if persistent, can subsequently spread to other prices and affect inflation expectations. When inflationary episodes are caused by supply factors, relative prices are altered because the prices of some food and energy items respond faster than other goods and services, which tend to have more rigid prices. In contrast, when higher inflation is due to demand factors, relative prices show smaller fluctuations, since price increases are more generalized. Accordingly, the distribution and evolution of relative prices within the Consumer Price Index (CPI) provides valuable information on the origin and characteristics of the shocks affecting inflation. This information is relevant for the design of monetary policy, since, in order to respond effectively to these shocks, it is important to identify the type of events that trigger changes in inflation.

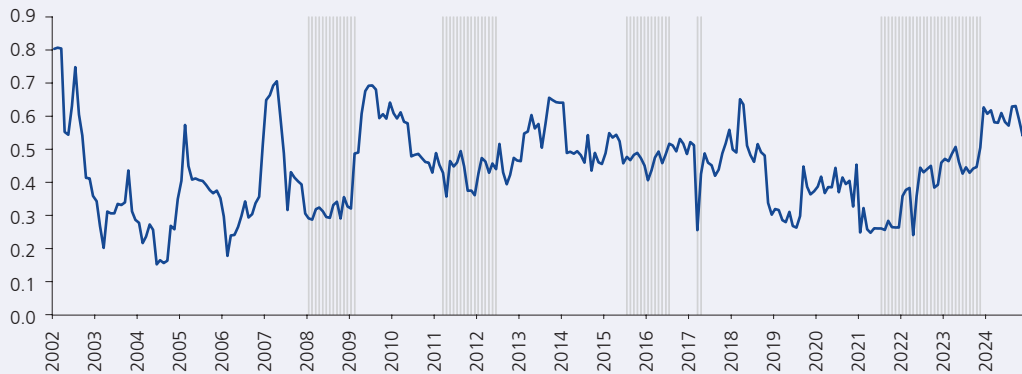
This box presents an indicator that allows us to quantify the importance of supply shocks in inflation, defined as the sudden increase in some prices of the consumer basket. The box uses the same methodology of a recent study by the US Federal Reserve (Fed) that found that, between 1995 and 2019, a period of relatively low and stable inflation in the US, inflation tends to be lower when a larger number of prices increase at a higher rate than aggregate inflation, indicating an increase in relative prices⁵³. The following shows that this relationship between the distribution of relative prices of CPI components and total inflation is also observed in Peru. This allows us to conclude that periods of high and volatile inflation are generally associated with price increases concentrated in a few items, mainly food and energy, which are not part of trend inflation.

For this analysis, the 188 items that make up the CPI are considered. In each month, the proportion of categories with price increases higher than aggregate inflation is determined, which indicates an increase in their relative prices. From this, the Proportion of Items with Relative Price Increase (PRAPR) is calculated by period, which is the key indicator for this analysis. The PRAPR measures changes in the dispersion of the relative price distribution. **In general, higher relative price dispersion (higher PRAPR) is associated with lower inflation, while lower dispersion is associated with higher inflation.** This is because increases in inflation with little variation in relative price dispersion suggest a generalized inflationary process.

This box studies the 2002-2024 period, characterized by low and stable inflation, with exceptions such as the post-pandemic period (2021-2023). The annual PRAPR is presented below and shows that it ranged between 0.15 and 0.81, with a historical average of 0.44. The periods highlighted in gray are those in which inflation expectations exceeded 3 percent, which can be categorized as periods of higher and more volatile inflation. In these periods, the level of the PRAPR has been, on average, slightly lower.

53 See Hornstein, A., Ruge-Murcia, F., and Wolman, A. (2024). The Relationship Between Inflation and the Distribution of Relative Price Changes. Federal Reserve Bank of Richmond. (https://www.richmondfed.org/-/media/RichmondFedOrg/publications/research/working_papers/2024/wp24-15.pdf).



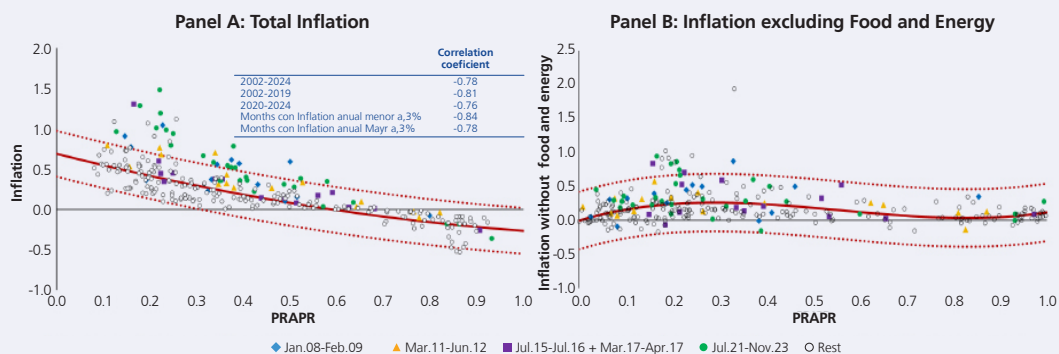
**EVOLUTION OF THE PROPORTION OF ITEMS WITH AN INCREASE IN THEIR RELATIVE PRICE (PRAPR) YEAR-ON-YEAR (2002-2024)**

Memo:

1. The PRAPR (Proportion of Items with Relative Price Increase) is calculated as the proportion of items whose inflation is higher than aggregate inflation. In this case, annual inflation is considered.
2. The gray shaded areas represent periods when inflation expectations were above 3 percent.

The graphs below show the monthly correlation between the PRAPR and total inflation, as well as inflation excluding food and energy. A distinction is made between episodes with inflation expectations above 3 percent (in which inflation was more volatile) and the rest of the periods. In both cases, the trend line corresponding to the months when inflation expectations were low is drawn, together with their 95 percent confidence intervals in dotted lines. It is evident that there is a clear negative relationship in the case of total inflation. When inflation expectations were high, this relationship was also negative and of similar magnitude, but with higher inflation levels, corresponding to an upward shift of the relationship.⁵⁴

In the full sample, the correlation is significantly negative (-0.78). This correlation intensifies when excluding post-pandemic years or restricting the analysis to months with inflation expectations below the upper limit of the target range (3 percent). The close relationship between the PRAPR and inflation is observed even in periods of high and volatile inflation. On the other hand, in the case of non-food and energy inflation, this relationship is not significant and the correlation, although negative, is notably lower (-0.19). This indicates that this relationship can be attributed mainly to the food and energy items.

RELATIONSHIP BETWEEN MONTHLY INFLATION AND PRAPR (2002-2024)

Note: The PRAPR (Proportion of Items with Relative Price Increase) is calculated as the proportion of items whose inflation is higher than the aggregate inflation.

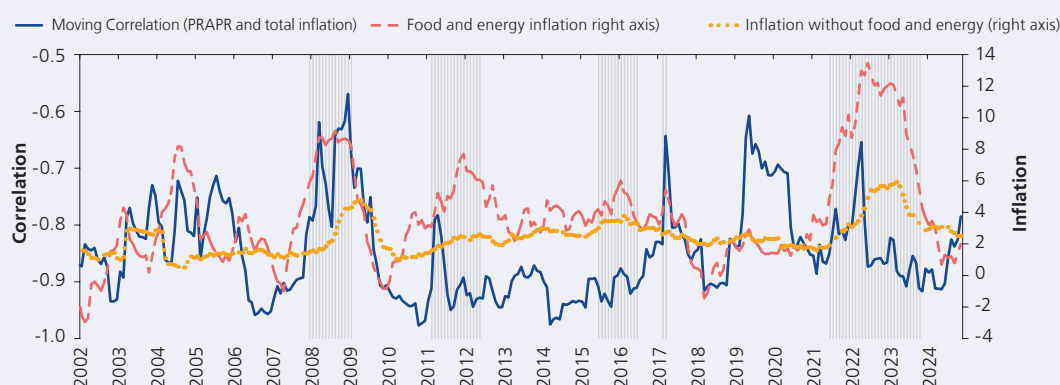
⁵⁴ In the box "Monetary Policy Response to Supply Shocks" of the March 2022 Inflation Report, inflationary episodes characterized by inflation expectations above the target range are documented. It is these episodes that are referred to in this graph.

This empirical observation suggests that inflation shocks in the Peruvian economy manifest themselves mainly through sharp increases in one or a few specific categories, rather than generalized increases, and that these increases are mainly concentrated in food and energy. This indicates that inflation fluctuations tend to originate in supply shocks focused on a few items.

The following graph shows the evolution over time of the correlation between the PRAPR and monthly inflation, through 1-year moving windows. It is evident that this relationship has shown some fluctuations in the last 22 years, but has always remained below -0.5. On the other hand, there is no clear relationship between this correlation and the level of food and energy or non-food and energy inflation.

Based on the above, it can be argued that the correlation between the PRAPR and inflation tends to be more negative in the presence of supply shocks, and approaches zero when demand factors predominate. For example, this correlation was less pronounced during the 2008-2009 inflationary episode compared to the 2022-2023 period. Although both episodes were marked by significant increases in food and energy prices, the spread to other items was smaller in the more recent episode. This is explained by the fact that the 2008 episode, although mainly caused by a supply shock, was also influenced by demand factors derived from high *commodity* prices, which led to a greater spread to other prices. In contrast, in the post-pandemic inflationary episode, the macroeconomic context and the monetary policy response helped mitigate the transmission of food and energy inflation to the rest of the CPI components.

EVOLUTION OF THE CORRELATION BETWEEN PRAPR AND MONTHLY INFLATION 2002-2024)



Memo:

1. The PRAPR (Proportion of Items with Relative Price Increase) is calculated as the proportion of items whose inflation is higher than aggregate inflation. The moving correlation in 1-year windows between PRAPR and total inflation is considered.
2. The gray areas periods when inflation expectations were above 3 percent.

In a complementary manner, the contribution of the change in relative prices in the CPI basket to the aggregate inflation variance is analyzed. The following table shows the percentage of variance attributable to the items whose relative prices exceeded the thresholds specified in the table, together with their weight in the CPI basket. As expected, as the threshold increases, both the contribution to variance and the weight in the CPI decrease, as fewer items exceed progressively higher thresholds. However, the contribution to variance decreases at a slower rate than the weight of items in the CPI. This suggests that inflation variability tends to be concentrated in a few items whose aggregate weight is small. For example, between 2002 and 2024, items whose relative price increased by more than 2 percent accounted for only 10 percent of the CPI weight, but explained about 60 percent of the variance of inflation.





This result is consistent with the relationship found above and confirms that a large part of the monthly volatility of inflation is explained by a small fraction of expenditure items whose relative price increases significantly.

DECOMPOSITION OF THE VARIANCE OF INFLATION ACCORDING TO THE MAGNITUDE OF THE CHANGE IN THE RELATIVE PRICE OF ITEMS

Change in relative price is higher than (%):	Contribution to inflation variance		Relative CPI weight (contribution to spending)	
	Non-inflationary periods	Inflationary periods	Non-inflationary periods	Inflationary periods
0.25	0.73	0.75	0.55	0.66
1	0.68	0.60	0.16	0.20
2	0.63	0.57	0.09	0.11
3	0.60	0.41	0.07	0.07
5	0.49	0.35	0.04	0.04
10	0.26	0.15	0.01	0.01

Memo:

1. Each row shows the contribution to the variance and the weight in the CPI of those items whose relative price change is greater than the threshold indicated in the first column, i.e. those whose inflation is greater than total inflation by at least that number of percentage points.

2. Contributions to variance are calculated as the ratio between the variance of inflation corresponding to the items that exceed the threshold (weighted by their respective weights) and the variance of total inflation.

It is worth mentioning that these findings are not necessarily inconsistent with the stylized fact that, in periods of higher inflation, there is a larger proportion of items that experience a significant increase in their prices (above 5 percent)⁵⁵. While a larger number of prices that rise significantly may be related to a larger proportion of relative prices that rise, this will depend on how high aggregate inflation is. What can be concluded, based on both stylized facts, is that, in periods of high inflation, we tend to observe a larger number of items whose prices rise significantly, but most of these still show a smaller increase than total inflation, meaning that it is mainly explained by price increases in a few items.

Concluding remarks

The information presented in this box proves the existence of a close relationship between the way relative prices evolve in the economy and inflation in the Peruvian case. This stylized fact allows us to argue that, even in a successful inflation targeting regime such as Peru's, where annual inflation remains generally low and stable, an important part of the monthly fluctuations of this variable are explained by strong shocks in specific categories, which are independent of demand fluctuations.

55 See 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/report-de-inflacion-junio-2024-recuadro-5.pdf>).