

INTRODUCTION

In 2018, Peru's gross domestic product (GDP) grew 4.0 percent after the economy recovered from the adverse shocks caused in 2017 by El Niño Costero event and the Lava Jato corruption case. The recovery was mainly driven by domestic demand, which registered a growth rate of 4.3 percent, a higher rate than those observed between 2014 and 2017. It is worth pointing out that private consumption grew 3.8 percent and private investment grew 4.4 percent (versus 2.6 and 0.2 percent in 2017, respectively) and that all the sectors grew more in 2018 than in 2017, with the exception of mining.

During 2018 the international environment was characterized by lower global growth, a drop in the terms of trade, global trade tensions, and higher international interest rates. The pace of growth of global activity fell from 3.8 percent in 2017 to 3.6 percent in 2018, a slowdown being observed in the Eurozone, Japan, China, and other emerging economies in Latin America, all of which were affected by fears about the impact of growing commercial tensions between the United States and its partners, particularly China, as well as by uncertainty regarding the form of the United Kingdom's withdrawal from the European Union. In addition, tighter external financing conditions associated with the rise in the Federal Reserve interest rate were also observed.

The current account deficit of the balance of payments rose from 1.2 percent of GDP in 2017 – extraordinary income being recorded in the year – to 1.6 percent in 2018, in a context of recovery of domestic demand and lower mining production. The trade balance surplus (3.2 percent of GDP) increased slightly compared to 2017 (3.1 percent of GDP) despite the slowdown of global growth and trade tensions. The total external debt was equivalent to 34.5 percent of GDP and external financing continued to be the main source of foreign direct investment (47.2 percent of GDP).

The fiscal deficit decreased from 3.0 to 2.3 percent of GDP between 2017 and 2018 as a result of a considerable increase in the revenues of the general government, with public investment reversing its downward trend because of higher disbursements associated with road infrastructure works and infrastructure projects for the 2019 Pan American Games that will take place in Lima. Moreover, representing 25.8 percent of the country's GDP at the end of 2018, Peru's public debt continued to be one of the lowest debt levels in the region.

After reducing its monetary policy rate by 25 basis points in January and in March to 2.75 percent, BCRP maintained it at this level throughout the rest of the year, reflecting an expansionary stance in a context of inflation expectations anchored and a pace of economic activity still below its potential. In this scenario, inflation remained within the target range (between 1 and 3 percent) throughout the year and showed a rate of 2.2 percent in 2018. Inflation excluding food and energy remained relatively stable at 2.2 percent. Moreover, inflation expectations remained anchored within the target range, with an expected rate of 2.5 percent in December 2018.

Credit to the private sector accompanied the recovery of economic activity and accelerated from a rate of 6.7 percent in December 2017 to 8.7 percent in December 2018 due to a better performance in corporate and personal loans, in line with the recovery of domestic demand and with the expansionary monetary stance.