INTRODUCTION

In 2019, Peru's GDP grew by 2.2 percent –a lower rate than in the previous year–, in part due to the contraction of the primary industries, which were affected by supply shocks to fisheries (lower availability of anchovy) and mining (lower grade ore). In addition, growth in non-primary industries slowed down as a result of less dynamic domestic demand. The impact of lower terms of trade on income and the slowdown of formal employment growth accounted for the slower expansion of private spending, while the impact of the political cycle of sub-national governments accounted for the contraction of public investment and the slower pace of growth of public spending.

This slowdown of local economic activity took place amid an external context of decelerating global GDP growth, high uncertainty in international financial markets, and lower terms of trade. Moreover, global trade, the confidence of economic agents, and growth perspectives were significantly affected by the trade war between the United States and China, which resulted in the lowest expansion rate of the world economy in 10 years (2.9 percent). Our terms of trade accumulated two years of decline due to the lower prices of our exports of basic metals. In this context, the central banks of the major developed economies and several emerging economies maintained an expansionary monetary policy, reflected in low international interest rates.

The current account deficit in the balance of payments fell to 1.5 percent of GDP in 2019 due to the lower profits of companies with foreign direct investment, in line with the slowdown of local economic growth and the lower prices of basic metals. This deficit was financed by capital in the financial account (equivalent to 4.6 percent of GDP), mainly foreign direct investment and portfolio investment (sovereign bonds), in a context of low international interest rates. On the other hand, the country's international reserves amounted to US$ 68.316 billion (US$ 8.195 billion more than in 2018), a level of reserves equivalent to 30 percent of GDP.

Declining for the second consecutive year, the fiscal deficit decreased from 2.3 percent of GDP in 2018 to 1.6 percent in 2019. This lower deficit reflected mainly the increase in the current revenues of the general government (0.5 per cent of GDP). On the other hand, the public debt at the end of 2019 represented 26.8 percent of GDP, a figure 1.0 percentage point higher than at the end of 2018, due to higher long-term domestic debt resulting from debt management operations in June and November 2019.

Inflation and inflation expectations remained within the 1 - 3 percent target range throughout the year in a context where the output continued to grow below its potential level and high uncertainty was observed in international financial markets due to the intensification of the trade war between the United States and China.

In this context, the Central Bank reduced the benchmark interest rate by 25 basis points in August and November, from 2.75 to 2.25 percent, thus maintaining an expansionary stance. This stance was reflected in the evolution of the real reference interest rate, which was below the real neutral interest rate (estimated at 1.50 percent) throughout the year.

The moderation of domestic demand and the international context caused the growth rate of credit to slow down from 8.7 percent in 2018 to 6.9 percent in 2019, reflecting mainly the evolution of credit to business, particularly in the segments of loans to corporations and large companies. On its side, credit to households showed a lesser slowdown, explained by the consumer segment.

It is worth highlighting that, since the beginning of 2020, markets and global activity have been severely affected by the effects of COVID-19. In our country, the measures taken to deal with the pandemic have had a significant negative impact on economic activity, mainly due to the national stay-at-home order (mandatory social immobilization), which implied the suspension of work in most economic sectors.

In this context, the measures taken by BCRP to reduce the cost of credit and prevent the interruption of the payments channel have included reducing the reference interest rate by 200 basis points to 0.25 percent –a historical minimum level–, providing liquidity to the financial system through the extension of the maturity term of repo operations, and easing reserve requirements, which would release resources equivalent to 0.3 percentage points of GDP.

In addition, a program of government-backed loans of up to S/ 30 billion has been established to support the financing of working capital. BCRP will carry out auctions of portfolio repos to provide liquidity for these operations.