Introduction

In the second year of the COVID-19 pandemic, the global epidemiological panorama was affected by the appearance of new variants of the virus, which led to a cyclical behavior in the number of infections and deaths in several countries, causing even greater contagions and fatalities than in 2020. However, some nations in Asia, Europe and the Middle East began vaccination against this disease, starting with the vulnerable population and those most exposed to infection, such as medical and emergency personnel and police forces, for example. Throughout 2021, several economies joined the mass immunization process and at the same time relaxed or eliminated sanitary measures, such as the lockdown of some economic sectors, quarantines, visitor capacities, curfews, among others.

The reopening of the economy and the vaccination process, combined with fiscal and monetary incentives, contributed to a recovery in **global economic activity** of 6.0 percent in 2021, exceeding the drop of 3.1 percent registered in 2020. However, economic recovery across countries was not homogeneous. It was also limited by the persistence of global supply problems observed in 2020, such as higher freight costs and difficulties in supply chains, as well as by the emergence of new shocks, particularly higher energy, and food prices. High transportation costs, shortages of key products and higher fuel and food prices were reflected in greater inflationary pressures worldwide, which led the world's monetary authorities, in the second half of the year, to reconsider the stimulus provided in the wake of the crisis.

In this context, the **terms of trade**, the ratio between the average price of our exports and our imports, rose by 11.8 percent because the increase in the price of metals was higher than that in the prices of food and oil. As a result of this increase in the average payment for our export products and the rise in global demand, exports for the year amounted to US$ 63,151 million, a maximum ratio representing 28.0 percent of the country's gross domestic product (GDP).

Despite the increase in the terms of trade, the **current account of the balance of payments** registered a deficit of 2.3 percent of GDP in 2021. This was due to the reactivation of domestic demand, higher profits of companies with foreign direct investment (FDI) in the country, and the contraction of the services account as a result of higher freight costs. This deficit was financed by capital in the financial account (equivalent to 6.9 percent of GDP), mainly through increased sales of the external portfolio assets of pension fund administrators (AFPs), a higher portfolio investment following the issuance of global government bonds, higher net FDI from profit reinvestment, and external loans from multilateral agencies to the General Government. These inflows offset the largest outflow of short-term external capital registered since 1950, equivalent to 7.4 percent of

GDP, which took place in a context of political uncertainty. The positive differential between the financing requirement and net inflows translated into an increase of US$ 3,789 million in **Net International Reserves**, which accumulated a balance of US$ 78,495 million (34.9 percent of GDP) at the end of 2021.

Locally, **economic activity** managed to recover the level it had prior to the COVID-19 crisis, growing by 13.3 percent compared to 2020 and by 0.9 percent compared to 2019. This expansion was driven by the easing of health restrictions after the progress of vaccination achieved at the local level, the resumption of productive activities, and the stimulus of expansionary monetary and fiscal policies. The economy showed two differentiated paces of growth in 2021: in the first half of the year, GDP grew 20.8 percent driven by the factors discussed above, while in the second half of the year, activity grew 7.1 percent. The latter was associated with agents' lower levels of confidence regarding the future of the economy because of an increase in political uncertainty, which led to a lower dynamism of private investment. This was also compounded by a lower statistical effect and by the contraction of public investment in the fourth quarter of the year.

The recovery of economic activity, high mineral prices, extraordinary revenues from the payment of fines and the culmination of the tax relief measures applied at the beginning of the pandemic favored the increase in the National Government's tax revenues. This, together with the lower dynamism of Non-financial expenditures and the primary surplus of state-owned enterprises, led to a reduction in the **fiscal deficit** from 8.9 percent of GDP in 2020 to 2.5 percent in 2021. The gross debt of the Non-Financial Public Sector amounted to 36.0 percent of GDP, the highest fiscal debt ratio since 2005, the increase in debt with respect to the previous year being mostly explained by higher external debt.

Global supply problems, the rapid global economic recovery, and the international increase in the prices of fuel and foodstuffs that Peru acquires from other countries had an impact on the price level of the Peruvian economy. **Inflation** showed rates above the inflation target range (1 to 3 percent) as from June, closing the year with a year-on-year variation of 6.4 percent, well above the 2.0 percent rate registered in 2020 (1.9 percent in 2019). The items that most contributed to the increase in prices between both years were food products with high imported content, fuels, and the goods affected by the depreciation of the PEN.

In view of rising inflation and inflation expectations, the BCRP increased the **benchmark interest rate** by 225 basis points between August and December, from 0.25 to 2.50 percent, maintaining a its expansionary stance. This position was reflected in the evolution of the benchmark real interest rate, which throughout the year was at negative levels and below the neutral real interest rate, estimated at 1.50 percent.

The **balance of liquidity injection operations** in domestic currency decreased from S/ 64.8 billion at the end of 2020 to S/ 56.7 billion on December 31, 2021, with the amortization of government-guaranteed repos of portfolio loans under the Reactiva Perú program accounting mostly for this decrease. Likewise, the growth rate of credit to the private sector decelerated from 11.0 percent in 2020 to 4.4 percent in 2021, which is explained by the amortizations and repayments of business support loans, provided earlier to mitigate the effects of the pandemic. As a percentage of GDP, the balance of **credit to the private sector** declined from 52.5 to 46.0 percent of output between 2020 and 2021 because of high nominal GDP growth (21.5 percent).