INTRODUCTION

The **global economy** slowed its pace of expansion from 3.5 to 3.1 percent between 2022 and 2023. The international outlook reflected some factors that continued to affect growth, such as the global monetary tightening cycle, the reduction of private savings surpluses generated in the pandemic, and the weak dynamism of international trade. In addition, new shocks emerged in 2023, including market volatility following the failure of some financial institutions, problems related to the management of public debt in the United States, and geopolitical tensions.

The slowdown in global economic activity was accompanied by a decrease in inflationary pressures. Nevertheless, in most countries, inflation rates remained above the targets set by the respective central banks at the end of 2023. Likewise, international prices of oil, industrial inputs and metals declined in a context of lower global dynamism, together with better weather conditions for food production and a greater oil supply towards the end of the year. Thus, the **terms of trade** for 2023 recorded an increase of 4.8 percent, as a result of a greater drop in import prices (6.9 percent) compared to export prices (-2.4 percent).

The **current account of the balance of payments**, in terms of GDP, went from a deficit of 4.0 percent in 2022 to a surplus of 0.8 percent in 2023. This result was mainly due to an increase in the trade surplus as a result of the recovery of the terms of trade and the contraction of imported volumes, and to a lesser extent to lower profits of foreign direct investment companies and higher interest income. The financial account recorded a **net capital outflow** of USD 1 309 million (0.5 percent of GDP), as opposed to a net inflow of USD 8 809 million in 2022, due to the resumption of net foreign asset purchases by AFPs and a slower pace of accumulation of direct investment liabilities. **Net International Reserves** decreased by USD 850 million and accumulated a balance of USD 71 033 million at the end of 2023, equivalent to 26.5 percent of GDP.

The **Peruvian economy** contracted by 0.6 percent in 2023, affected by different supply shocks, including weather anomalies related to the coastal El Niño, the drought in the south, the avian flu outbreak, and social conflicts in the first half of the year, which involved mobilizations and road blockades. These shocks had a direct impact on primary activities such as agriculture, fishing and poultry production, as well as on non-primary sectors such as manufacturing, commerce and construction. On the demand side, these unanticipated events had second round impacts on business and household income and confidence, which in turn led to a weakening of private consumption and a decline in private investment for the second consecutive year.

Likewise, three cyclical factors also reduced the momentum of GDP in 2023: (i) the decline in demand for non-traditional products, especially textiles, by the United States; (ii) the fall in public investment by Local Governments, as usually occurs in the first year of the mandate of regional and municipal authorities; and (iii) the reduction of inventories, resulting from an adjustment after the build-up of inventories at the end of 2022 and the beginning of 2023.

The downturn in economic activity, the fall in the value of imports and lower export prices had a negative impact on tax collection, leading to an increase in the **fiscal deficit** from 1.7 percent of GDP in 2022 to 2.8 percent of GDP in 2023. The **gross debt of the Non-Financial Public Sector** increased from S/ 317,305 million in 2022 to S/ 329,234 million at the end of 2023 due to the financing of the fiscal deficit, mitigated by the debt management operation and the use of deposits Despite the increase in nominal terms, debt as a percentage of GDP decreased from 33.9 to 32.9 percent.

Inflation during 2023 showed a downward trend and declined from 8.46 percent in 2022 to 3.24 percent at year-end. Inflation without food and energy entered the target range at the end of the year for the first time since November 2021. Food and energy prices rose 3.6 percent, compared with 12.0 percent in 2022. Climate disruptions caused by the El Niño phenomenon, the drought at the end of 2022 and the avian flu caused, in the first half of the year, an increase in food prices, which was partially reversed in the second half of the year. Energy prices declined in line with the evolution of international oil prices.

The BCRP, in response to rising inflation and its post-pandemic expectations, continued in January 2023 with the **withdrawal of monetary stimulus** by raising the benchmark rate by 25 basis points to 7.75 percent. Subsequently, between February and August, the Board decided to keep the benchmark rate unchanged, and then between September and December reduced it by 25 basis points each time, bringing the benchmark rate from 7.75 to 6.75 percent (i.e., a cumulative cut of 100 basis points). The **change in the monetary policy stance** was due to the convergence of inflation and its expectations towards the BCRP's target range, as well as a negative output gap. The real interest rate, which discounts inflation expectations from the nominal interest rate, stood at 3.60 percent in December 2023.

The balance of liquidity injection operations in domestic currency decreased from S/ 39,288 million at the end of 2022 to S/ 33,052 million at December 31, 2023. This flow is mainly explained by the amortization of government-secured repos of credit portfolio repos under the Reactiva Perú program (S/ 13,884 million). For its part, the annual growth rate of total credit to the private sector slowed down from 4.5 percent in 2022 to 1.3 percent in 2023. As a percentage of GDP, the balance of credit to the private sector represented 41.9 percent, down from 44.4 percent in 2022.