BBVA Research

Peru Economic Outlook

Third quarter 2019

July 2019

Creating Opportunities

BBVA Research

Contents

Key Points (I)

- Activity remained weak in the second quarter, resulting in growth for the first half of the year in the region of 2%. This weakness is mainly explained by transitory factors: (i) fishing, due to the lower quota for the first anchovy fishing season (which was also late to start); (ii) mining, because production failed to recover (low grades, stoppages and social conflicts); and (iii) public investment, which experienced a slowdown, primarily at regional government level. In addition to these transitory factors, which will be reversed in the second half of this year, it should be noted that household spending indicators also eased, while private investment, particularly non-mining, experienced slow progress.

- For the second half of 2019 and for 2020, the forecast baseline scenario, on the external front, envisages global growth that will stabilize at low levels against a backdrop of trade tensions that will be offset by stimulus measures in the main economies. Moreover, it predicts that the terms of trade will remain relatively stable (fall in metal and oil prices).

- On the local front, the forecast baseline scenario assumes that mining production will overcome the problems faced in the first half of the year and gradually recover, while public investment will perform better (improved implementation of expenditure by regional governments and of reconstruction works). However, business caution will persist, with a confidence level similar to that recently reached.

Key Points (II)

- Against this backdrop, growth in the second half will be higher than that recorded for the first, at close to 4%, with 2.9% expansion for the year. This annual forecast is one percentage point lower than in our previous report following a weaker first half than anticipated. Meanwhile, for the second half of the year, the private spending forecast has been revised downward due to the weakness predicted by the indicators already available.

- Growth is predicted to reach 3.9% by 2020. As in the second half of 2019, the following year’s rebound will be driven: i) by the recovery of primary industry (mining, fishing), which will favor exports, and ii) public investment, as a result of the normalization of regional government spending and infrastructure construction. It is important to note that the growth forecast for 2020 is two percentage points higher than three months ago.

- Risks affecting our 2019 and 2020 growth forecasts: externally, increased trade tensions, recession in the US and a disorderly adjustment in China. Domestically: slower recovery of the extractive sectors, declining confidence and slower progress in public investment.

- In terms of public accounts, we predict a continuation of the fiscal consolidation process (initiated in 2018) in the coming years, with a deficit of below 2% of GDP from 2020. This strong fiscal position is one of the factors that continues to explain the appetite for sovereign bonds, which is why the Peruvian credit rating has not been downgraded. The current account deficit in the balance of payments, on the other hand, will remain limited, consistent with a high trade surplus.

Key Points (III)

- The PEN has shown moderate volatility on the foreign exchange market so far this year, despite external noise. We predict that local currency will strengthen further going forward, buoyed by a favorable interest rate differential between the sol and the dollar, the increase in the trade surplus and the influx of capital linked to mining investment. However, episodes of exchange rate volatility cannot be ruled out due to trade tensions and, approaching the third quarter of next year, as a result of the launch of the campaign for the 2021 presidential elections. These episodes aside, we estimate that the exchange rate at the end of this year and for next year will range between 3.25 and 3.30 sol/USD.

- On the monetary policy front, the Central Bank recently issued a more *dovish* message, significantly curbing (which is rare) its growth forecast for 2019 and indicating a downward skew in inflation to under 2% (due to the risks of weakness in domestic demand). At BBVA Research we believe that although the slowdown in the economy is mainly explained by transitory factors that have affected the extractive sectors, weak activity, foreign uncertainty and local political noise have had a negative impact on business confidence. In this environment, non-mining investment remains weak and formal job creation is experiencing a slowdown. Therefore, the risk of a slowdown in private spending cannot be ruled out.

- In an environment free of inflationary pressure, we predict that in the short term the Central Bank will apply a preventive interest rate cut from 2.75% to 2.50% as part of its monetary policy. Looking ahead, greater monetary stimulus will depend on the economic information that emerges.

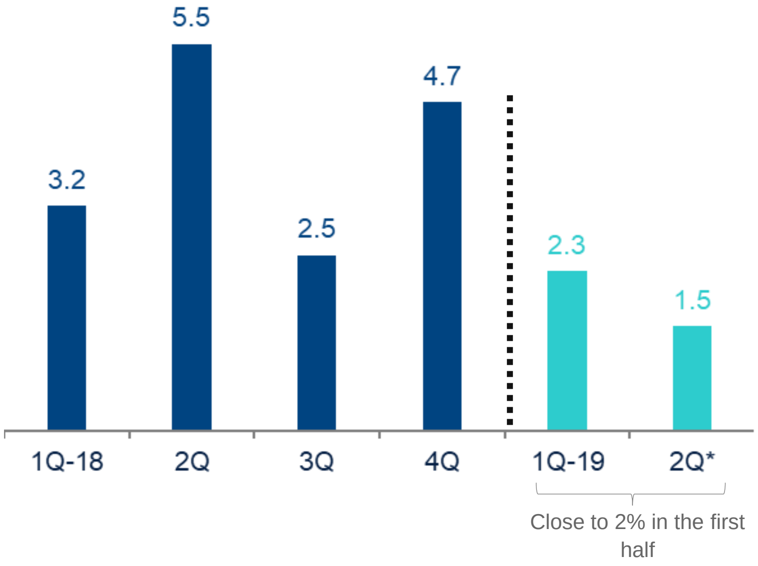
01

Economic activity: first half of 2019

Weak growth in Q2 due to transitory factors that affected production in the mining and fishing sectors. Public investment also slowed, particularly at regional government level

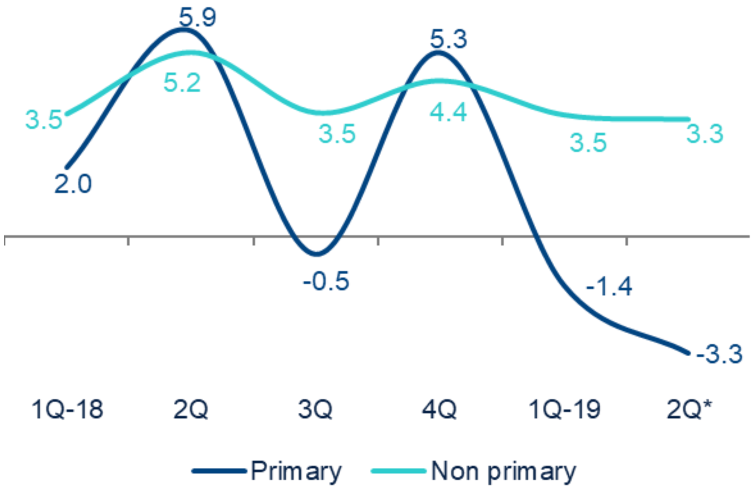
Activity remained weak in the second quarter, resulting in growth for the first half of the year of 2%

GDP
(YOY CHANGE, %)



Close to 2% in the first half

PRIMARY AND NON-PRIMARY GDP
(YOY CHANGE, %)

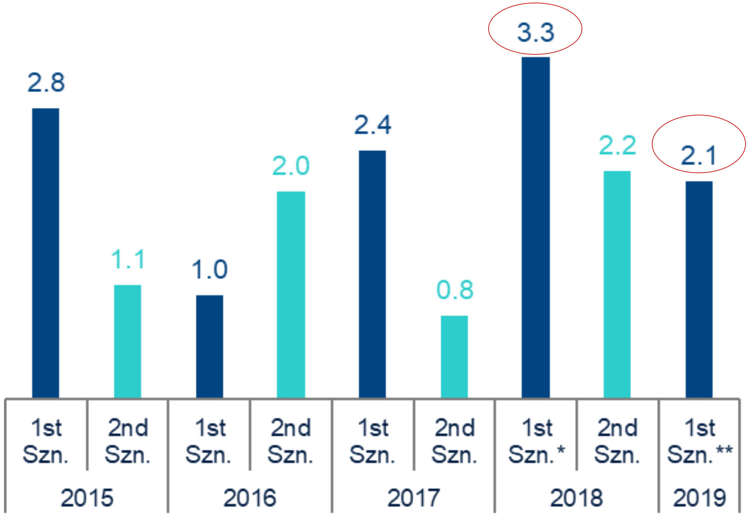


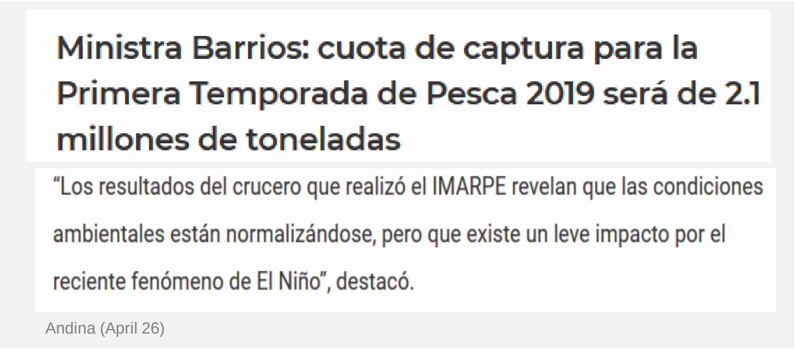
The slowdown in the first half is mainly explained by the contraction in the primary (extractive) sectors

*Estimated
Source: INEI (Peruvian Institute of Statistics and IT) and BBVA Research

Weak growth so far this year: (i) Fishing, due to the lower quota for the first anchovy fishing season (and a late start)

QUOTA ASSIGNED FOR ANCHOVY FISHING
(MILLIONS OF MT)





Ministra Barrios: cuota de captura para la Primera Temporada de Pesca 2019 será de 2.1 millones de toneladas

"Los resultados del crucero que realizó el IMARPE revelan que las condiciones ambientales están normalizándose, pero que existe un leve impacto por el reciente fenómeno de El Niño", destacó.

Andina (April 26)

CONTRIBUTION TO GDP GROWTH H1/19*
(PERCENTAGE POINTS)

-0.4

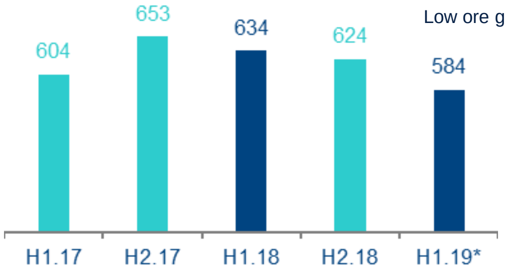
*Includes the direct (fishing) and indirect (industrial processing) impact

*Began at the start of April. Extraction of the full quota assigned finished in June
**Began at the end of April (exploratory fishing). 90% of the quota had been extracted by June
Source: PRODUCE (Ministry of Production), IMARPE (Marine Institute of Peru) and BBVA Research

Weak growth so far this year: (ii) Mining did not recover production levels (low grades, stoppages and social conflicts)

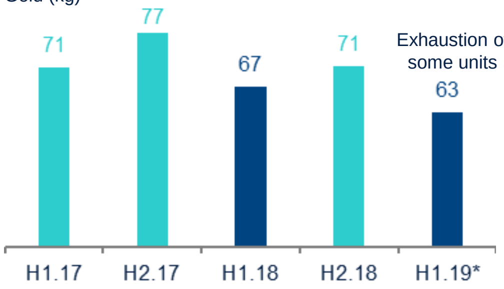
METAL MINING PRODUCTION
(THOUSANDS OF RECOVERABLE UNITS)

Zinc (mt)



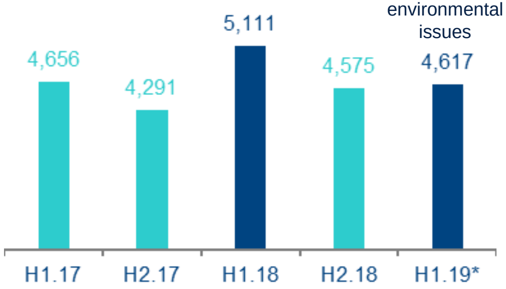
Low ore grades

Gold (kg)



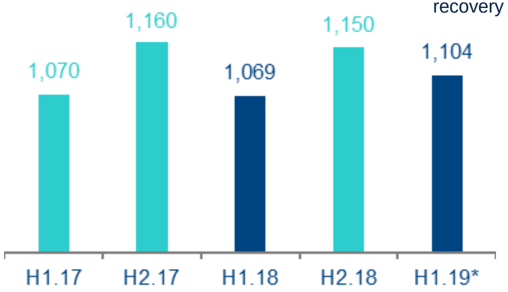
Exhaustion of some units

Iron (mt)



Stoppages due to environmental issues

Copper (mt)



Social conflicts limit recovery

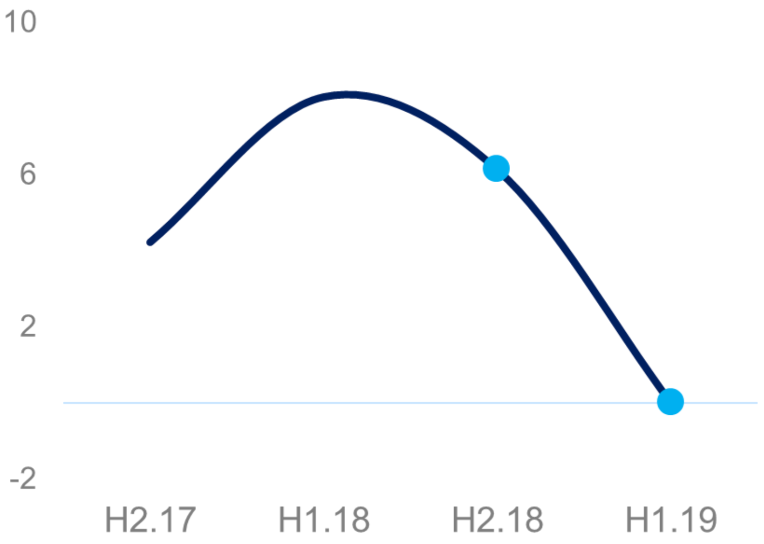
*Estimated
Source: BCRP (Central Reserve Bank of Peru) and BBVA Research

In the first half of the year:

- Zinc production (-8%*) was affected by low mineral grades at a large mining unit
- Gold production (-7%*) declined as a result of the exhaustion (and closure) of some units
- Iron **extraction** (-10%*) contracted after a large mine received an order to halt mineral transport and storage due to evidence of contamination
- Copper production increased (3%)* thanks to a low year-on-year comparison basis. Social conflicts curbed expansion
- We estimate that mining production contracted by 1% in the first half

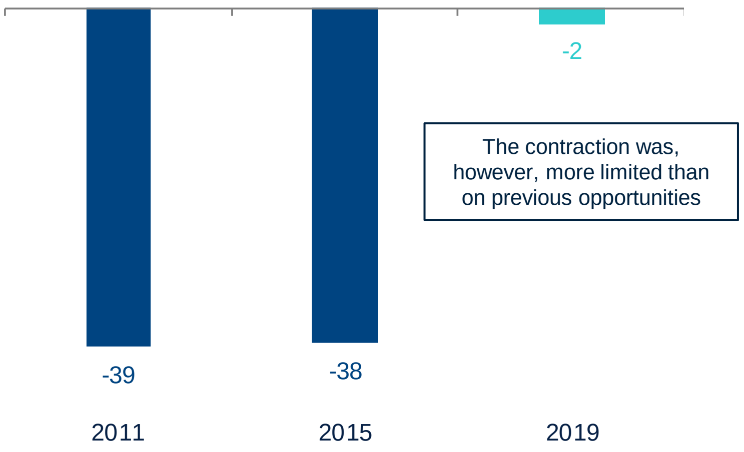
Weak growth so far this year: (iii) Slowdown in public investment, mainly at regional government level

PUBLIC INVESTMENT*
(YOY CHANGE, %)



*General Government plus public enterprises
Source: BCRP, Ministry of Economy and Finance of Peru (MEF) and BBVA Research

REGIONAL GOVERNMENT INVESTMENT*
(ACTUAL, ACCUMULATED IN H1/19, YOY CHANGE, %)



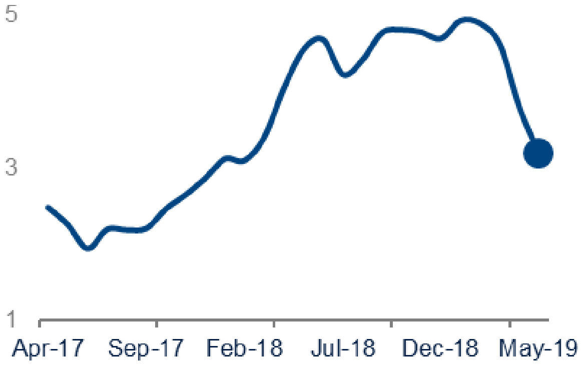
The contraction was, however, more limited than on previous opportunities

Selected years
(first half year under the management of new regional authorities)

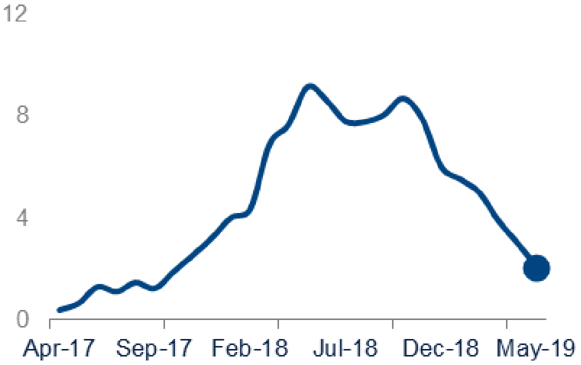
*Gross capital formation of regional and local governments

Household expenditure indicators also eased…

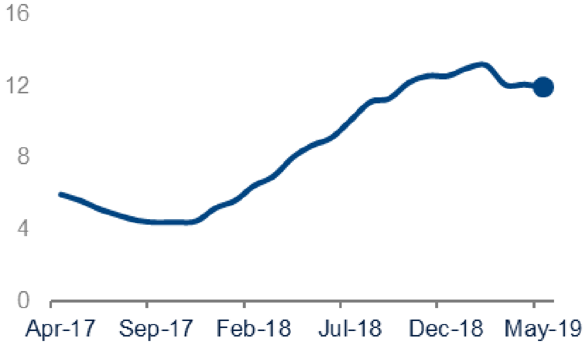
JOBS IN THE FORMAL PRIVATE SECTOR
(3-MONTH ROLLING AVERAGE, YOY CHANGE, %)



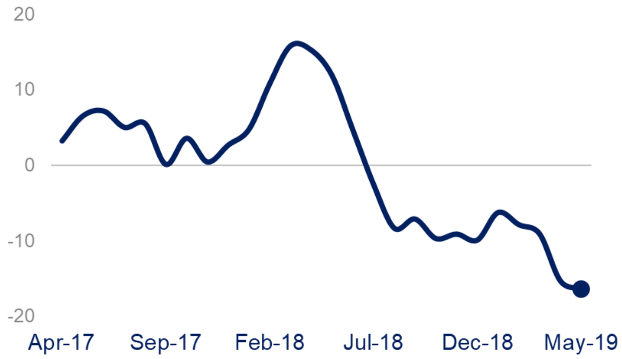
FORMAL SECTOR TOTAL WAGE BILL
(ACTUAL, 3-MONTH ROLLING AVERAGE, YOY CHANGE, %)



CONSUMER CREDIT
(NOMINAL, YOY CHANGE, %)



IMPORTS OF DURABLE CONSUMER GOODS
(VOLUME, 3-MONTH ROLLING AVERAGE, YOY CHANGE, %)

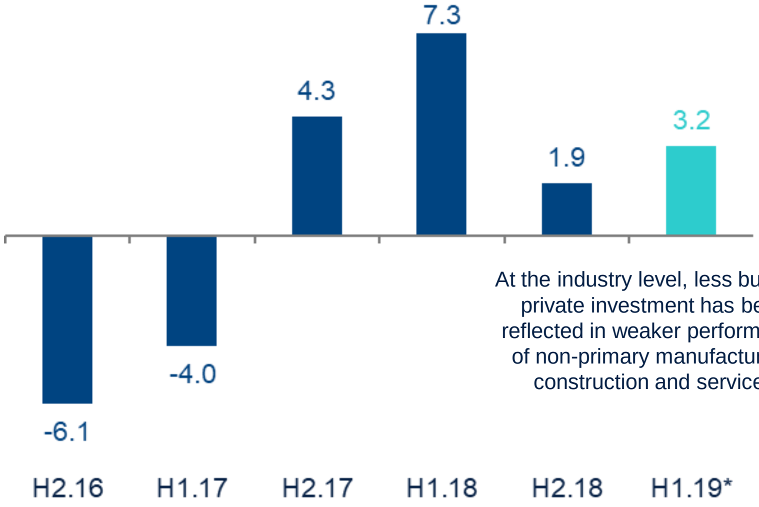


Source: BCRP, SUNAT (Peruvian Superintendency of Customs and Tax Administration), SBS (Peruvian Superintendency of Banking and Insurance) and BBVA Research

… and private investment, particularly non-mining, experienced slow progress

PRIVATE INVESTMENT

(YOY CHANGE, %)

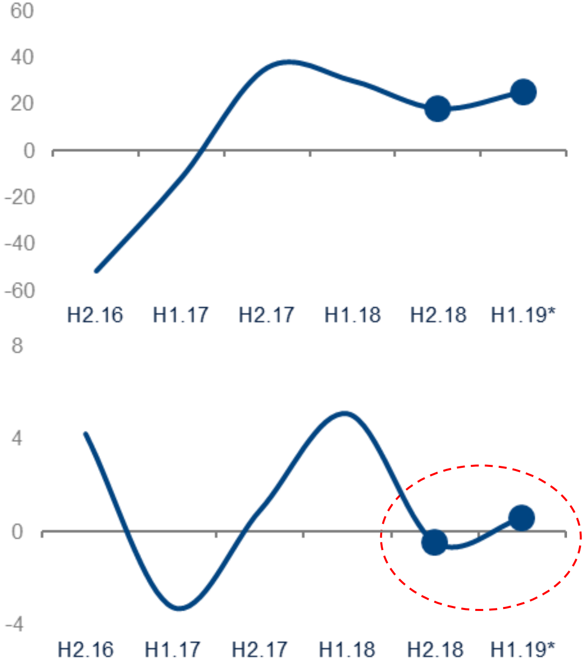


Q1/19: 2.9%
Q2/19*: 3.5%

At the industry level, less buoyant private investment has been reflected in weaker performance of non-primary manufacturing, construction and services

COMPOSITION OF PRIVATE INVESTMENT

(YOY CHANGE, %)



Mining investment

Non-mining investment

Represents more than 85% of total private investment

*Estimated
Source: BCRP and BBVA Research

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What are our predictions for the second half of 2019 and for 2020?

Improved figures due to the reversal of negative elements from the first half, but a more uncertain external environment and recent developments in confidence indices anticipate limited dynamism in private spending

The baseline scenario for the second half of 2019 and for 2020 envisages…

01

Global growth will stabilize at lower levels, amid trade tensions offset by further stimulus measures in the major economies

02

Lower metal prices (export), offset by lower oil prices (import): stable terms of trade

03

Mining production overcomes problems and recovers gradually

04

Improved performance of public investment due to better implementation by regional governments and reconstruction works

05

More cautious business sentiment: assumption that the recent decline in the confidence index is not set to continue and current levels will be maintained

1 Escalating protectionism keeps uncertainty high, even after the recent truce between the USA and China

TRADE WAR INDEX: GOOGLE SEARCHES OF THE TERM "TRADE WAR" (INDEX FROM 0 TO 100)

USA: tariffs on steel and aluminum **China**: tariffs on USD 3 billion in US imports.

USA: tariffs on USD 50 billion in Chinese imports. **China**: tariffs on USD 50 billion in US imports.

USA: 10% tariffs on USD 200 billion in Chinese imports. **China:** 10% tariffs on USD 60 billion in US imports.

Trade truce I

USA: 25% tariffs on USD 200 billion in Chinese imports. **China:** 25% tariffs on USD 60 billion in US imports.

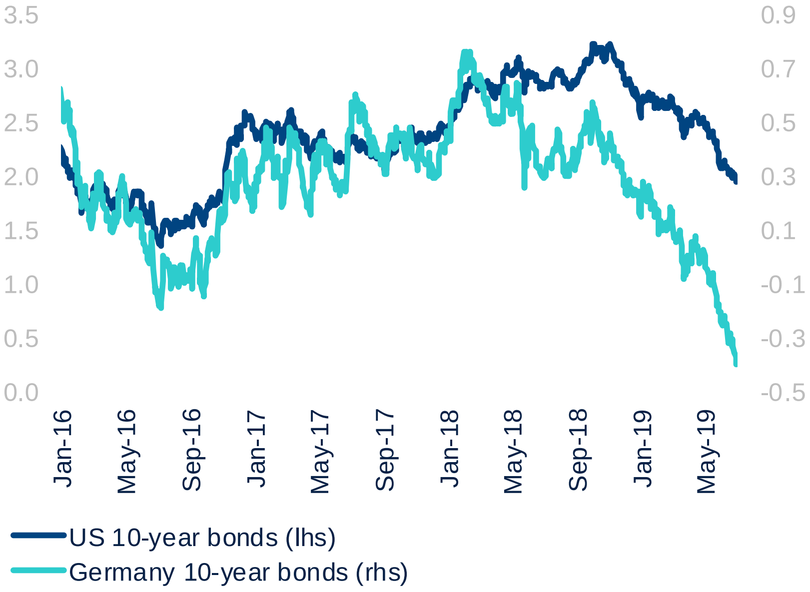
Trade truce II

Source: BBVA Research, Google Trends

1 There is a movement toward safe haven investments on financial markets

SOVEREIGN DEBT YIELDS

(%)

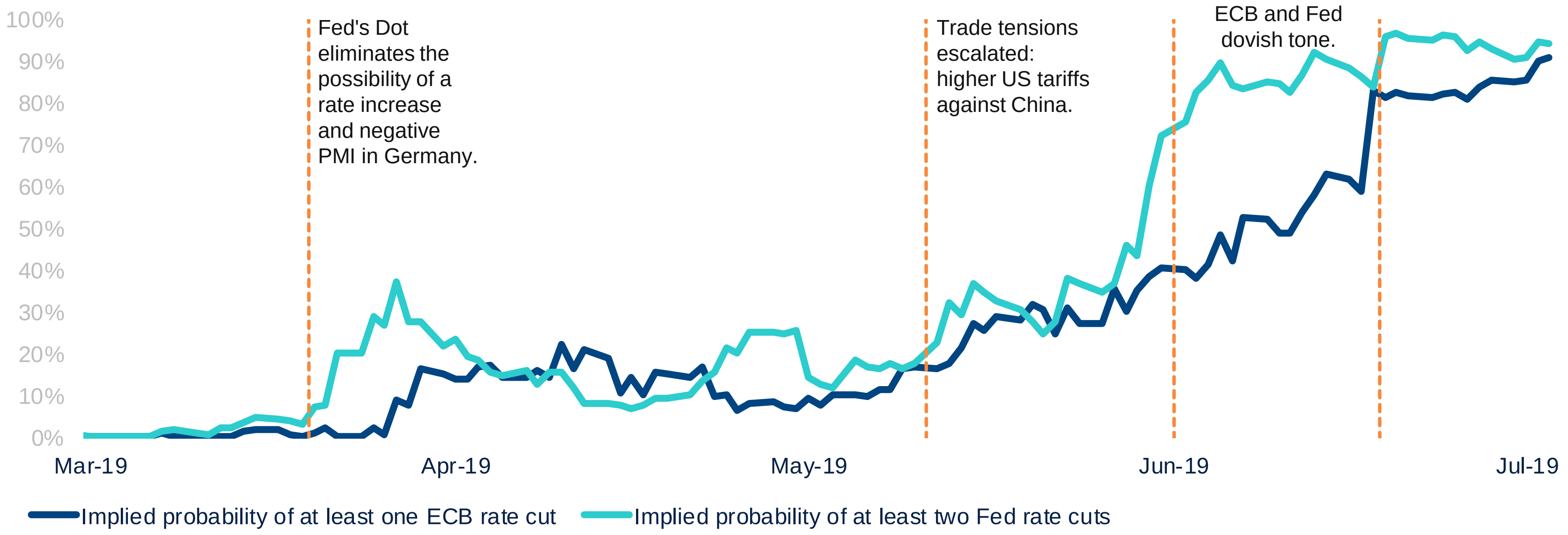


Source: BBVA Research and Bloomberg

- Very low sovereign debt yields due to trade tensions and growth risks
- The shift of the Fed and the ECB prompted a search for profitability and earnings in peripheral markets...
- ...without generating a generalized risk appetite.

1 In an environment of persistent uncertainty and low inflation, central banks change their position and consider additional stimuli

PROBABILITY OF INTEREST RATE CUTS BY THE FED AND THE ECB ACCORDING TO FINANCIAL MARKETS (%)



Source: BBVA Research and Bloomberg

1

Looking ahead, additional expansionary measures are expected to offset the effect of trade tensions

Trade tensions high

- Protectionism has already caused irreversible damage
- The strategic rivalry between the US and China is set to continue
- Uncertainty will continue to weigh on investment decisions

New stimulus measures

- The Fed and the ECB: short-term rate cuts
- China: additional stimuli
- The new measures will keep financial tensions limited
- The drop in the oil price will offer support

1 Global growth continues on a smooth downward path, despite the first-quarter rebound

IMPACT ON GDP LEVEL OF TWO TRADE WAR SCENARIOS IN THE UNITED STATES AND CHINA

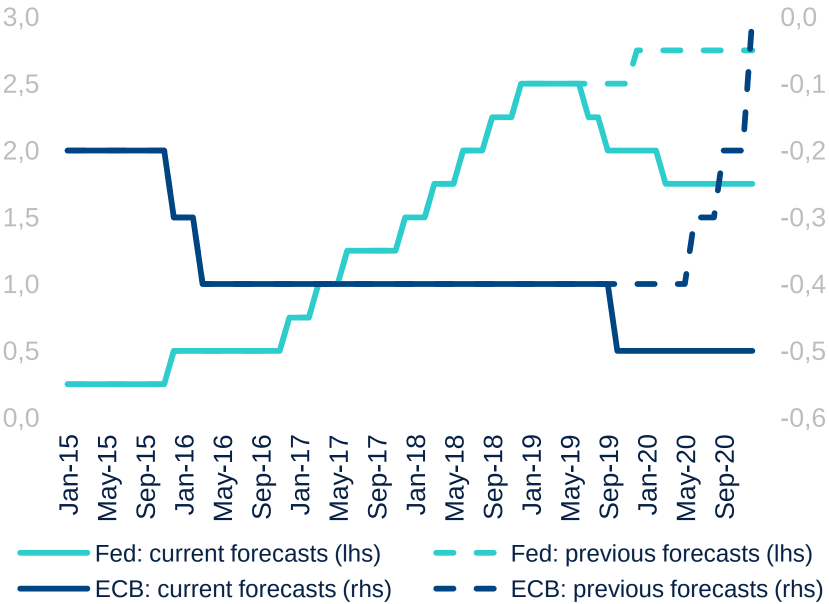
(TWO YEARS, PP)

Scenario 1: Measures approved by the US: 25% tariffs on steel, 10% tariffs on aluminum and 25% tariffs on USD 250 billion in Chinese imports. China's retaliation: 25% tariffs on USD 110 billion in US imports.
Scenario 2: US measures: measures already approved plus 25% tariffs on all Chinese imports. China's retaliation: 25% tariffs on USD 130 billion in US imports.
Source: BBVA Research

- The trade war causes particularly negative effects for China...
- ... however the US and other countries will also be affected
- Data shows that trade tensions are already reducing growth

1 The counter-cyclical effort will continue to be led by the central banks

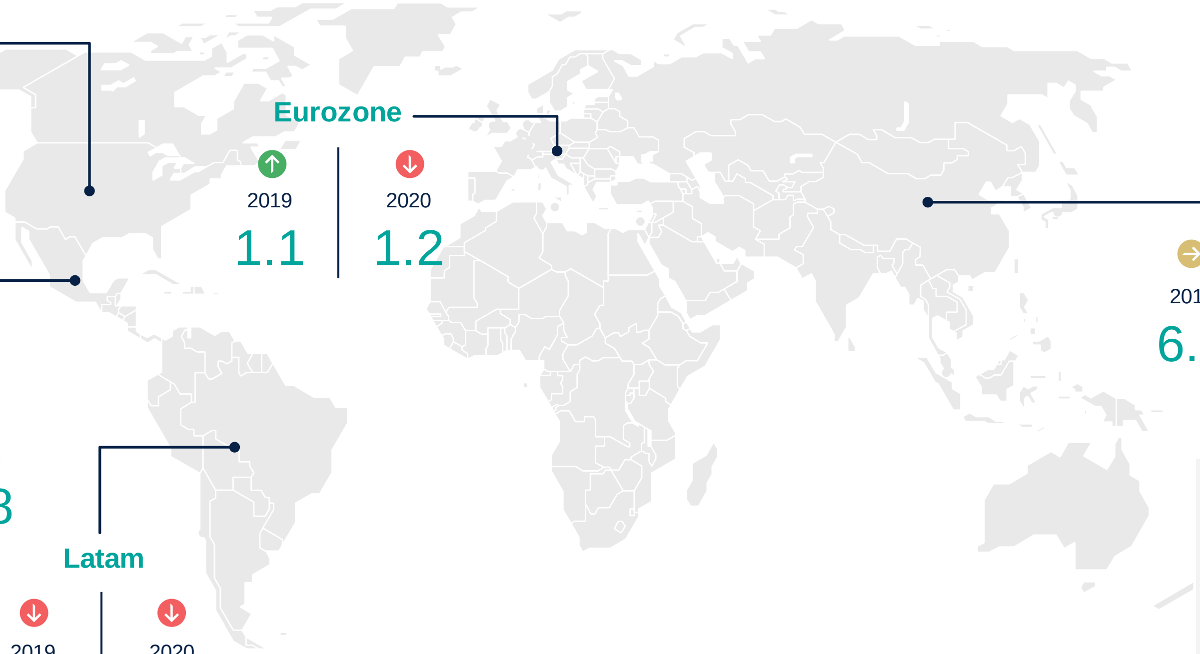
FED AND ECB: INTEREST RATES
(%, END OF PERIOD)



(*) Deposit interest rates in the case of the ECB.
Source: BBVA Research

- The risks to growth and low inflation create a margin for lower rates for longer periods
- Fed: cuts of up to 75 bps.
- ECB, new measures expected:
  - 10 bps cut from deposit rates in Q3/19
  - Staggered deposit system
  - Strengthened *forward guidance*
- In China, fiscal policy will also play a role in the effort to sustain growth

1 Global growth will stabilize at relatively lower levels



	2019	2020
US	→ 2.5	→ 2.0
Eurozone	↑ 1.1	↓ 1.2
China	→ 6.0	→ 5.8
Mexico	↓ 0.7	↓ 1.8
Latam	↓ 1.0	↓ 2.2
World	↓ 3.3	↓ 3.3

↑ Up

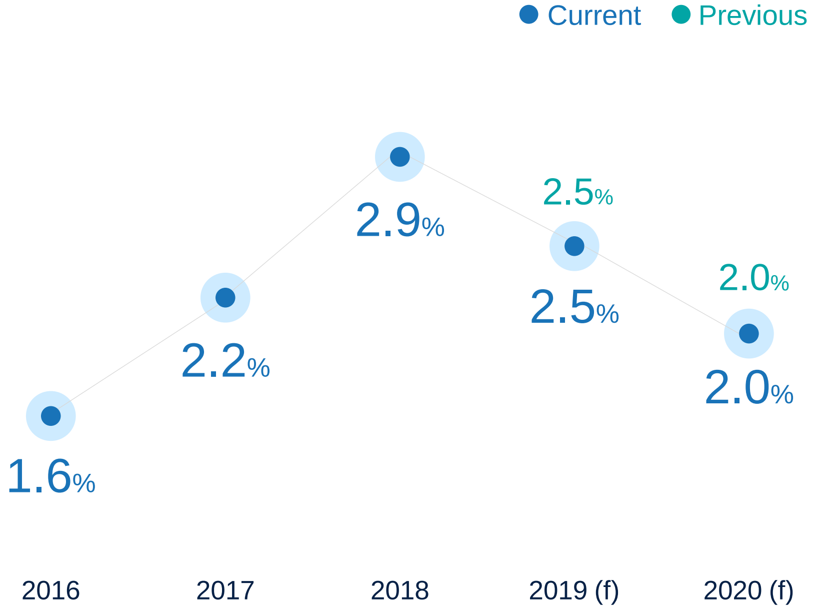
→ Unchanged

↓ Down

Source: BBVA Research

1 USA: growth will slow, with greater support than expected from the Fed

GDP GROWTH
(%)

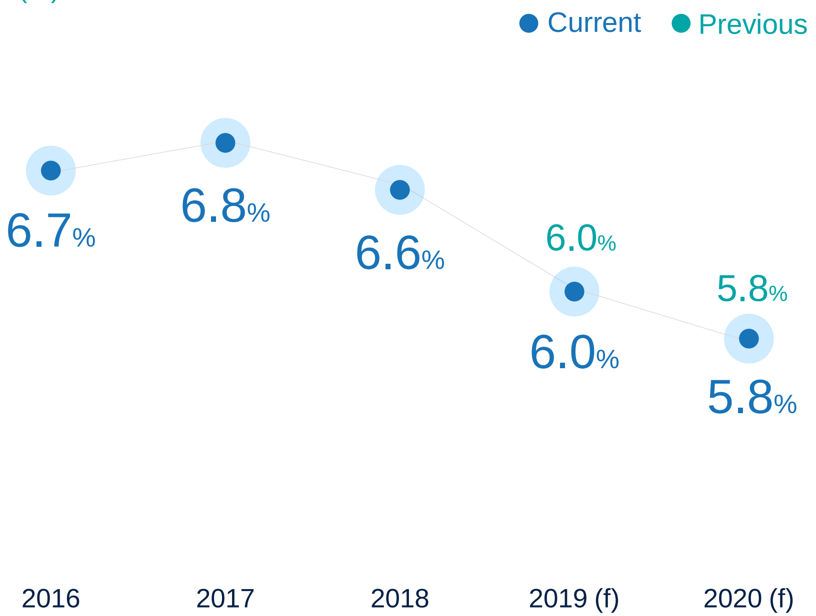


(f) Forecasts.
Source: BBVA Research

- GDP growth will approach potential growth
- Core **inflation** will remain below the 2% target
- The likelihood of **recession** remains high, skewing **risks** downward

1 China: additional stimulus measures to counter the effects of trade tensions

GDP GROWTH
(%)

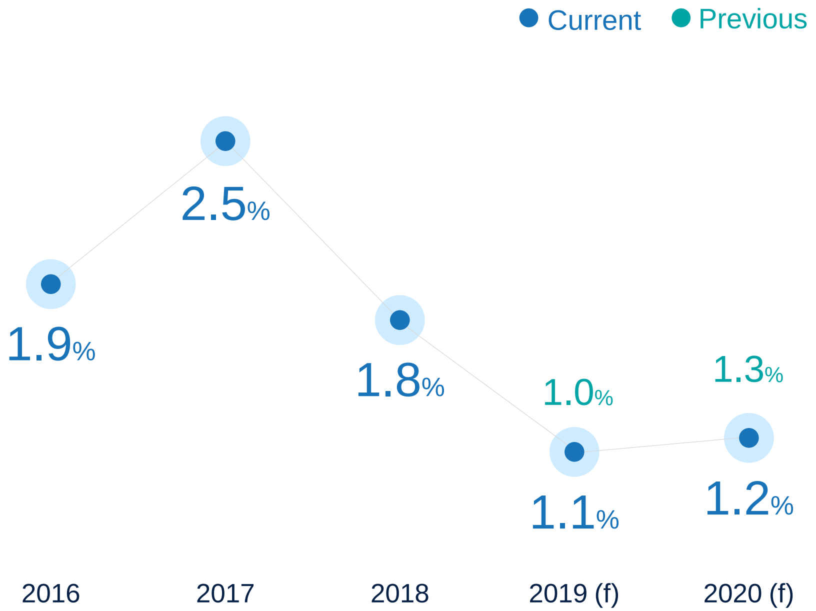


(f) Forecasts.
Source: BBVA Research

- Additional stimulus measures:
  - Debt issuance by regional governments
  - Focused monetary stimulus
  - Increased public deficit
- Better prospects for consumption than for exports and investment
- Risks: sudden slowdown, disorderly deleveraging and trade war

1 Eurozone: more modest growth going forward due to industry weakness and uncertainty

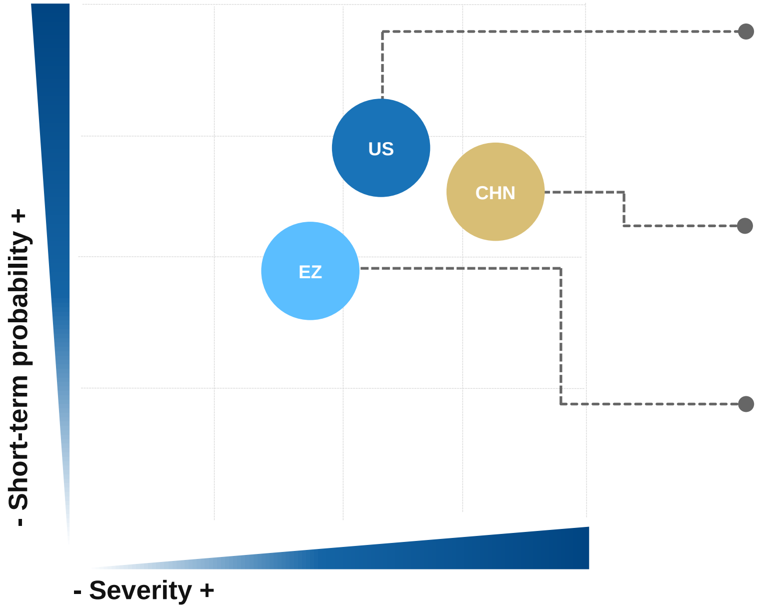
GDP GROWTH
(%)



(f) Forecasts.
Source: BBVA Research

- Uncertainty remains high, due to trade issues and Brexit
- Monetary policy will support domestic demand in particular
- A somewhat expansive fiscal policy
- Gradual increase in core inflation

1 Global risks: rising on account of increased protectionism, mainly due to the potential impact on China



- Economic downturn: very high
- Protectionism: higher

- Protectionism: higher
- Disorderly deleveraging: relatively higher

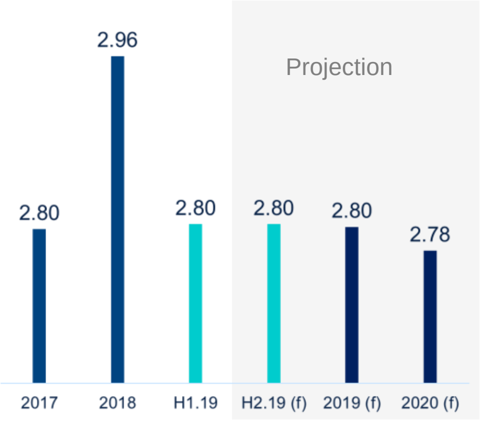
- Growth issues: relatively high
  - *Brexit*
  - Italy
- Protectionism: still limited but growing

Source: BBVA Research

Financial vulnerabilities may increase risk severity

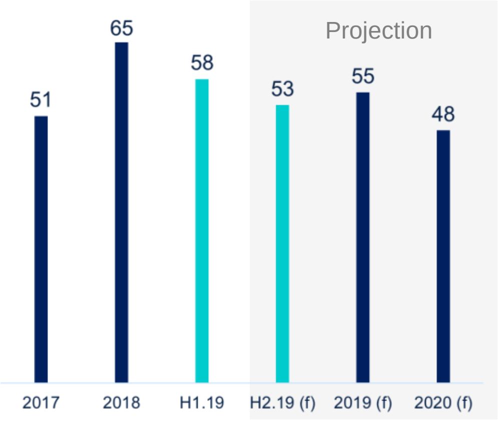
2 Relatively stable terms of trade

COPPER PRICE
(AVERAGE FOR PERIOD, USD/POUND)

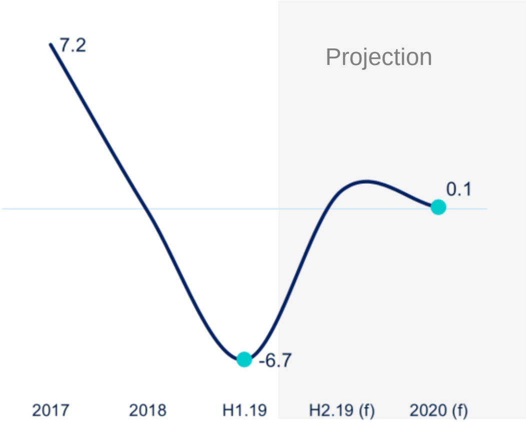


(f) Forecast.
Source: Bloomberg, BCRP and BBVA Research

OIL PRICE
(AVERAGE FOR PERIOD, USD/WTI BARREL)



TERMS OF TRADE
(AVERAGE FOR PERIOD, YOY CHANGE, %)



Copper
The price will recover slightly in the second part of the year in an environment where trade tensions stabilize, together with more expansive monetary policies, a weaker dollar and short-term copper supply constraints. During 2020, the price will trend downward against a backdrop of moderating activity in China

Oil
The oil price will tend to moderate due to the slowdown in global growth. Lower demand will be partially offset by reduced supply (OPEC commitment)

Terms of trade
Slight improvement going forward due to the lower oil price

In summary: the impact of external factors on the Peruvian economy for the remainder of 2019 and for 2020:

External environment

Local impact

Global GDP

↓ **Moderation of global growth and uncertainty** →

- GDP (external demand and private investment) ↓
- Risk premiums (interest rates) ↑
- Metal prices ↓
- Exchange rate ↑

Monetary policy

EUROPEAN CENTRAL BANK
EUROSYSTEM

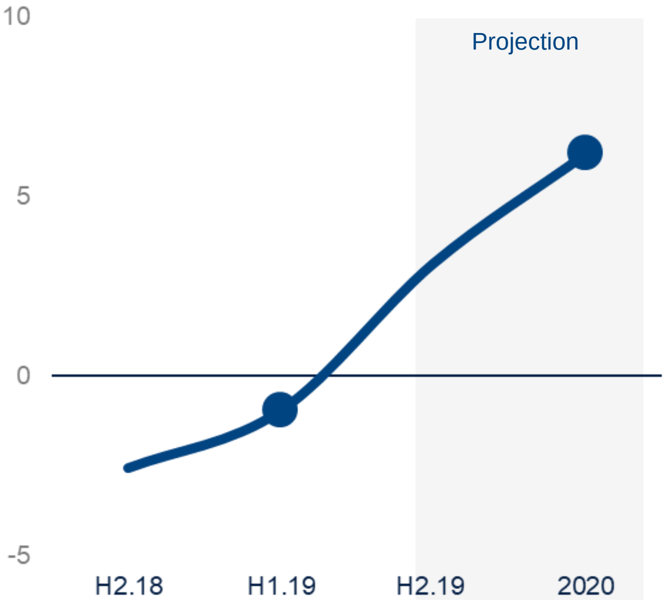
↑ **In this environment, more active central banks, increasing monetary stimuli** →

- GDP (private investment) ↑
- Interest rates ↓
- Exchange rate ↓

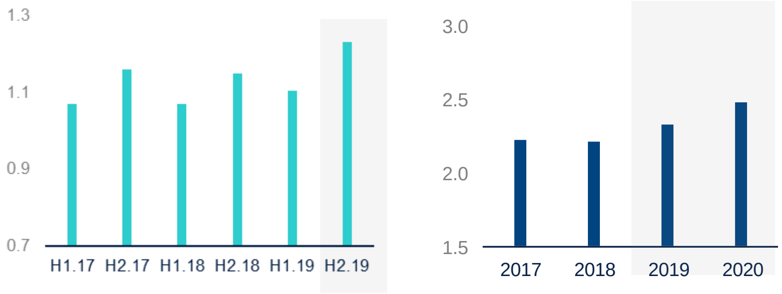
Source: BBVA Research

3 Mining production overcomes problems and recovers gradually

MINING PRODUCTION
(YOY CHANGE, %)



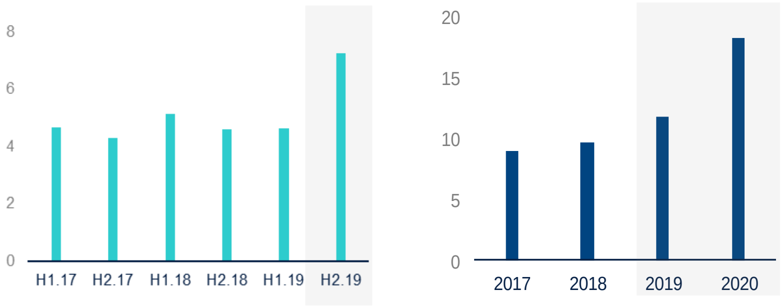
COPPER PRODUCTION
(MILLIONS OF MT)



From the second half of 2019:

- Normalization of copper production
- Expansion of Toquepala will reach maximum capacity

IRON PRODUCTION
(MILLIONS OF MT)



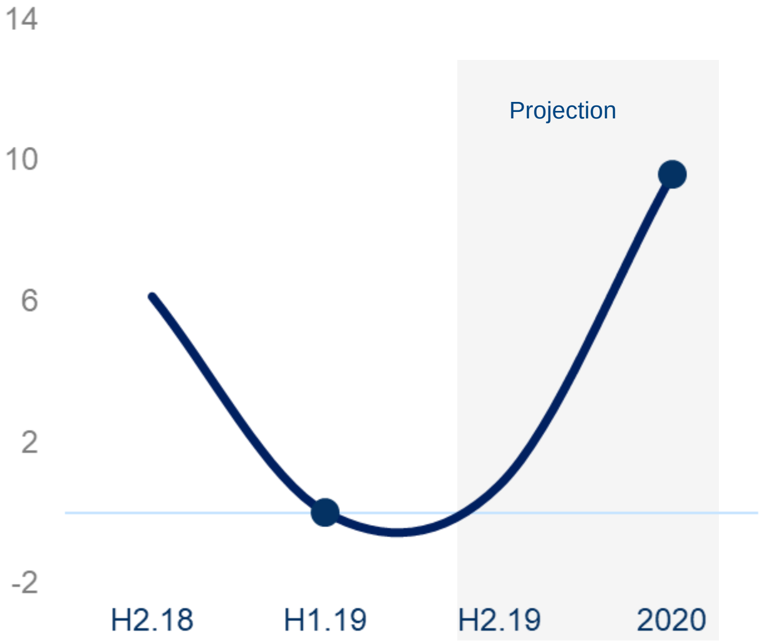
From the second half of 2019:

- Iron production normalizes
- Expansion of the mining unit in Marcona (Shougang)

Source: MINEM (Peruvian Ministry of Energy and Mines) and BBVA Research

4 Improved public investment performance

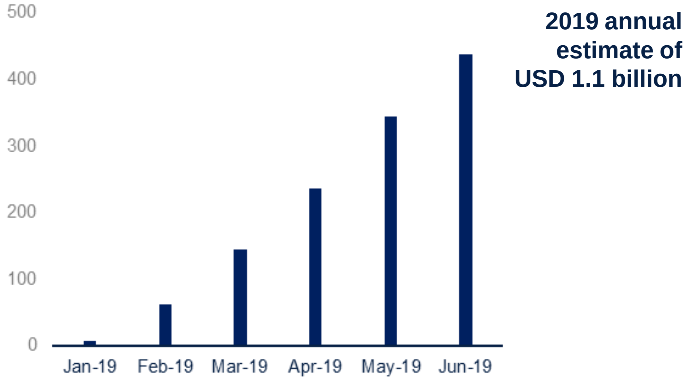
PUBLIC INVESTMENT*
(YOY CHANGE, %)



* Investment by central government and public companies

Source: BCRP, MEF and BBVA Research

EXPENDITURE ON RECONSTRUCTION IN THE NORTH OF THE COUNTRY
(ACCUMULATED, USD MILLIONS)



2019 annual estimate of USD 1.1 billion

From the second half of 2019:

- Regional public investment will improve: the effect of the change in authorities is dissipating
- Accelerated expenditure on reconstruction in the north of the country
- Accelerated expenditure on infrastructure projects (Line 2 of the metro)

5 A more cautious business sentiment: assumption that the recent decline will not continue and current levels will be maintained

BUSINESS CONFIDENCE
(POINTS)

Source: BCRP and BBVA Research

Moderation due to:

- Uncertainty due to the external environment
- Low GDP growth rates
- Local political noise

This scenario will produce a higher growth rate in the second half of the year…

IMPROVEMENT COMPARED TO THE FIRST HALF DUE TO:

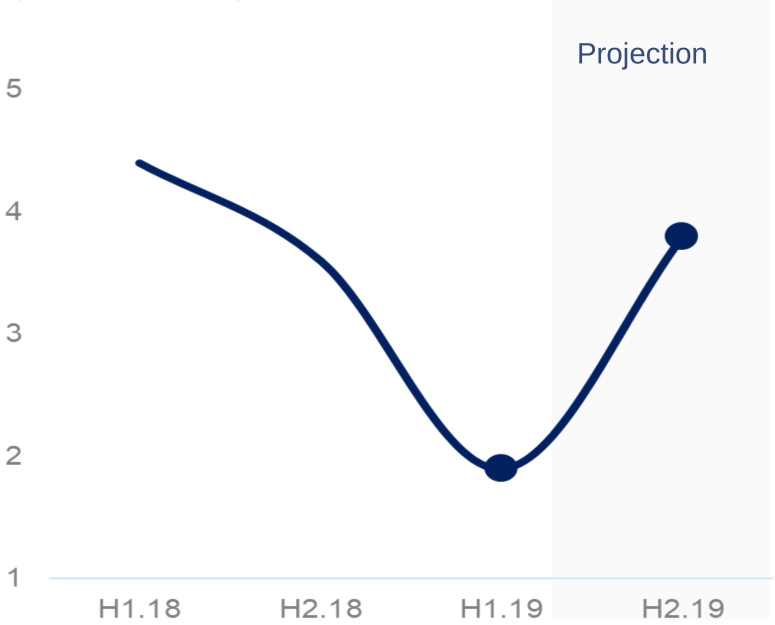
External scenario

- ↓ Slowdown in global growth and increased uncertainty
- ↑ Low interest rates

Local scenario

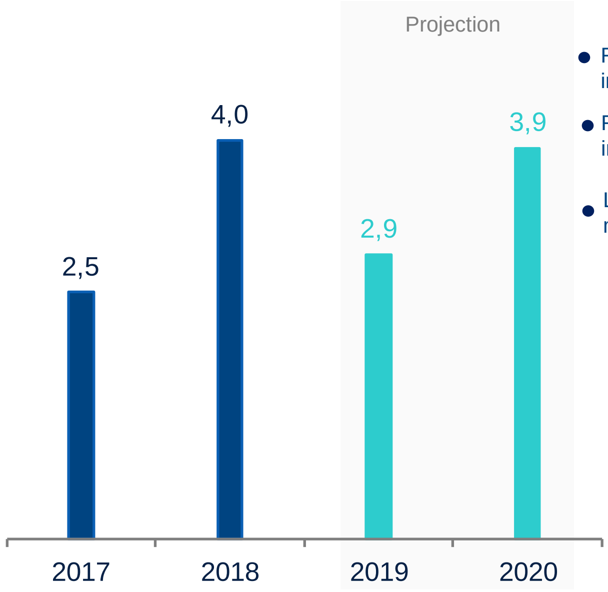
- ↑ Gradual recovery of mining production
- ↑ Improved performance of public investment
- ↓ A more cautious business sentiment

GDP
(YOY CHANGE, %)



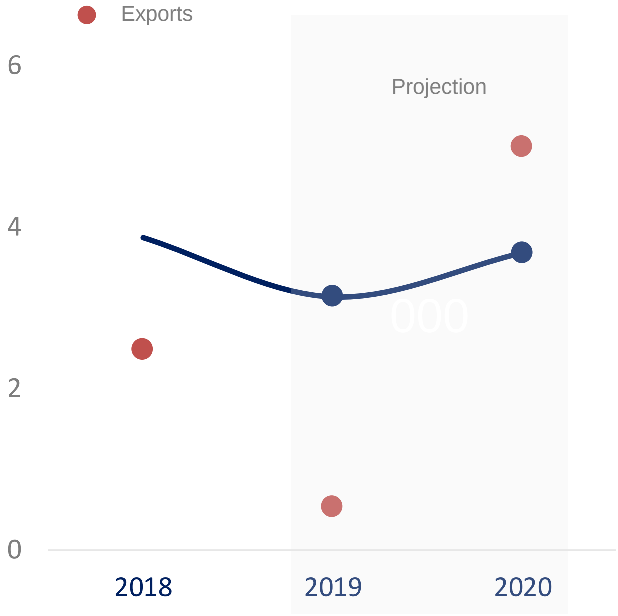
… and for the year, an expansion of 2.9% in 2019 and 3.9% in 2020

GDP
(YOY CHANGE, %)



- Recovery of primary industry
- Reactivation of public investment
- Lower momentum in mining investment

SALES ON THE LOCAL MARKET
(DOMESTIC DEMAND EXCL. INVENTORY BUILD-UP, YOY CHANGE, %)



In 2020, **mining investment momentum will dissipate**. In part, this will be offset by a **recovery in public investment (normalization of regional government spending and infrastructure construction)**

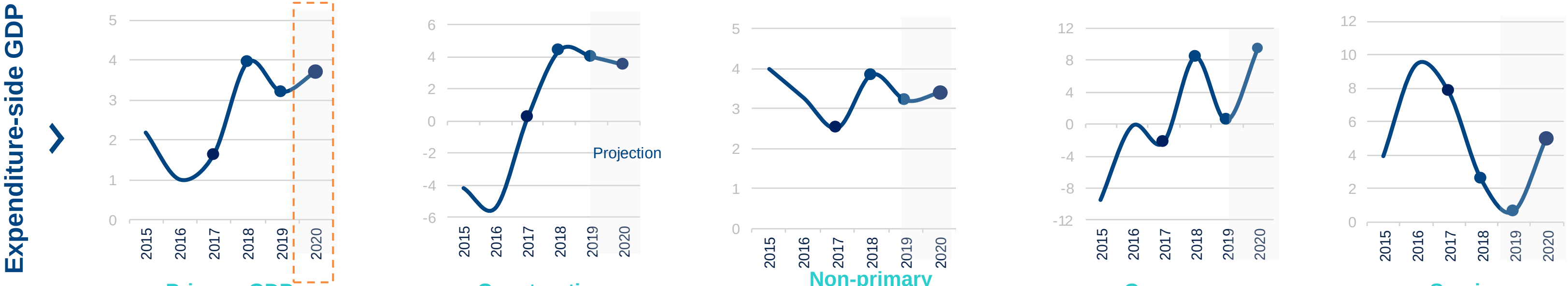
Source: BCRP and BBVA Research

Domestic demand and primary industry will sustain growth in 2020

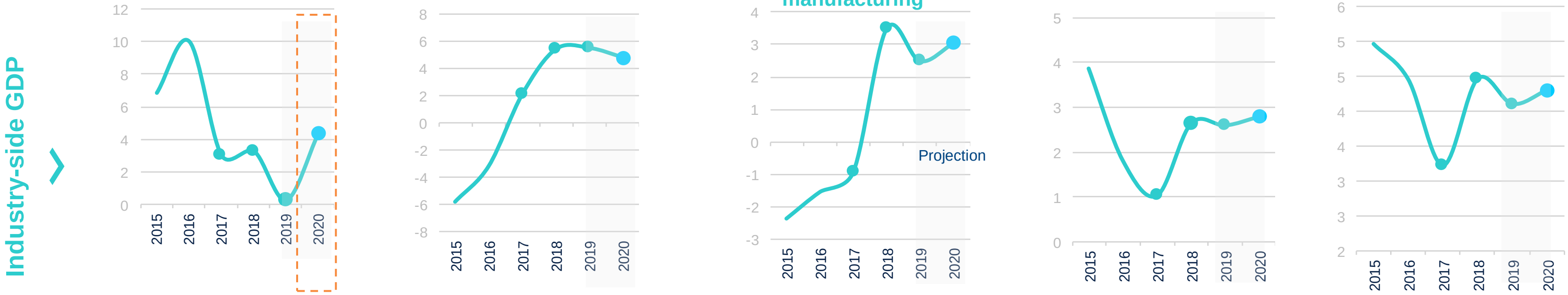
GDP: COMPONENTS SELECTED BY EXPENDITURE SIDE AND BY INDUSTRY SIDE

(IN REAL TERMS, YOY CHANGE, %, 2019 AND 2020 PROJECTIONS)

Sales in the local market* | **Private investment** | **Private consumption** | **Public investment** | **Exports**



Primary GDP | **Construction** | **Non-primary manufacturing** | **Commerce** | **Services**



* Corresponds to domestic demand, but excludes inventory build-up.

Source: BCRP and BBVA Research

Main risks to the forecast baseline scenario

External

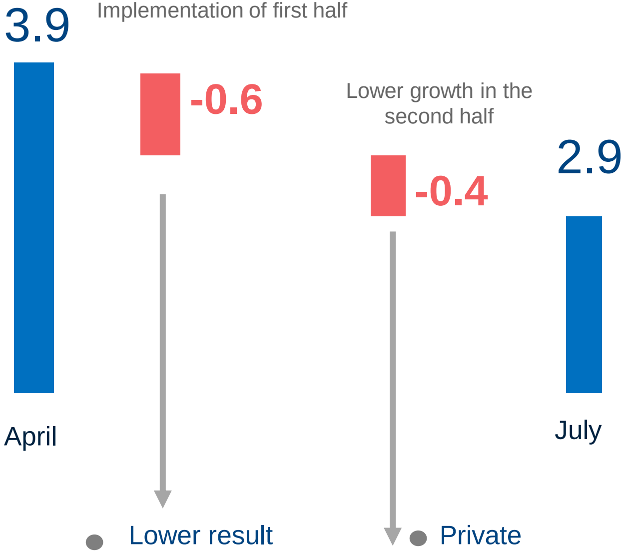
- Escalating trade tensions between the US and China
- US economic downturn
- Disorderly adjustment of Chinese imbalances

Local

- Slower recovery of primary industry (mining and fishing)
- Further weakening of business confidence due to a potential increase in political noise and an escalation of social conflicts, for example
- Less progress than predicted in public investment

Revised growth forecast for 2019 and 2020

2019 GDP (YOY CHANGE, %)

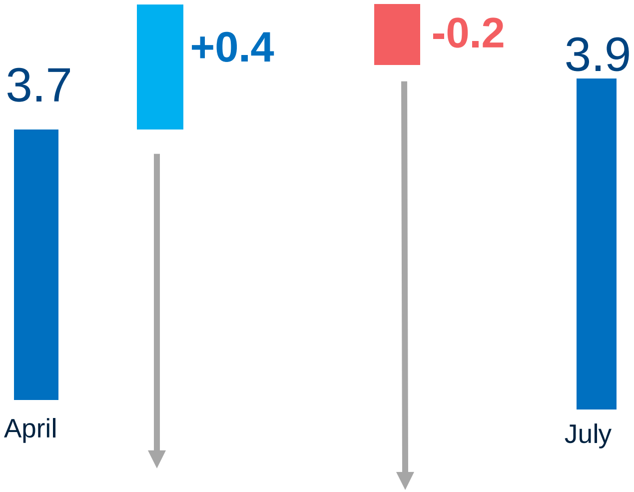


Implementation of first half

Lower growth in the second half

- Lower result from primary industry and private spending
- Private spending and exports

2020 GDP (YOY CHANGE, %)



Primary industry rebound

Reduced private spending momentum

- Mining and fishing recovery
- Particularly non-mining investment

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Source: BCRP and BBVA Research

02

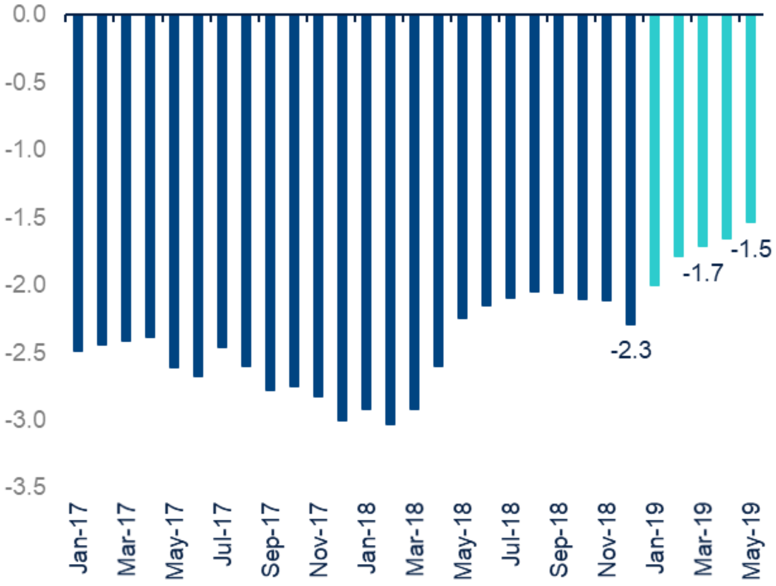
Fiscal and external accounts

Fiscal and external strength are maintained, supporting perceptions about the Peruvian economy

The fiscal deficit reduced as a result of higher tax revenues

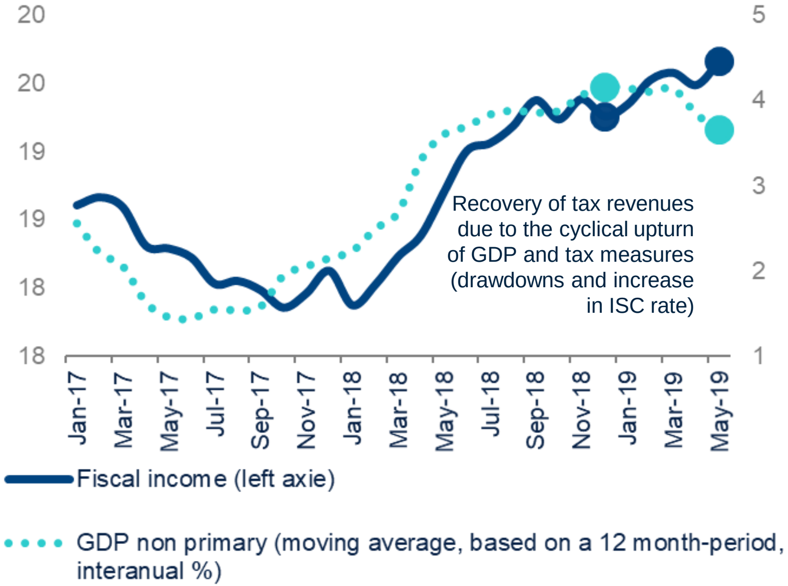
FISCAL RESULT OF THE NON-FINANCE PUBLIC SECTOR

(ACCUMULATED OVER LAST 12 MONTHS, % OF GDP)



TAX REVENUES*

(ACCUMULATED OVER LAST 12 MONTHS, % OF GDP)



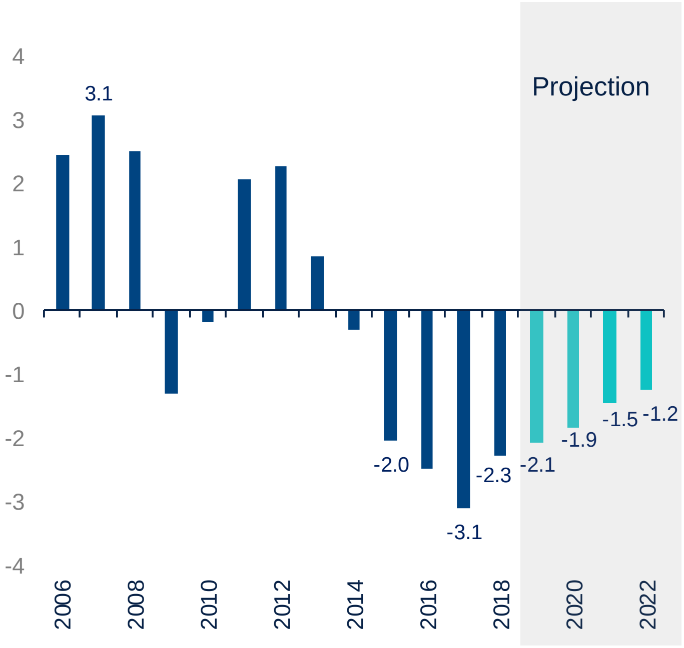
*Central government revenues

Source: BCRP and BBVA Research

We predict a continuation of the fiscal consolidation process that began in 2018, with a deficit of below 2% of GDP from 2020

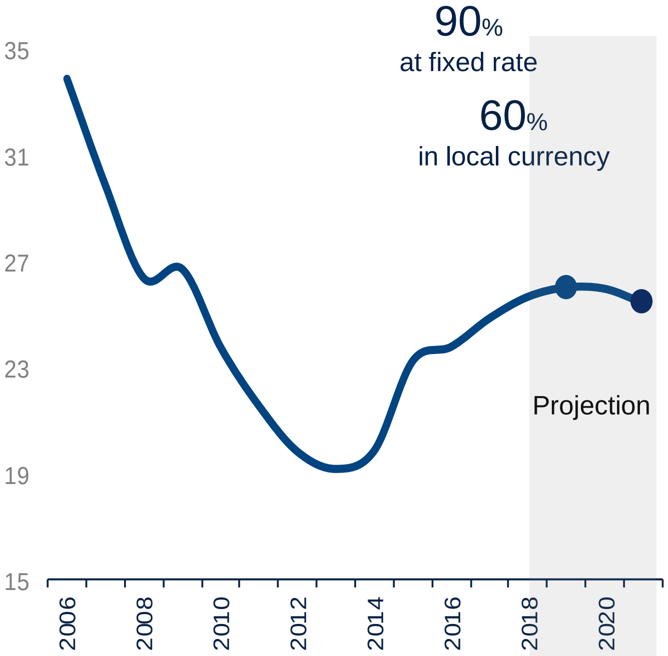
FISCAL BALANCE*

(% OF GDP)



PUBLIC DEBT

(% OF GDP)



*Non-finance public sector.

Source: BCRP and BBVA Research

Strong fiscal position: one of the factors that explains the approval of the credit rating and the recent issue of bonds at low rates

Moody’s approves Peru’s A3 credit rating

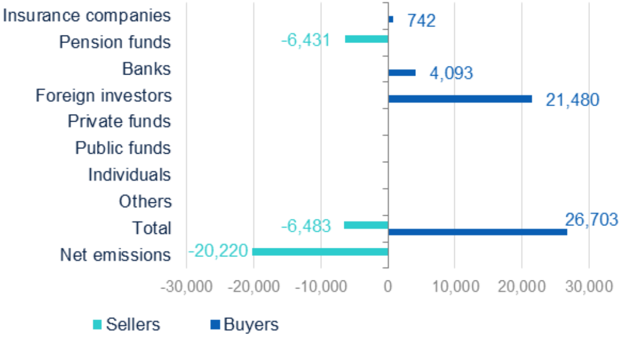
- The agency highlights the Peruvian economy’s strength to resist the recent adverse shocks, the favorable medium-term growth outlook and the responsible handling of the fiscal policy in recent years.
- Peru is the only country in the region with an investment grade that has maintained its credit rating and stable outlook with the three main risk rating agencies.
- In June 2018 and March 2019, Standard and Poor´s and Fitch Rating both kept the Peru rating at BBB + with a stable outlook.

MEF press release (June 25, 2019)

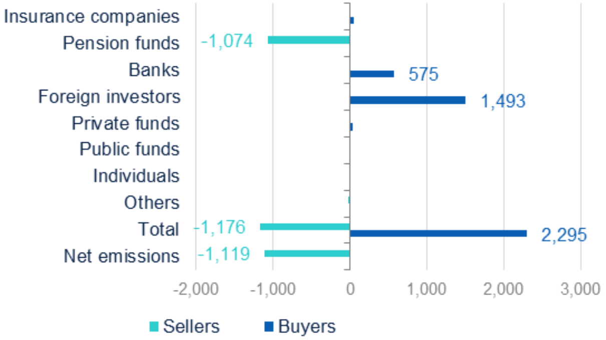
- In June, the Ministry of Economy and Finance ran a successful international bond issue for USD 2.5 billion, with the aim of exchanging and repurchasing global bonds and partially pre-financing the 2020 fiscal year.
- A new sovereign bond was issued (2034) for PEN 5.8 billion (USD 1.75 billion), at a coupon rate of 5.40%, the lowest recorded in PEN by the country in an international issue. Demand exceeded the offer by a factor of 3 to 1.
- A new global bond was also issued (2030), for USD 750 million, at a coupon rate of 2.84%, the lowest recorded in USD by the country in an international issue. Demand exceeded the amount offered by more than five times.

In general, the appetite for sovereign bonds has been maintained

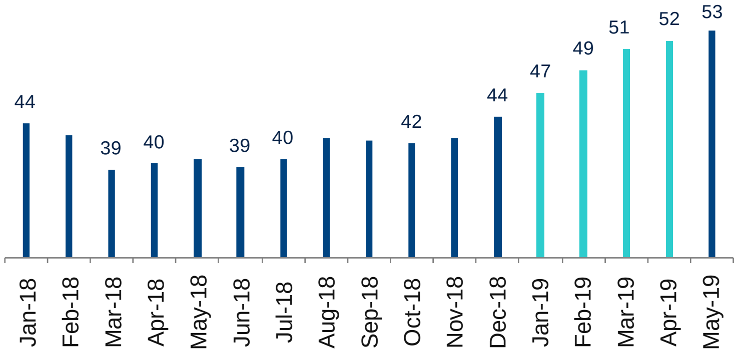
SOVEREIGN BOND SALES AND PURCHASES MAY/18 vs MAY/19 (PEN THOUSANDS)



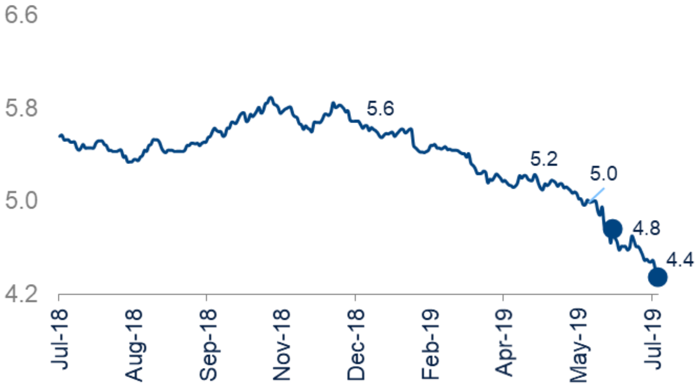
SOVEREIGN BOND SALES AND PURCHASES APR.19 vs MAY.19 (PEN THOUSANDS)



HOLDINGS OF SOVEREIGN BONDS BY FOREIGNERS (%)



2028 SOVEREIGN BOND YIELD (%)

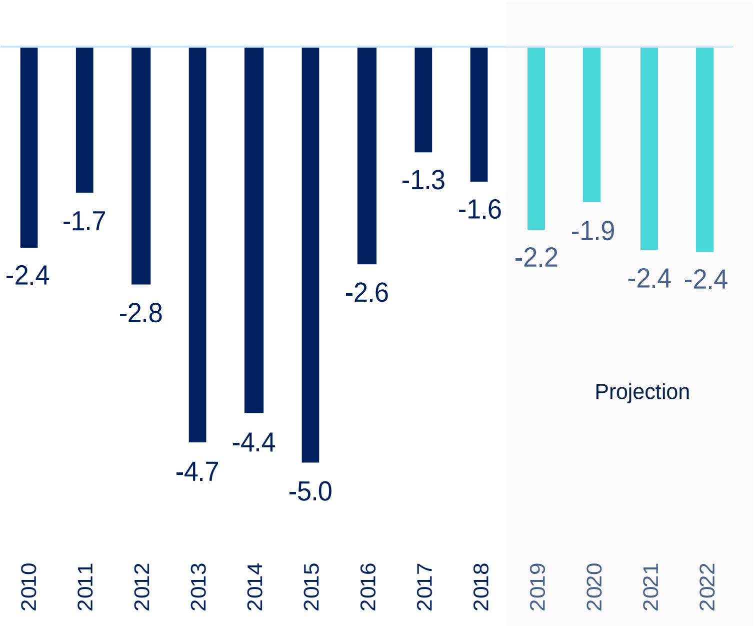


Source: Bloomberg, Global Markets Unit and BBVA Research

External accounts: a limited and sustainable deficit in the balance of payments current account due to trade surplus

BALANCE IN THE BALANCE OF PAYMENTS CURRENT ACCOUNT

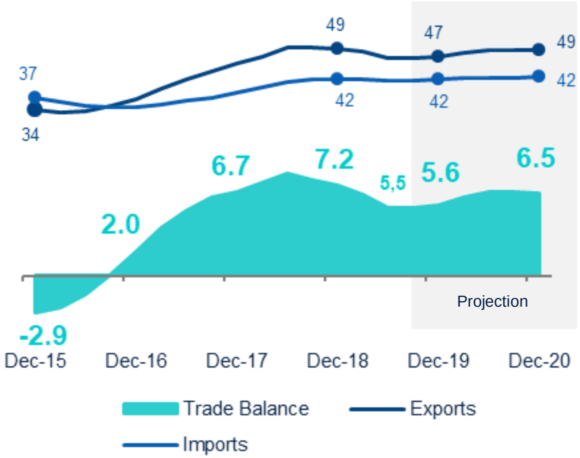
(% OF GDP)



Source: BCRP and BBVA Research

TRADE BALANCE

(USD BILLIONS, ACCUMULATED OVER THE LAST FOUR QUARTERS)



Along the forecast path…

Increased mining production

Drop in the oil price

Drop in metal prices

03

Foreign exchange market

The exchange rate has shown moderate volatility in recent months. We predict that it will be between 3.25 and 3.30 by the end of 2019 and 2020

The PEN has shown moderate volatility so far this year, despite external noise

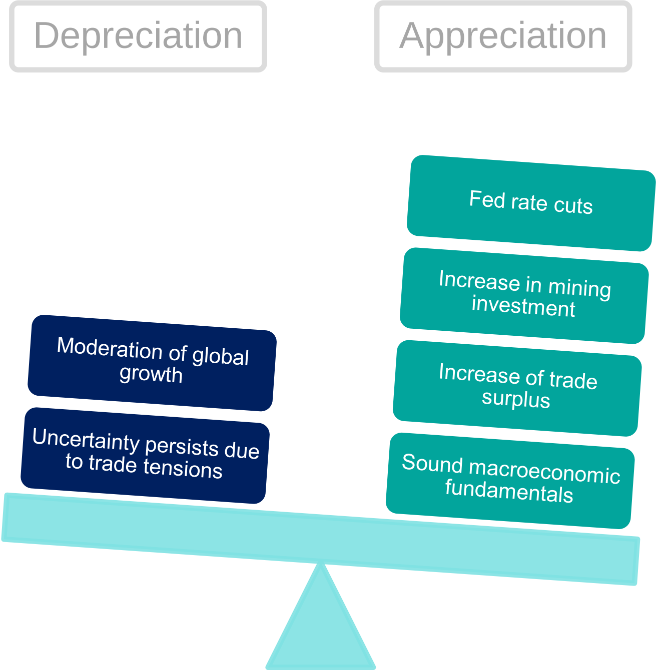
EXCHANGE RATE

(USD/PEN)

Source: Bloomberg and BBVA Research

- Exchange rate volatility due to external factors:
  - Escalation of trade tensions
  - FED more *dovish*
- Capital influxes have impacted favorably on the PEN: appetite for sovereign bonds from non-resident investors due to the relatively favorable fiscal position

Looking ahead, the PEN will appreciate moderately. The exchange rate would be between 3.25 and 3.30 by the end of 2019 and 2020



EXCHANGE RATE
(USD/PEN, MONTHLY AVERAGE)

Source: BCRP and BBVA Research

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04

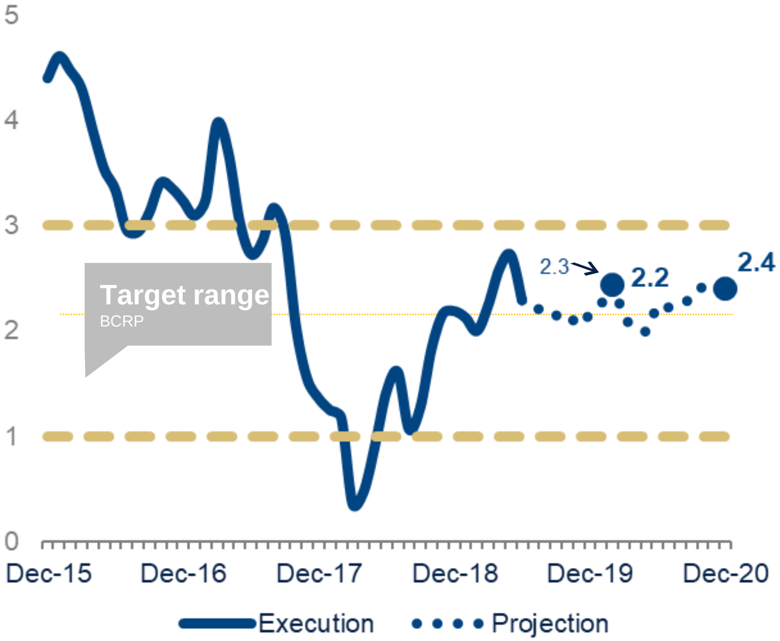
Inflation and monetary policy

In an environment without inflationary pressure, a slowdown in growth and a decline in confidence indicators, we are forecasting a preventive cut of the reference rate in the third quarter

Environment without pressure on prices will be maintained going forward

TOTAL INFLATION

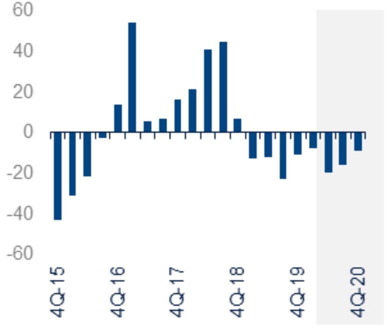
(YOY CHANGE OF CPI, %)



Source: INEI, BCRP and BBVA Research

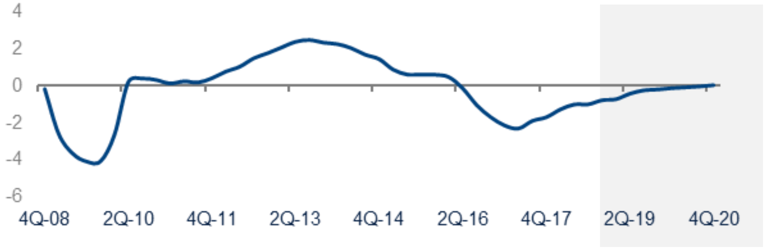
FACTORS THAT WILL INFLUENCE INFLATION

OIL PRICE (YOY CHANGE, %)



EXCHANGE RATE (YOY CHANGE, %)

OUTPUT GAP* (% OF POTENTIAL GDP)

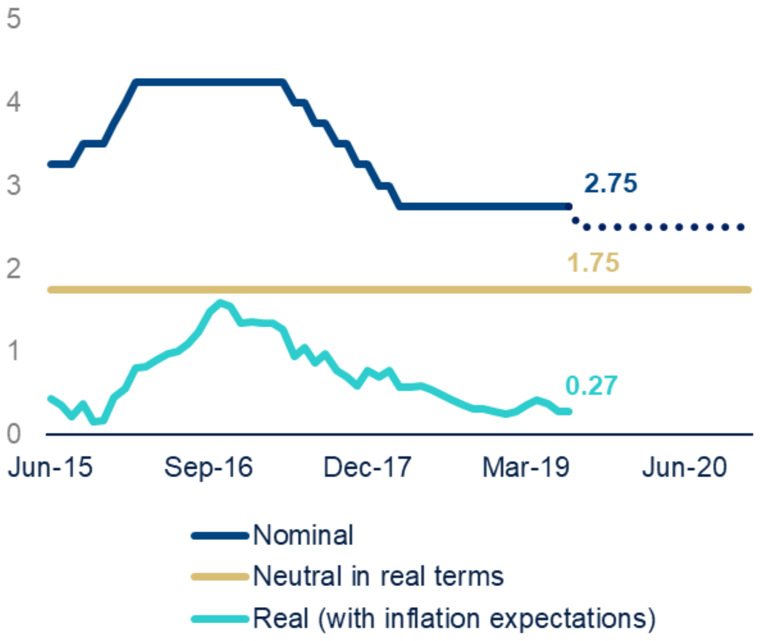


Non-primary GDP*

Preventive rate cut in Q3/19 due to weakening of private spending indicators and limited inflationary pressure

REFERENCE INTEREST RATE

(%)



Source: BCRP and BBVA Research

- Household spending indicators weakened during the first few months of the year
- Business confidence has plummeted. Risk that it will continue falling
- Limited inflationary pressure
- In July, the central bank skewed its forecast for domestic demand and inflation downward, which meant a similar trajectory for the reference interest rate

BBVA Research: baseline scenario is consistent with preventive rate cut (25 bps, at 2.50%) in the third quarter.
Further cuts? Will depend on changes to spending indicators

BBVA Research

06

Summary of macroeconomic projections

Macroeconomic projections

TABLE 1
PERU | MACROECONOMIC PROJECTIONS

	2012	2013	2014	2015	2016	2017	2018	2019 (f)	2020 (f)
GDP (% chge.)	6.0	5.8	2.4	3.3	4.0	2.5	4.0	2.9	3.9
Domestic demand (excludes invent., % chge.)	9.8	6.4	2.4	2.3	1.3	1.7	3.9	3.1	3.7
Private spending (% chge.)	6.5	7.2	2.1	2.3	1.3	1.8	4.5	3.3	3.3
Private consumption (% chge.)	7.4	5.7	3.9	4.0	3.7	2.6	3.8	3.2	3.4
Private investment (% chge.)	15.6	7.1	-2.2	-4.2	-5.4	0.2	4.4	3.9	3.5
Public spending (% chge.)	11.6	8.1	3.1	4.5	0.3	-0.1	3.4	2.2	5.0
Public consumption (% chge.)	8.1	6.7	6.0	9.8	0.3	0.5	2.0	2.9	3.2
Public investment (% chge.)	19.5	11.1	-2.7	-6.9	0.3	-1.8	6.8	0.5	9.6
Exchange rate (vs. USD, eop)	2.57	2.79	2.96	3.38	3.40	3.25	3.37	3.28	3.26
Inflation (YoY %, eop)	2.6	2.9	3.2	4.4	3.2	1.4	2.2	2.2	2.4
Policy Interest rate* (%, eop)	4.25	4.00	3.50	3.75	4.25	3.25	2.75	2.50	2.50
Fiscal Balance (% GDP)	2.3	0.9	-0.3	-1.9	-2.3	-3.0	-2.3	-2.1	-1.9
Balance of payments: current account (% of GDP)	-2.8	-4.7	-4.4	-5.0	-2.6	-1.3	-1.6	-2.2	-1.9
Exports (billions of USD)	47.4	42.9	39.5	34.4	37.1	45.4	49.0	47.2	48.7
Imports (billions of USD)	41.0	42.4	41.0	37.3	35.1	38.7	41.9	41.6	42.1

(f) Forecasts.

Closing date for forecasts: July 15, 2019
Source: BCRP and BBVA Research Peru

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