Peru Economic Outlook

3Q20

Closing date: July 15

July 2020

Creating Opportunities

Key messages (I)

GLOBAL SCENARIO

- The focus of the pandemic has shifted from Asia to the American continent and, despite being at different stages, countries are generally beginning to resume their activities.
- The leading indicators reflect this restart and suggest a rapid economic recovery. However, the published data reveal a less positive picture and indicate that a return to normal activity will take time.
- Economic stimulus and partial recovery of activity have been positively received by markets, a fall in global risk perception.
- In this environment, commodity prices have been recovering.

Key messages (II)

LOCAL SCENARIO

- Isolation measures aimed at containing the spread of the coronavirus have had a strong impact on activity and the labor market. GDP is estimated to fall by about 30% year-on-year in the second quarter.
- With the gradual easing of isolation measures, activity has begun returning to normal. As such, high-frequency indicators show a relative improvement in recent weeks, within the overall context of weak economic activity. If there are no major new outbreaks of the virus, the worst is likely to be behind us.
- In our base scenario, we expect GDP to contract between 18.0% and 12.0% in 2020 and to bounce back between 6.5% and 10.5% next year. This scenario assumes, externally: (i) a partial, broad-based recovery in global growth; (ii) an overall perception that risk is contained from the second half of the year onwards, favoring capital flows to emerging markets; and (iii) that commodity prices will gradually recover.

Key messages (III)

LOCAL SCENARIO

- Locally, the base scenario assumes that there will be no major new outbreaks of the virus that would result in the re-imposition of harsh, widespread and lengthy isolation measures. Further, in our view, we will continue to see supply-side improvements in the economy as activities restart, but for an extended period the ill-effects of the shock will be discernible in private-sector demand (job destruction, capital and revenue losses, regulatory and electoral uncertainty and declining confidence). Fiscal policy will boost the economy more noticeably from the second half of this year (infrastructure maintenance and investment), partially offsetting weak private expenditure.

- Sources of uncertainty that explain the range in the forecast are: (i) epidemiological (associated with COVID-19); (ii) financial (stress, balance sheet deterioration); (iii) socioeconomic (policy effectiveness, social discontent); and (iv) potential growth. However, we believe that GDP growth is most likely to be in the upper half of the range for 2020 and 2021.

Key messages (IV)

LOCAL SCENARIO

- External accounts will remain robust: international liquidity is high and funding sources are available. The exchange rate will be between 3.40 and 3.45 PEN to USD at the end of 2020, buoyed by abundant global liquidity and a significant trade surplus. After the general election in the first half of next year, the Peruvian currency will strengthen a little further.

- Fiscal accounts will be burdened by measures to support families and businesses (both tax and expenditure) and by the contraction in activity itself, increasing the deficit in 2020 to over 9.0% of GDP. In the coming years, a reversion of the temporary higher pandemic expenditure and additional measures to recover tax revenue (combat tax payment non-compliance) will be required to shrink the deficit and stabilize gross public debt (that will close at around 34% of GDP this year and approach 40% thereafter).

- The Central Bank brought the policy rate down to 0.25% in early April (all-time low). We expect the rate to remain at this level at least until the end of 2021. We also anticipate that the Bank will continue to inject liquidity to sustain the payments system and credit in the economy, and to enhance the transmission of monetary impulses.

BBVA Research

Contents

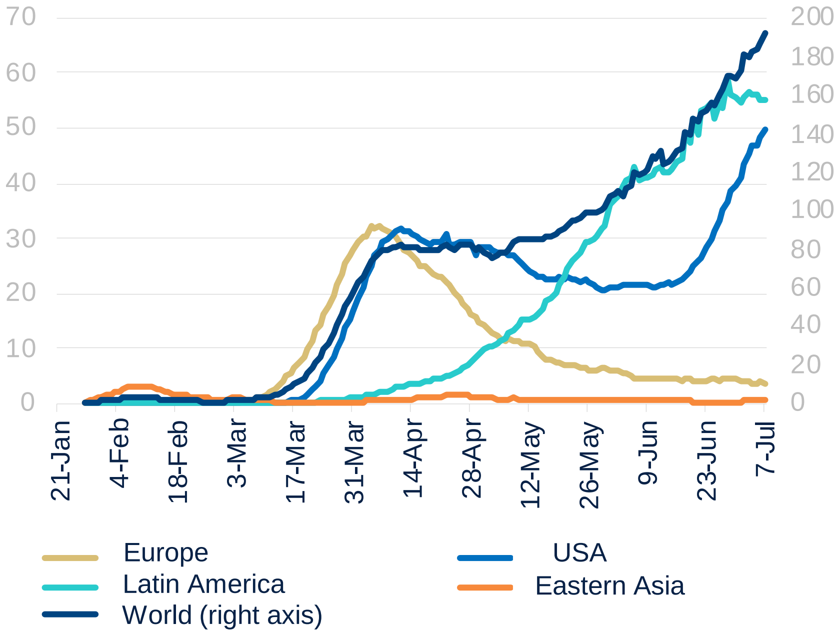
BBVA Research

01

Global COVID-19 situation and its impact on activity and markets

The pandemic continues to advance, particularly in the Americas and South Asia

DAILY CASES OF COVID-19
(THOUSANDS OF PEOPLE, SEVEN-DAY MOVING AVERAGE)



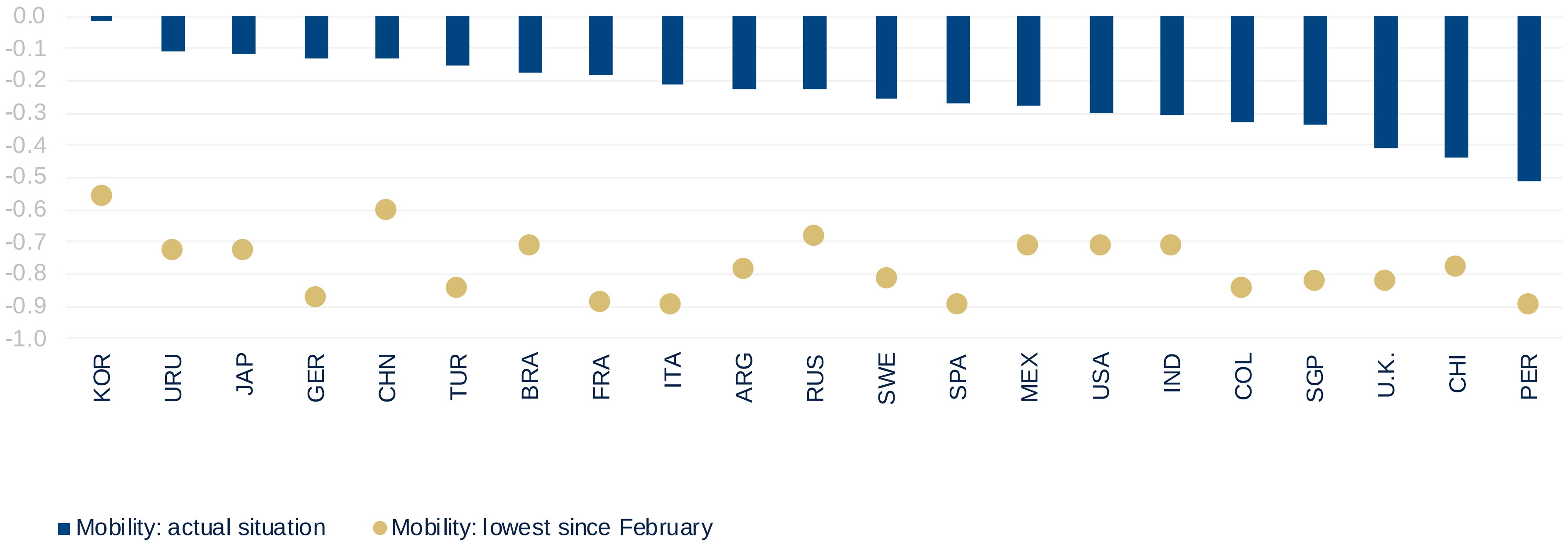
Source: BBVA Research based on data from Johns Hopkins University

- China's pattern (shock and posterior short and immediate lockdown to eradicate the virus), which was thought to be the model for other regions, is not being replicated.
- Europe has significantly limited its number of cases to live with the virus at tolerable levels, but failure to eliminate cases makes a full return to normal for the economy more difficult.
- Other regions (USA, LatAm and India, among others) are at earlier stages and following different strategies.

Despite being at different epidemiological stages, countries are generally beginning to resume their activities

WORKPLACE MOBILITY INDICATOR (*)

(HIGHER VALUES INDICATE GREATER MOBILITY: 0 = PRE-COVID MOBILITY; -1 = TOTAL ABSENCE OF MOBILITY)

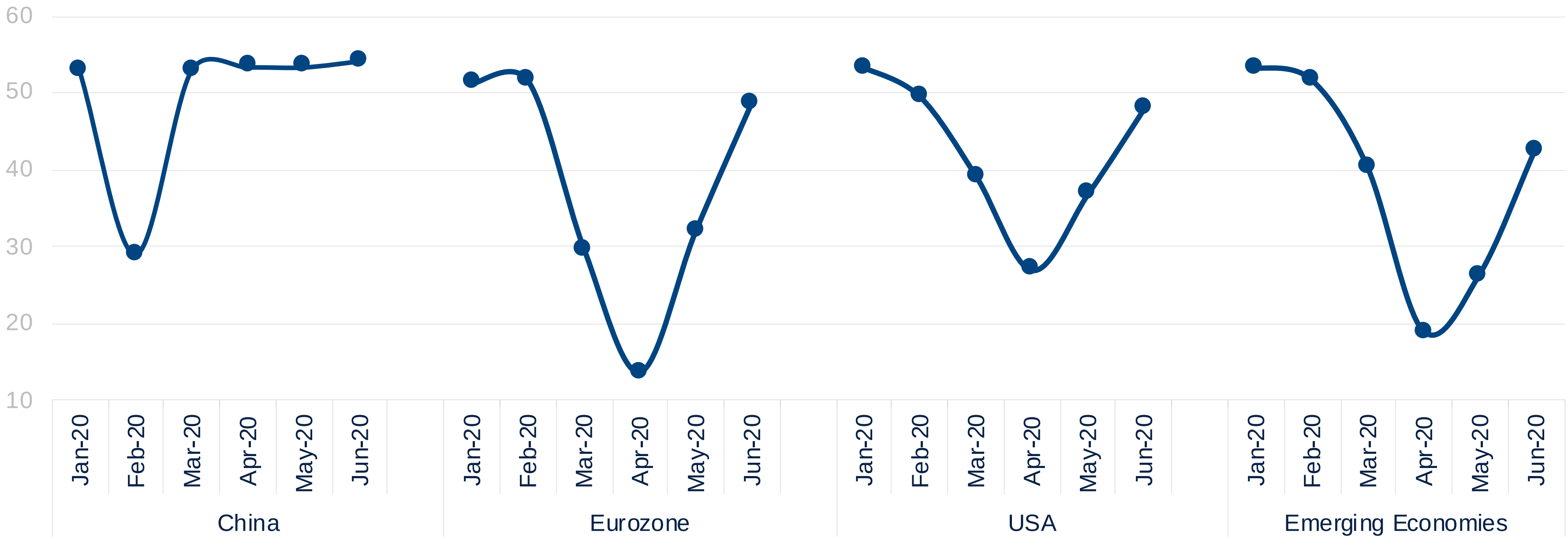


(*) The mobility indicator reflects a trend in mobility over the reference period (January 3 to February 6). Current situation: seven-day average to June 29. Minimum from February: lowest seven-day moving average since the start of February.

Source: BBVA Research based on Google Mobility Reports

The leading indicators reflect this restart and point toward a rapid recovery for economies, but…

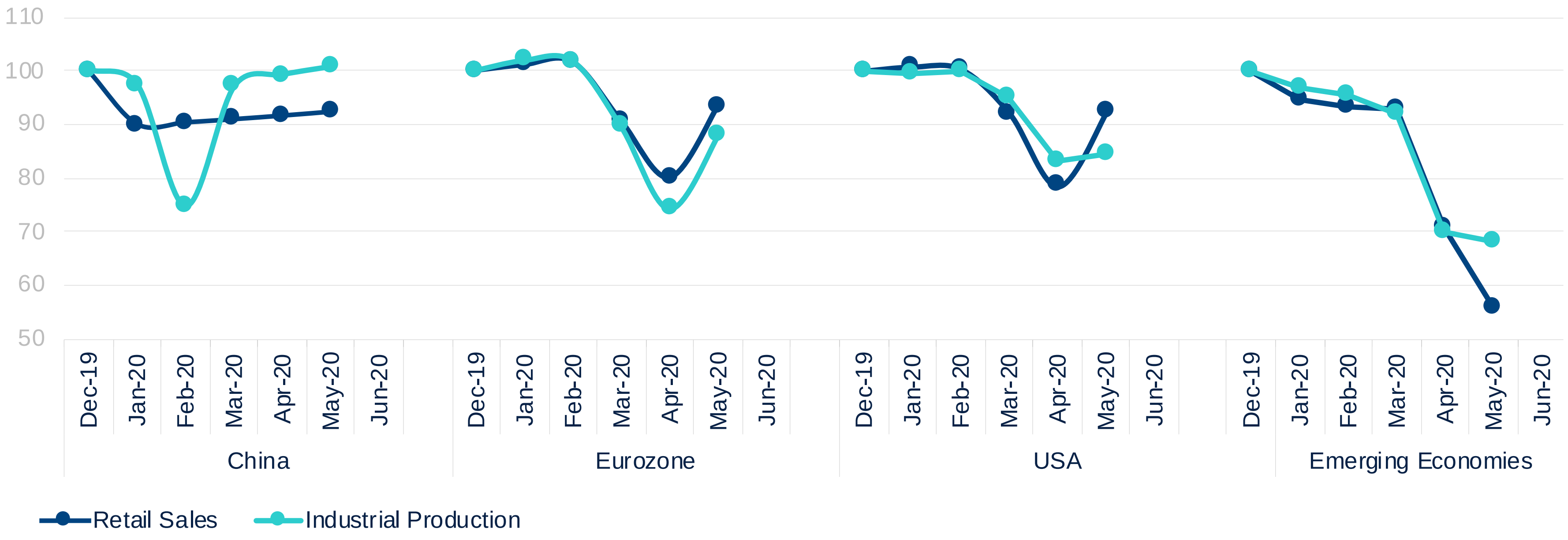
PMI INDICATORS (*)
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



(*) For emerging economies, the data represents the average for Brazil, Russia, Singapore and India.
Source: BBVA Research based on data from Haver.

… the published data reveals a less positive picture and suggests that normalization of activity will take time

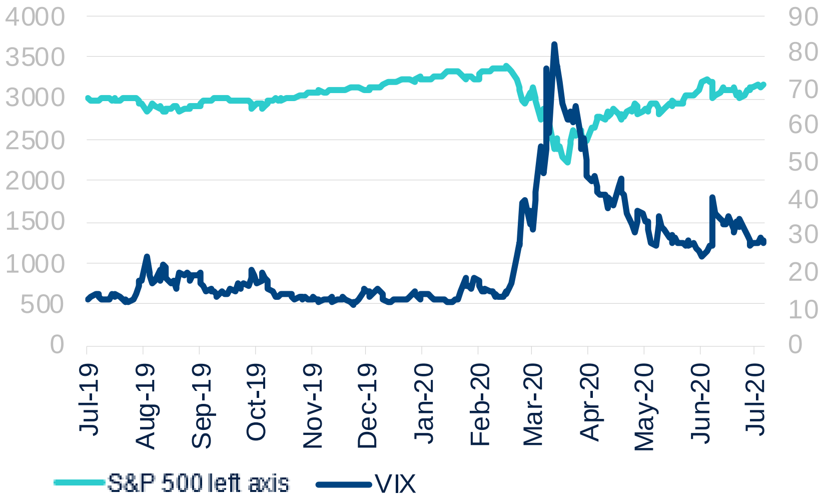
RETAIL SALES AND INDUSTRIAL OUTPUT (*)
(INDICES: DECEMBER/2019 = 100, SEASONALLY ADJUSTED DATA)



(*) In the case of the eurozone, the industrial output data for May represents (weighted) average monthly growth for Germany, Spain, France and Italy. For emerging economies, the data reflects the simple average of the data for Mexico, Brazil, Russia, Singapore and Turkey. In this case, the June data included reflects the partial information available.
Source: BBVA Research based on data from Haver.

Despite the disparate course taken by the pandemic, financial market sentiment is positive due to stimulus and partial recovery of activity

RISK PERCEPTION AND STOCK VALUE
(IN POINTS)



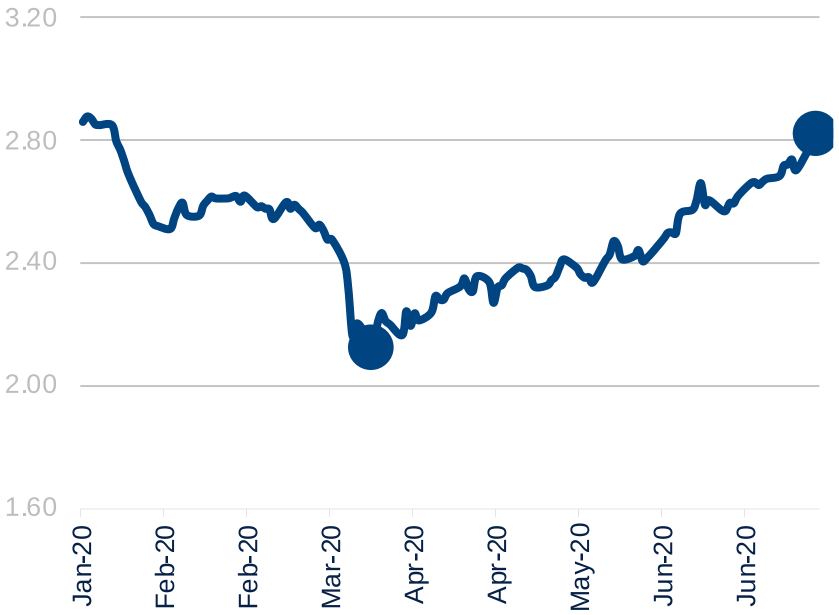
Source: Eikon and BBVA Research

- By the end of 1Q20, strong economic stimulus by the major advanced economies had alleviated financial stress.
- In 2Q20, market stabilization was consolidated:
  - First steps out of lockdown
  - Activity bounce-back
  - Strengthening of fiscal and monetary measures

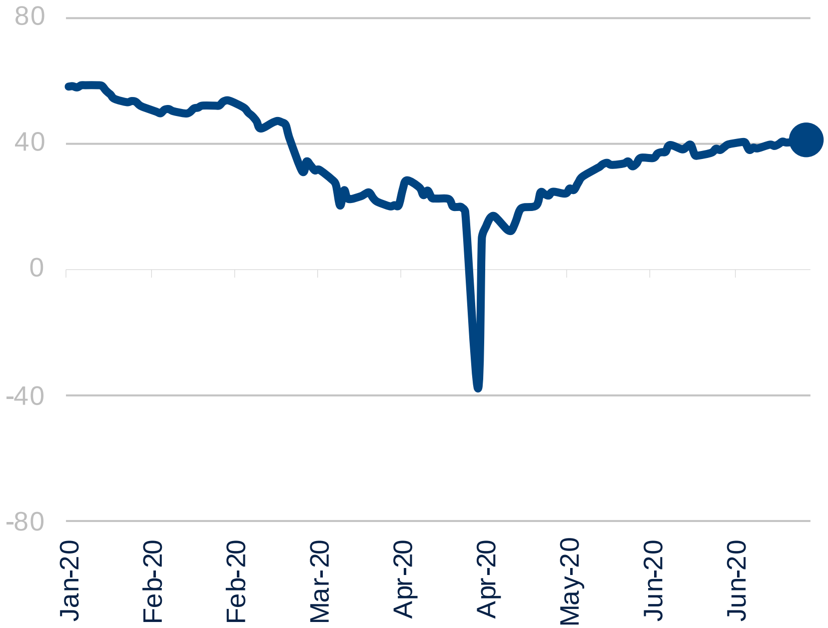
However, recovery faces latent risks as long as a vaccine is not available

In this environment, commodity prices have been recovering

PRICE OF COPPER IN 2020
(USD/LB)



PRICE OF WTI CRUDE IN 2020
(USD PER BARREL)



Source: Eikon and BBVA Research

BBVA Research

02

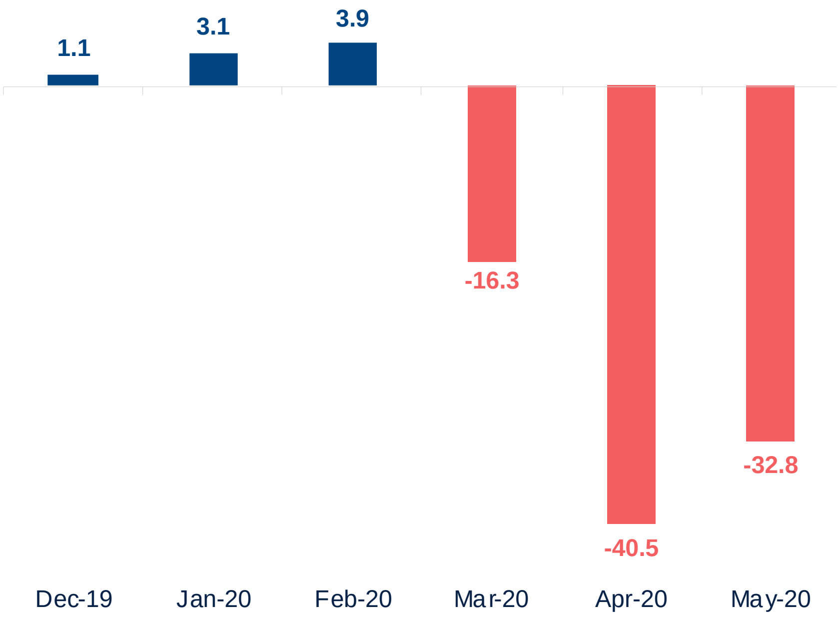
Quarterly review of macroeconomic forecasts

BBVA Research

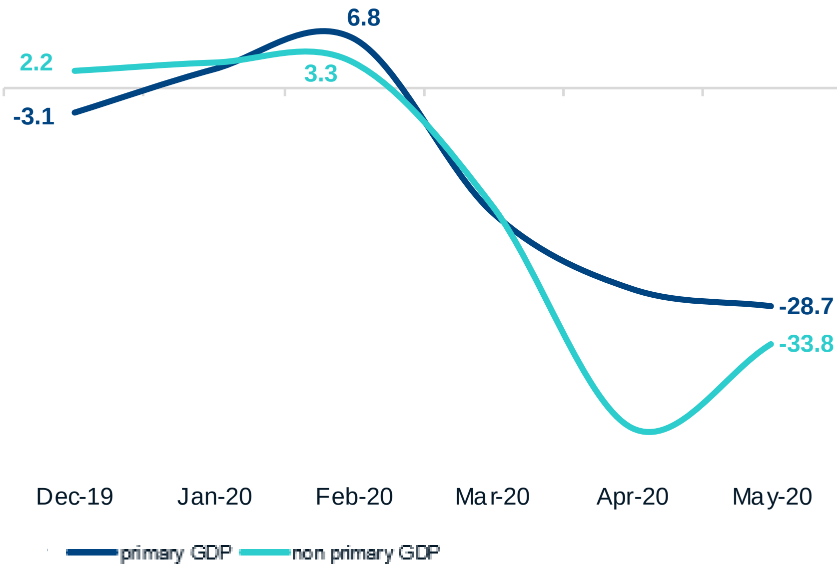
2.1 GDP and economic activity

Isolation measures aimed at containing the virus have had a significant impact on activity…

GDP
(YoY % CHANGE)



GDP BY PRODUCTIVE SECTOR
(YoY % CHANGE)

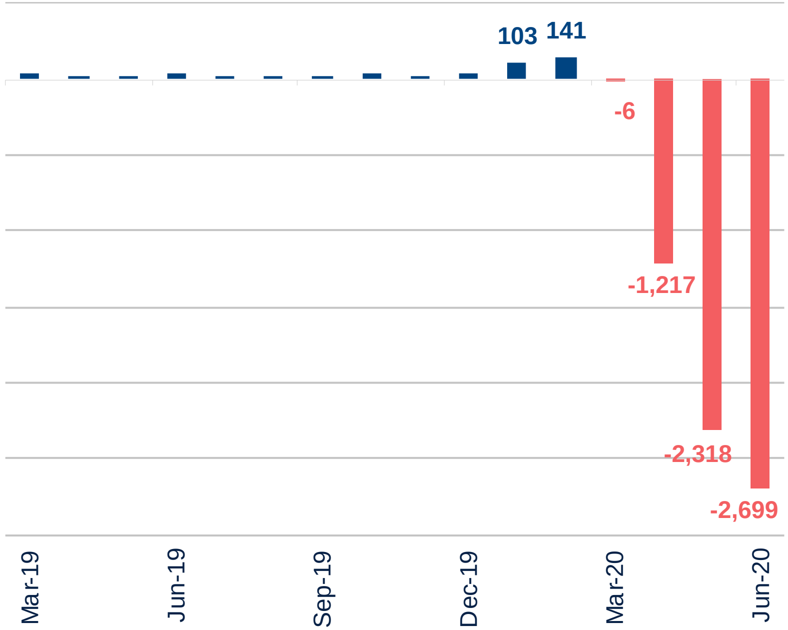


Source: INEI and BBVA Research

… and on the labor market, where job losses have been substantial

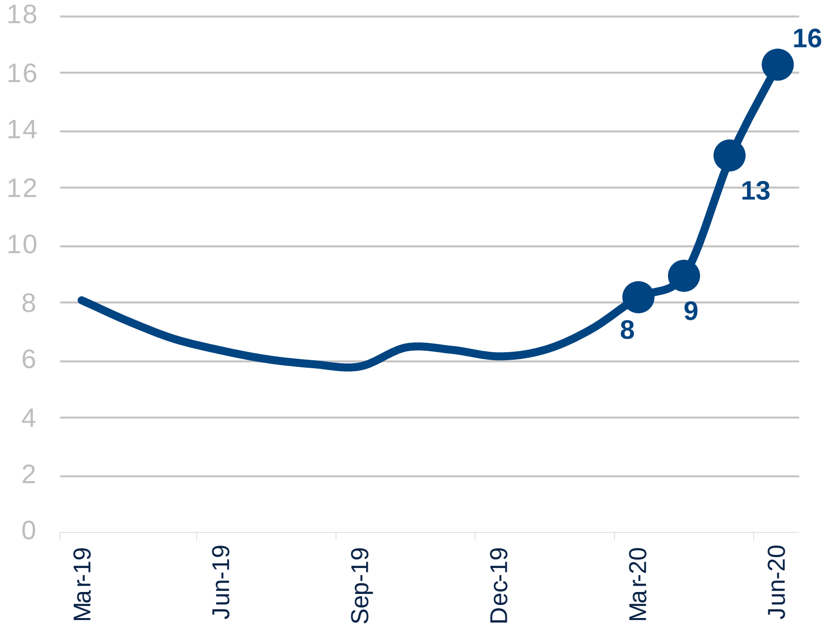
EAP EMPLOYED IN LIMA

(ROLLING QUARTER, YEAR-ON-YEAR CHANGE, THOUSANDS OF PEOPLE)



UNEMPLOYMENT RATE IN LIMA

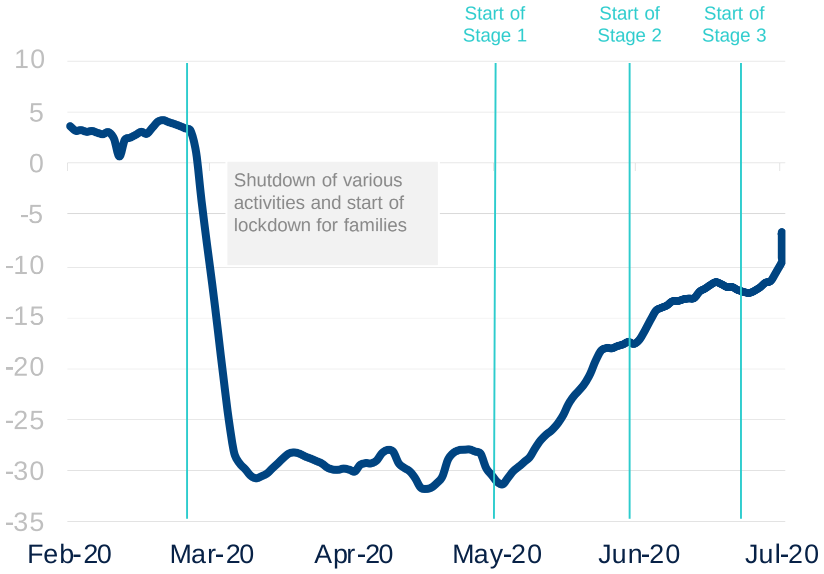
(ROLLING QUARTER, % OF EAP EMPLOYED)



Source: INEI and BBVA Research

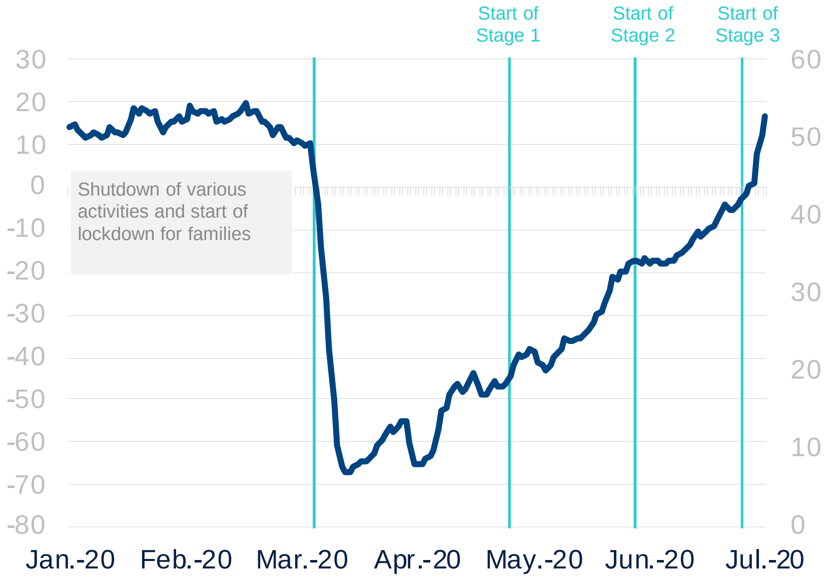
With the gradual easing of isolation measures, activity has begun to normalize

ELECTRICITY OUTPUT*
(DAILY, YOY % CHANGE, 7-DAY MOVING AVE.)



* Representing approx. 95% of the electricity produced in the country.
Stage 1 began in practice on May 11, Stage 2 on June 4 and Stage 3 on July 4.
Source: COES and BBVA Research.

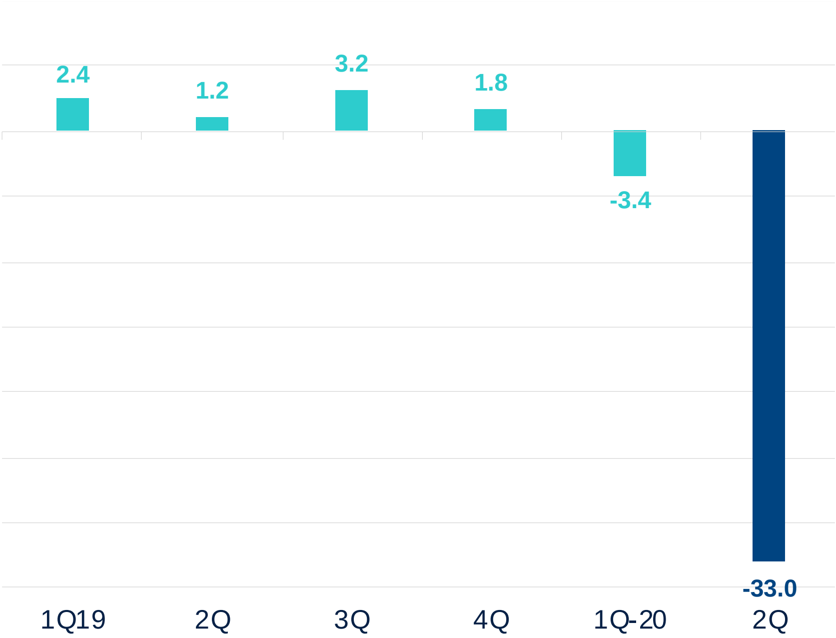
CARD CONSUMPTION INDICATOR**
(DAILY, YOY. % CHANGE, 7-DAY CUMULATIVE)



**Information as of July 7, 2020.
Source: BBVA.

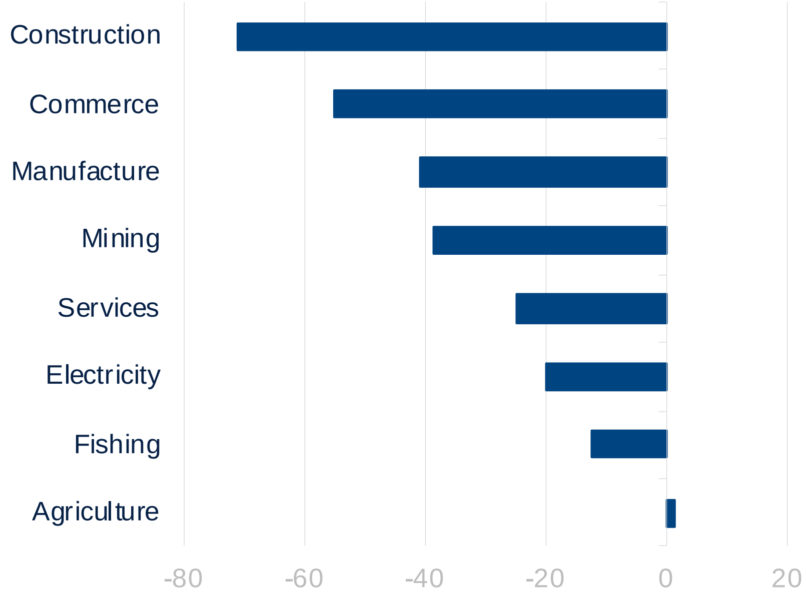
If there are no major virus outbreaks, the worst is likely behind us in the second quarter

GDP*
(YoY % CHANGE)



* Estimated for the second quarter of 2020
Source: INEI and BBVA Research

GDP BY PRODUCTIVE SECTOR, 2Q20*
(YoY % CHANGE)



The base forecast scenario for 2020 and 2021 involves the following assumptions for the external and local sides

External

01

Partial (incomplete, V-shaped form) and broad-based recovery of global growth, supported by economic stimulus. Uncertainty remains high.

02

Global risk perception in the second half of the year will decrease, favoring capital flows to emerging markets.

03

Commodity prices will recover gradually, though they will remain at relatively low levels.

Local

04

Local base scenario assumes that there will be no major new outbreaks of the virus leading to the reimposition of harsh, widespread and prolonged isolation measures.

05

Supply-side, recommencement of activities (with restrictions) will continue. Demand-side, the impact of the shock and the deterioration of confidence will weaken household and business expenditure. Environment of uncertainty.

06

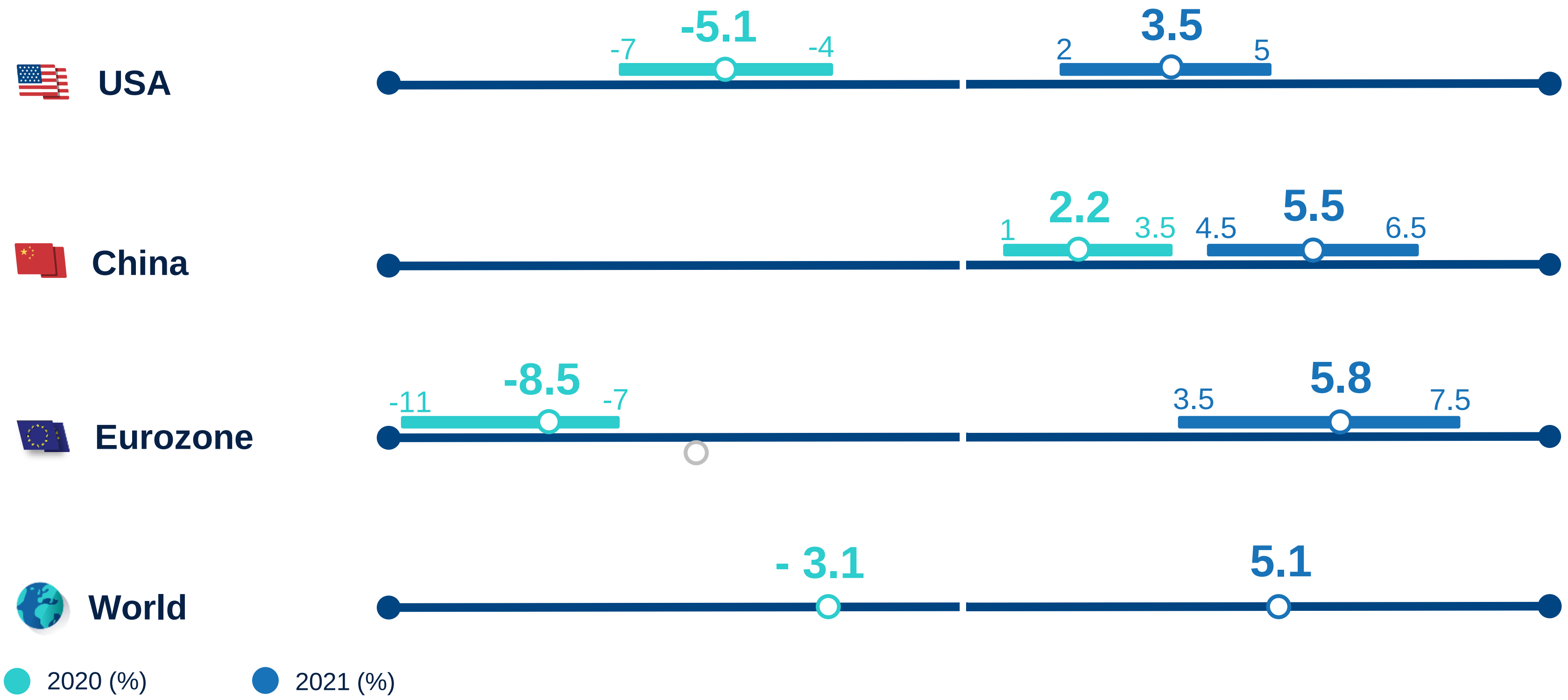
Regulatory and electoral uncertainty also imposes caution on private expenditure, but without derailing the gradual recovery.

07

Acceleration in 2H20 of public expenditure on infrastructure maintenance and investment.

1 | Global growth

Partial, broad-based recovery of global growth…

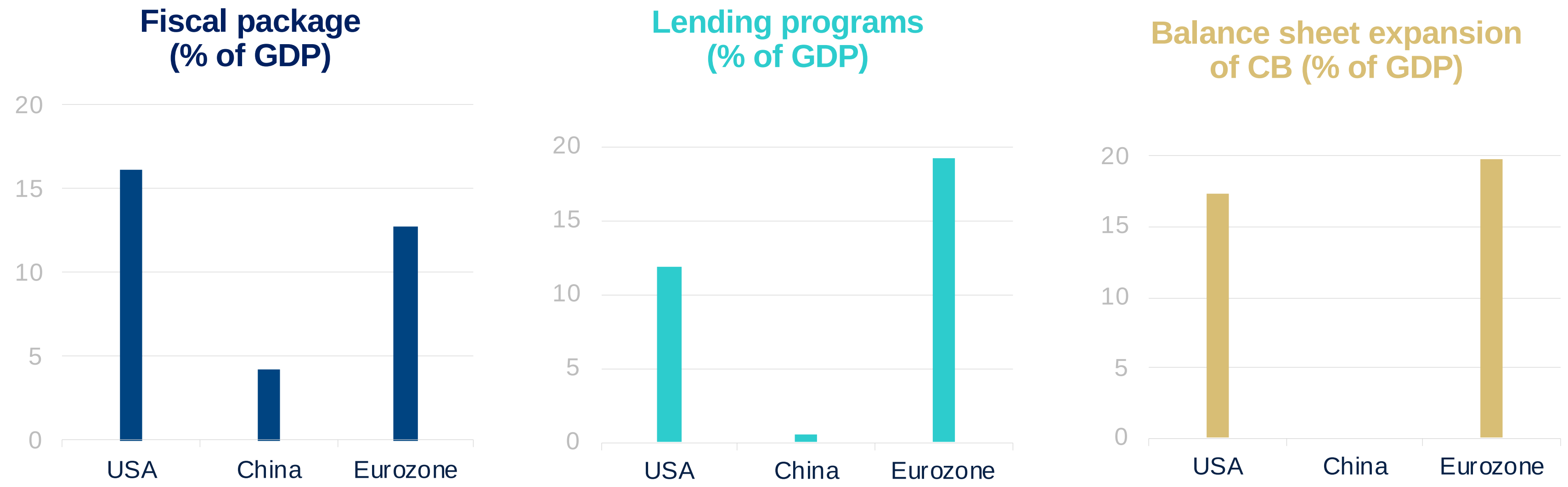


GDP growth: forecasts
Source: BBVA Research

1 | Global growth

… supported by economic stimulus

ECONOMIC STIMULUS IN THE USA, CHINA AND THE EUROZONE(*)



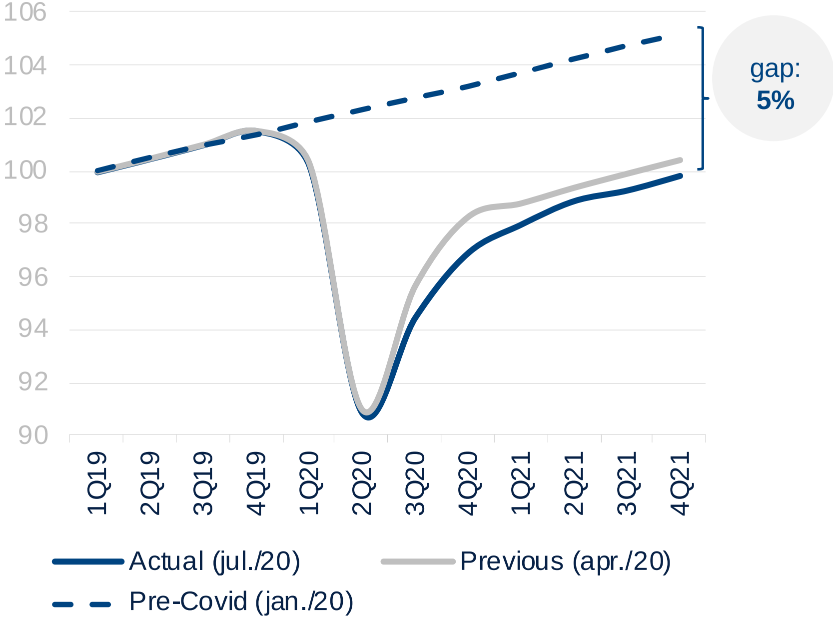
(*) Fiscal packages: increased expenditure, reduced revenue and resources channeled into guarantee funds and loans. Stimulus in the eurozone is from supranational programs, including the EU recovery fund proposal but excluding the ESM plus the average of the packages announced in Germany, France, Italy and Spain. Loan programs: for the US, this includes the total amount of the Fed's loan facilities. For the eurozone, it is the average of the loan guarantee funds of Germany, France, Italy and Spain. Interest rates: for China, one-year LPR rates are used as a reference. Central Bank balance sheets: forecast increase in total assets during 2020.

Source: BBVA Research based on data from national statistical sources

1 | Global growth

US: Data suggests that activity bottomed out in April, but a new coronavirus outbreak threatens the consolidation of recovery

GDP: LEVEL
(LEVEL: SEASONALLY ADJUSTED QUARTERLY INDEX)



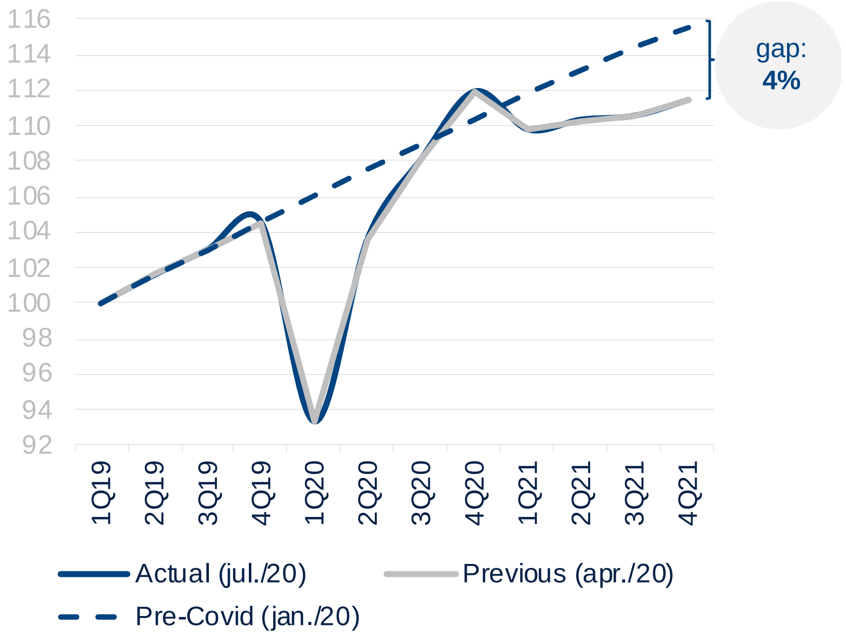
Source: BBVA Research

- Delayed exit, weak employment and lower confidence among agents leading to a downward revision of forecast growth for 2020 from -4.4% to -5.1%.
- Interest rates will remain at zero until 2023; the Fed's balance sheet will continue to grow.
- New fiscal and monetary stimulus is likely.
- The unemployment rate, which reached 14.7% in April and 11.1% in June, is forecast to be 8.6% in 2020 and 7.4% in 2021.
- Uncertainty remains and there is downside risk in response to the possibility of further lockdown measures and possible tensions with China.

1 | Global growth

China: Growth exceeds expectations, led by supply and despite relative weakness in demand

GDP: LEVEL
(LEVEL: SEASONALLY ADJUSTED QUARTERLY INDEX)



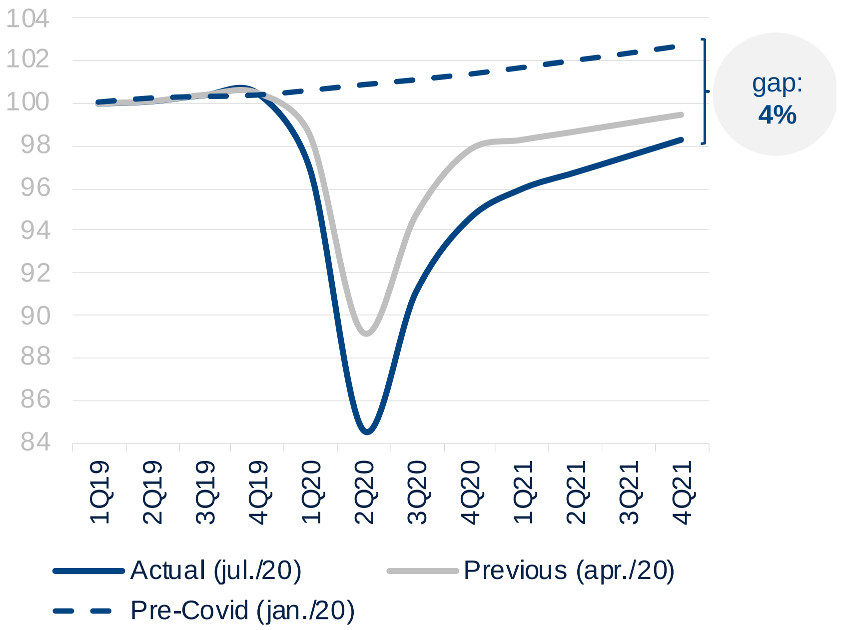
Source: BBVA Research

- The economy is recovering rapidly, but not consistently.
- Countercyclical stimulus will remain selective and led by fiscal policy.
- Monetary policy will be prudent, but flexible.
- Geopolitical risk continues to rise, while uncertainty remains about the relationship with the US.
- There is downward bias in the forecasts due to delay in the global cycle.

1 | Global growth

Eurozone: downward revision of forecasts, largely due to more severe lockdown than expected in 2Q20

GDP: LEVEL
(LEVEL: SEASONALLY ADJUSTED QUARTERLY INDEX)



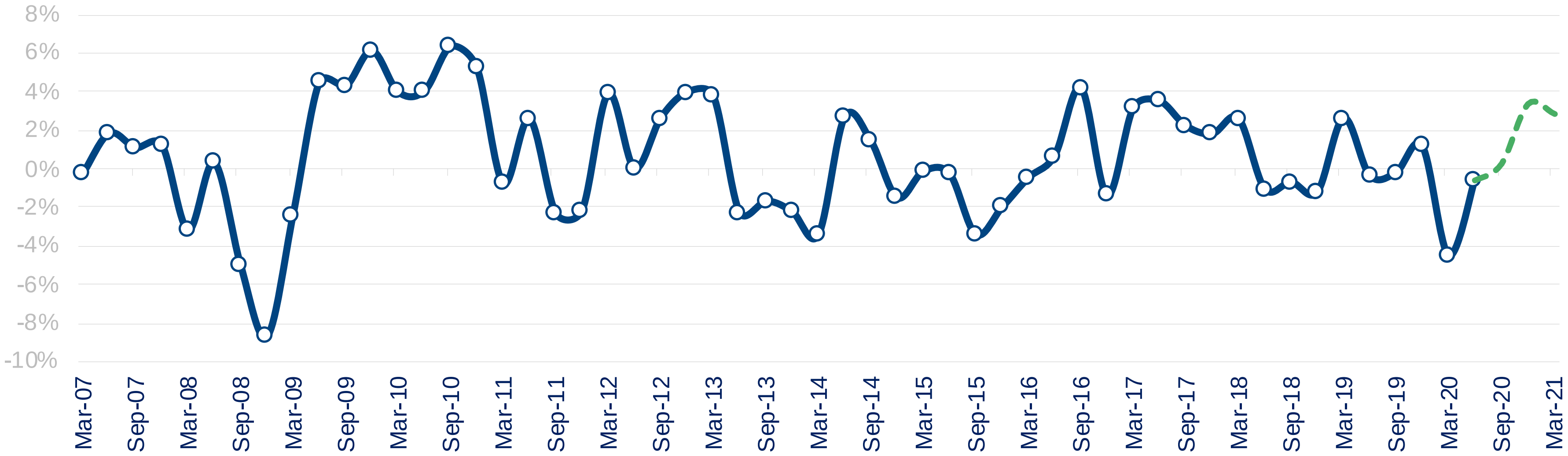
Source: BBVA Research

- GDP unexpectedly fell in 1Q20.
- In 2Q20, GDP will fall further than forecast, although the data shows improvement from May.
- GDP is revised downward in 2020 (from -5.2% to -8.5%) and upward in 2021 (from 4.1% to 5.8%), with greater loss of output for these two years.
- The ECB has aggressively expanded its asset purchase program and supported liquidity.
- The recovery fund (5.4% of GDP, still under discussion) has been a welcome surprise and will be key to the recovery from 2021. Its approval would represent an upside risk to the 2021 growth forecast.

2 | Capital flows to emerging markets

Global risk perception in the second half of the year will decrease, favoring capital flows to emerging markets

CAPITAL FLOWS TO EMERGING ECONOMIES
(% OF MANAGED ASSETS)



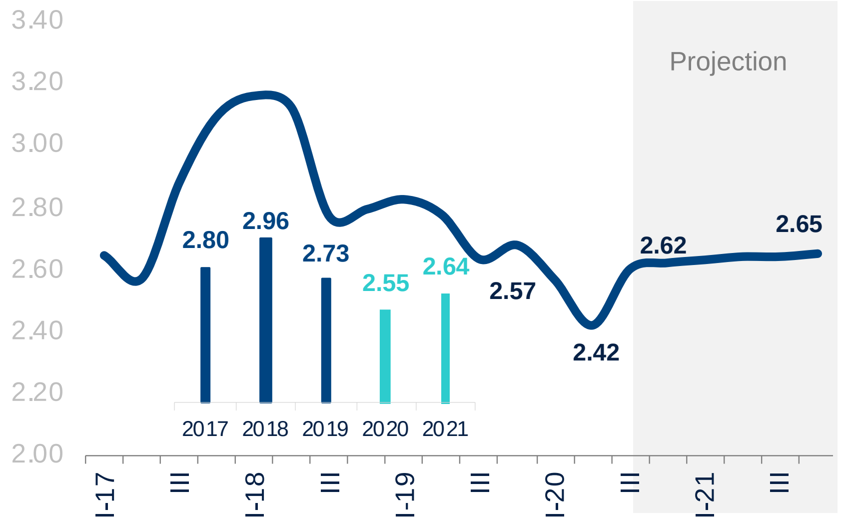
Source: BBVA Research, EPFR

Capital flows to emerging economies will be encouraged by the easing of isolation measures, economic stimulus and the normalization of activity

3 | Commodity prices

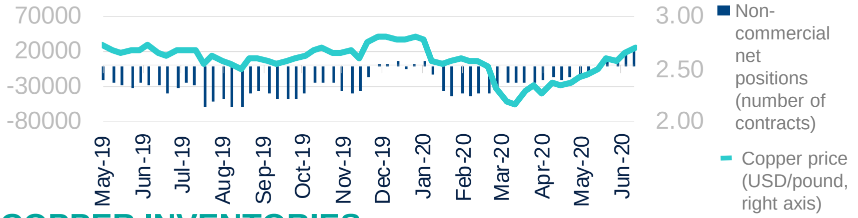
Commodity prices will recover gradually, though they will remain at relatively low levels

COPPER PRICE
(AVERAGE FOR THE PERIOD, USD/LB)

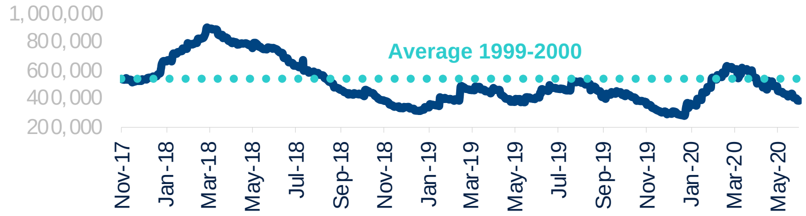


Source: Eikon and BBVA Research

COPPER PRICE AND NON-COMMERCIAL NET POSITIONS



COPPER INVENTORIES
(MT)

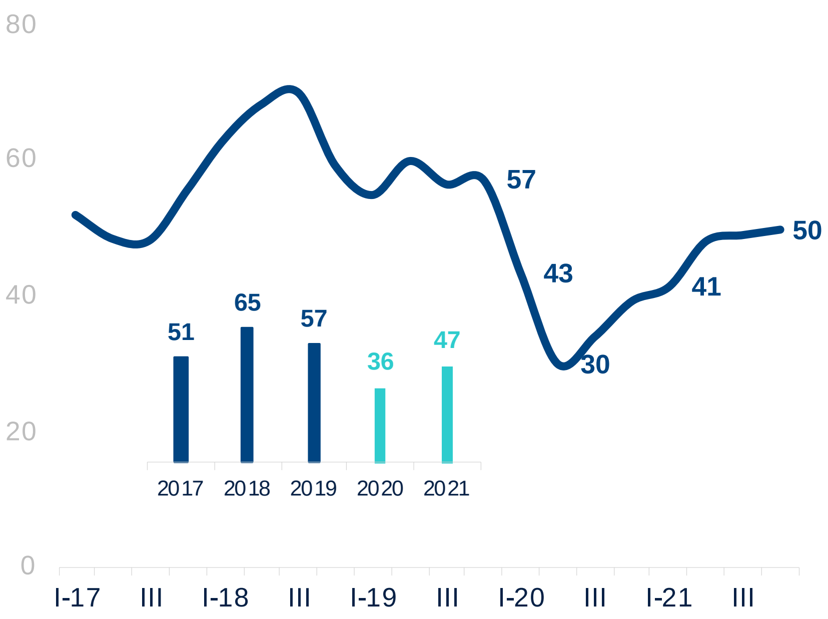


Improved performance of global economic activity, particularly that of China, and abundant global liquidity will support the price of copper. The price of WTI crude is also expected to recover.

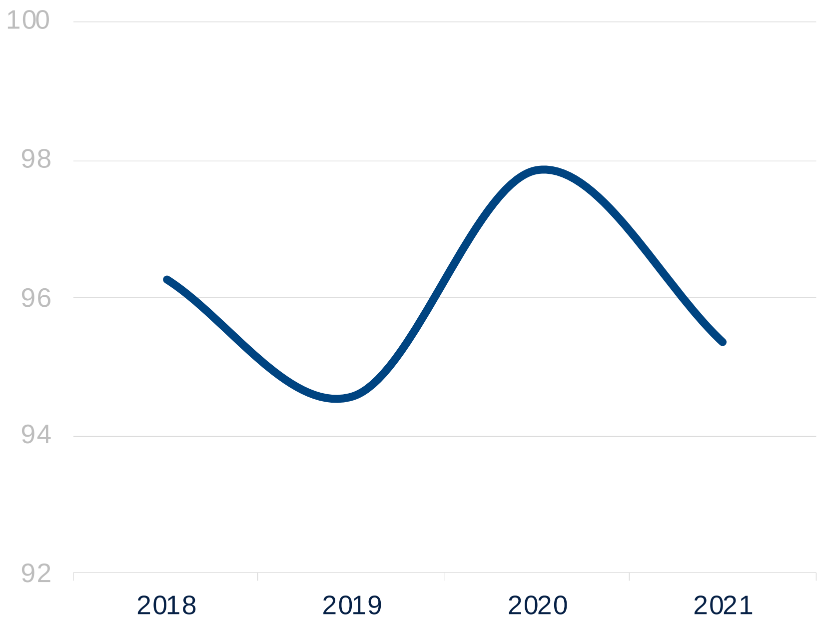
3 | Commodity prices

Commodity prices will recover gradually, though they will remain at relatively low levels

OIL PRICE
(PERIOD AVERAGE, USD/WTI BARREL)



TERMS OF TRADE
(INDEX 100 = 2007)

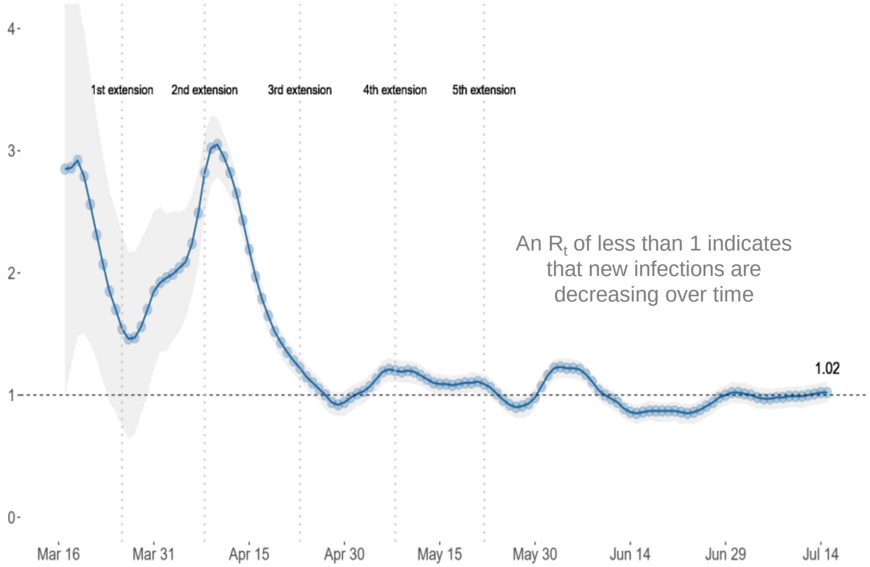


Source: BCRP and BBVA Research

4 | Local health situation

Local base scenario assumes that there will be no major new outbreaks of the virus leading to the re-imposition of harsh isolation measures

R_t IN REAL TIME
(AS OF JULY 15)



- Since the end of June, our estimate for the reproduction rate (R_t) has risen.
- The test "positivity" rate has trended slightly upward so far this month.
- The situation is fragile, especially in view of the resumption of activities.
- Base scenario assumes that the vaccine will be available locally in early 2022.

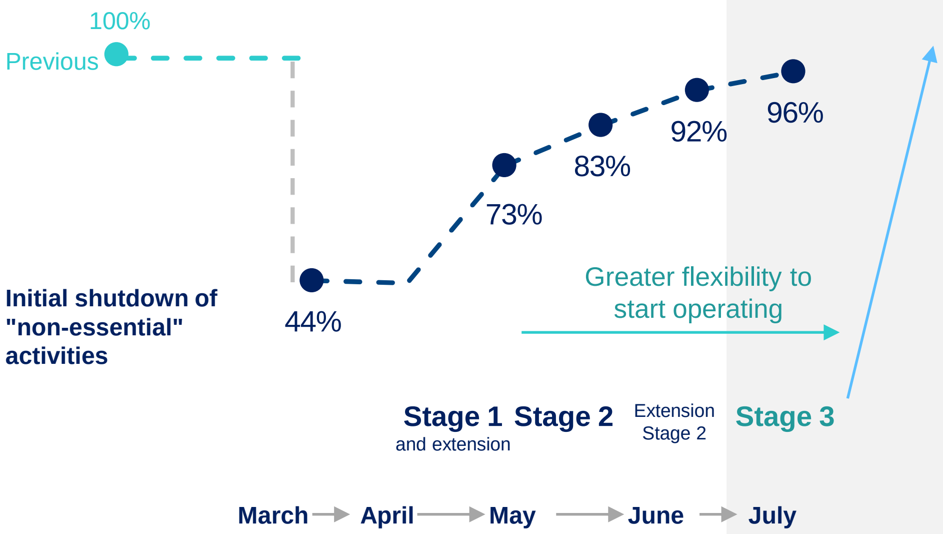
Source: MINSA data since March 6, BBVA Research Peru estimates based on:
Bettencourt & Riberiro (2008), "Real Time Bayesian Estimation of the Epidemic Potential of Emerging Infectious Diseases." Systrom (2020), "The Metric We Need to Manage COVID-19." Vaidyanathan (2020), Estimating COVID-19's Rt in Real-Time"

5 | Supply

The resumption of activities will continue in the coming months

PERCENTAGE OF THE ECONOMY ALLOWED BY THE GOVERNMENT TO OPERATE

(% OF TOTAL GDP)



Stage 3:

- Allowed to operate…
  - 100% of agricultural, mining and energy activities
  - 100% of construction projects
  - 100% of retail stores (half capacity)
  - More sectors within manufacturing and services

Source: MEF

5 | Demand: private expenditure

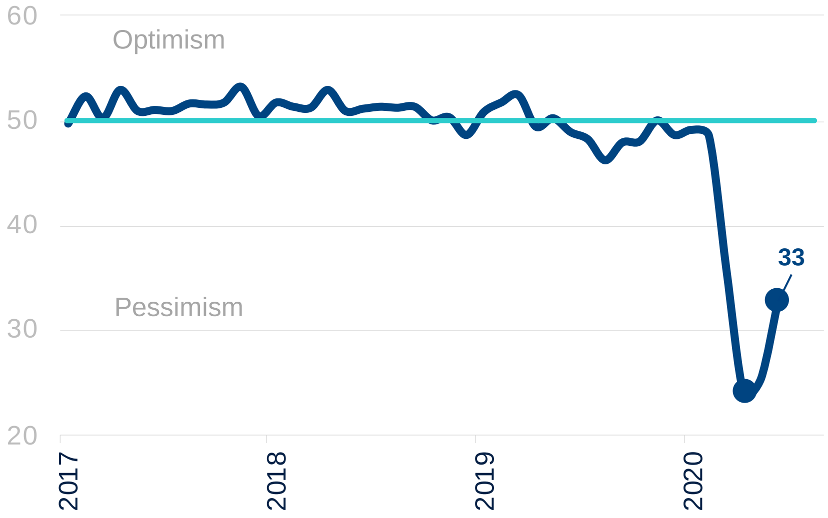
Normalization of private expenditure will be gradual going forward…

…in an environment of (i) caution due to economic and health uncertainties and (ii) the aftermath of the second quarter crisis

BUSINESS CONFIDENCE*
(POINTS)

* Expectations for economy at 3 months
Source: BCRP

3-MONTH HIRING EXPECTATIONS
(POINTS)

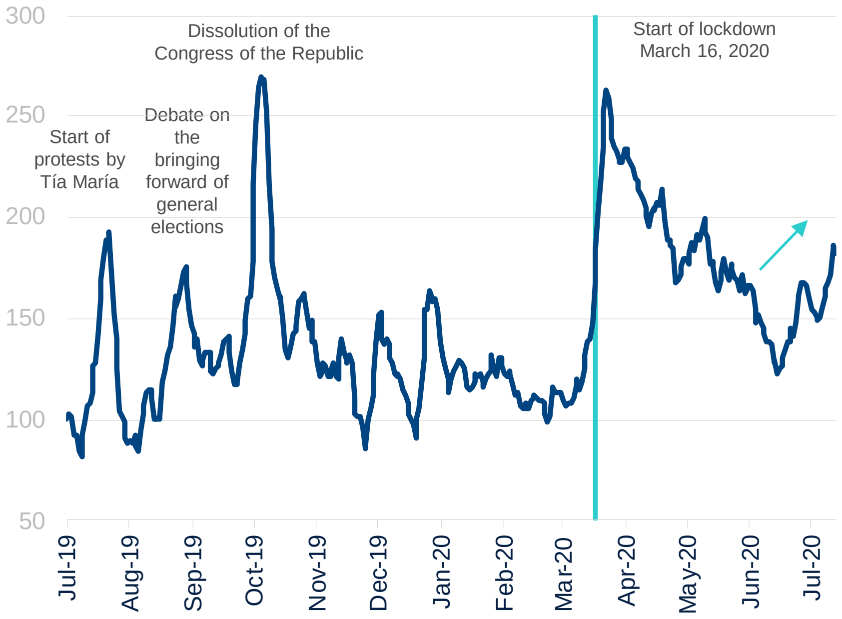


Weak confidence, a deteriorating labor market, lower earnings and equity losses will slow the recovery of private expenditure.

6 | Demand: private expenditure, and electoral and regulatory uncertainty

Political noise is increasing, which does not help to reduce existing levels of uncertainty

POLITICAL TENSION INDEX (*)
(JUL 01, 2019 = 100, 7-DAY AVERAGE)



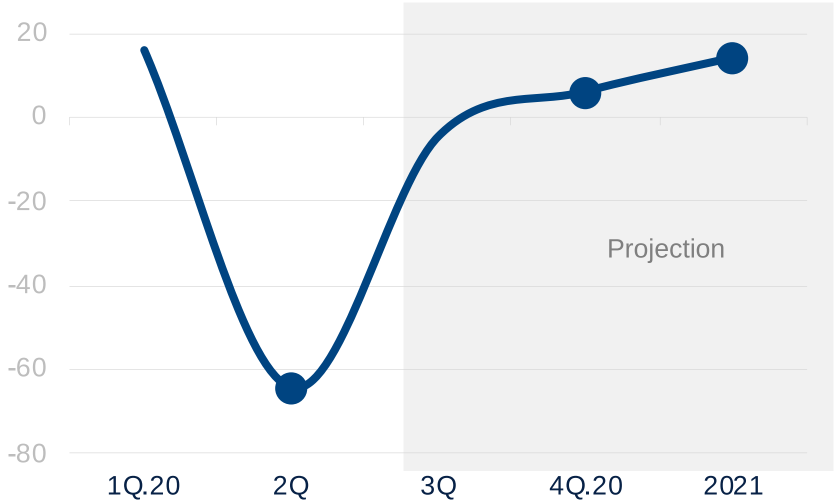
Source: BBVA Research

- The Peruvian economy will be severely affected this year by the pandemic. But it still has strengths that can help in the exit phase of the crisis.
- Reducing the uncertainty created by the crisis will be essential for a faster recovery of private expenditure, employment and the economy.
- However, proposals that create doubt about the fulfillment of government commitments undermine the solidity of the financial system and fiscal accounts, and, in general, create a worse climate for entering into ventures, and do nothing to reduce uncertainty. This could have a drag effect on economic growth in the coming years.

7 | Demand: public expenditure

Acceleration of public expenditure on infrastructure maintenance and investment in the second half of 2020

PUBLIC INVESTMENT
(REAL, YoY % CHANGE)



*The contract was signed with the UK government in June. This year, expenditure is estimated at USD 400 million.
Source: BCRP, Apoyo Consultoría and BBVA Research

Public expenditure will be boosted in the coming quarters, supported by…

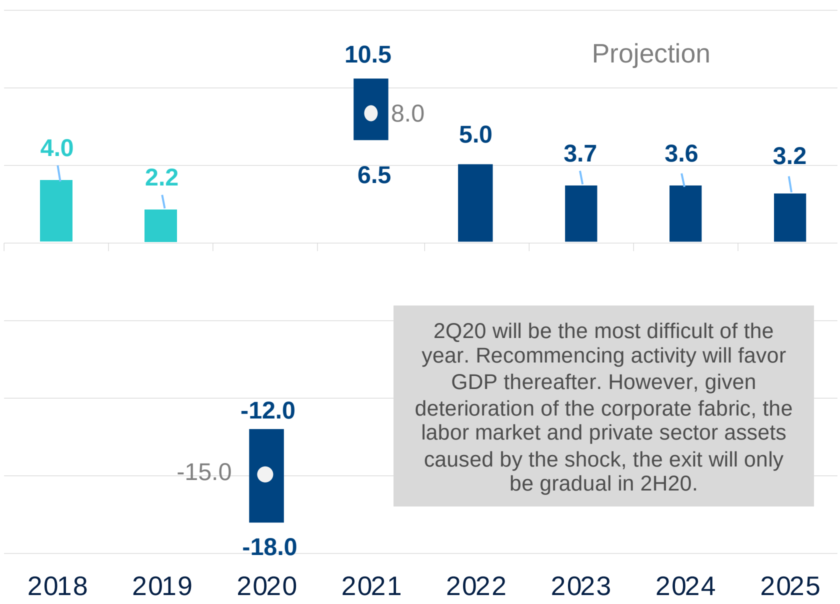
- "Arranca Perú 2020" program for USD 1.43 billion (80% road improvement and maintenance program).
- Projects using Government-to-Government contracting (80% to be implemented in the next two years).

PIRCC (Plan Integral de Reconstrucción con Cambios – Infrastructure Rebuilding plan)* USD 2 billion

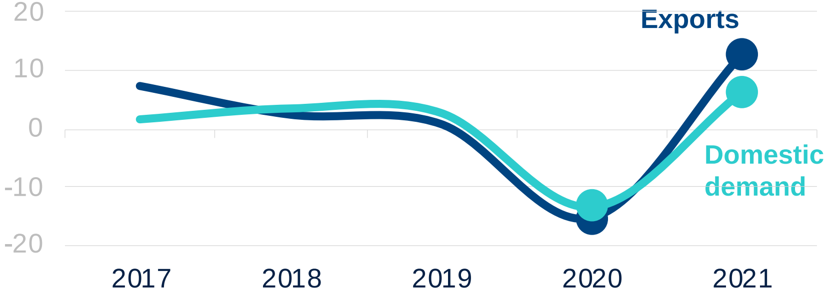
The level of public investment was high at the beginning of the year (January-February). Going forward, risk due to likely cost increases in projects frozen during the lockdown period and the upcoming general election.

In this context, we forecast GDP to shrink between 12% and 18% in 2020, but there will be a major rebound in 2021

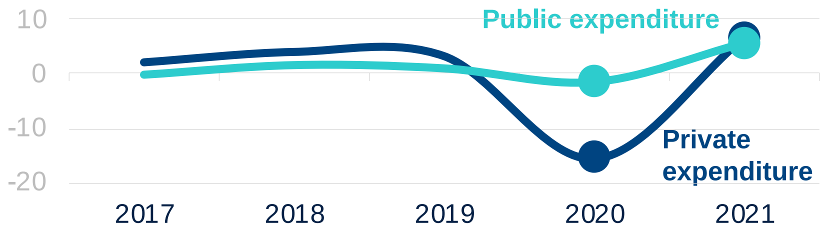
GDP
(YoY % CHANGE)



DOMESTIC DEMAND AND EXPORTS
(YoY % CHANGE)



PRIVATE & PUBLIC EXPENDITURE
(YoY % CHANGE)

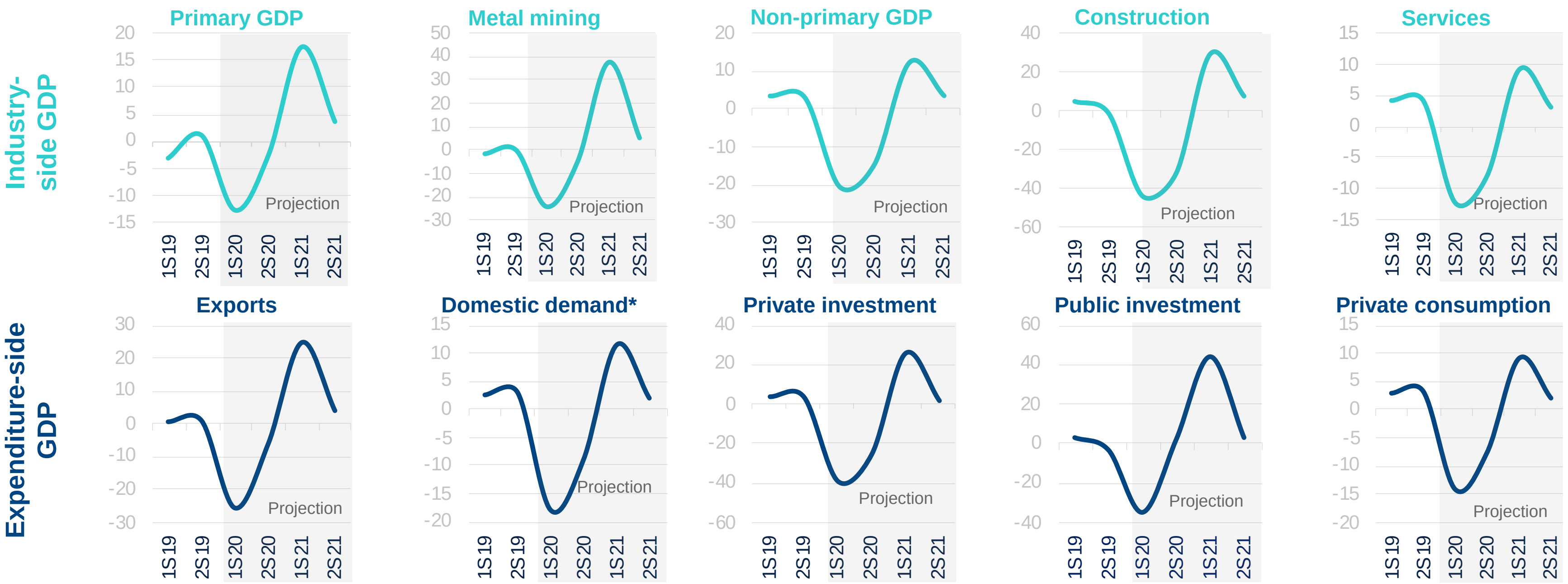


Source: BCRP, INEI and BBVA Research

In this context, we forecast GDP to shrink between 12% and 18% in 2020, but there will be a major rebound in 2021

GDP: SELECTED COMPONENTS FOR THE EXPENDITURE AND INDUSTRY SIDES

(IN REAL TERMS, YoY % CHANGE, 2020–21 PROJECTIONS)



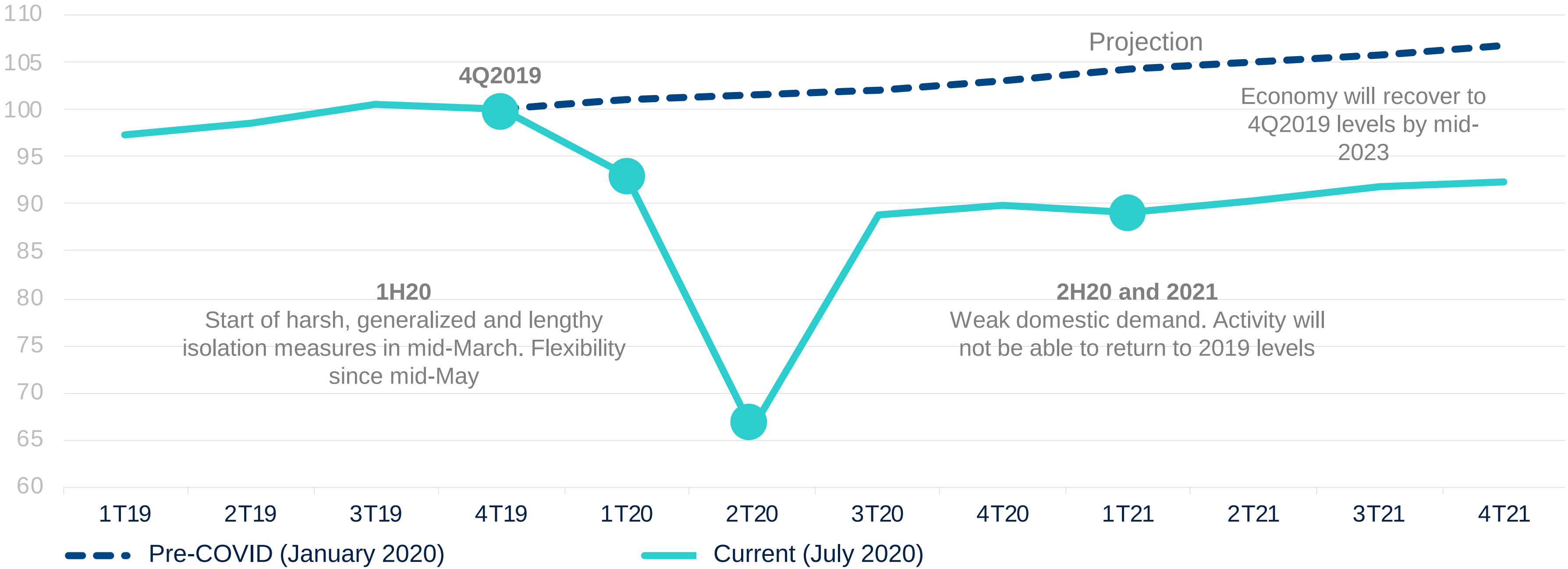
* Excludes inventory accumulation

Source: BCRP and BBVA Research

In this scenario, economic activity will take a long time to recover to the level it reached at the end of 2019

GDP: LEVEL

(LEVEL: SEASONALLY ADJUSTED QUARTERLY INDEX, 4Q2019 = 100)



Source: BCRP and BBVA Research

Uncertainty about the base scenario for projections

Epidemiological uncertainty

- Control of the pandemic
- Opening up process
- New waves of infection
- Vaccine or treatment

Financial uncertainty

- Financial stress
- Flows to emerging economies
- Deteriorating corporate, public sector and banking balance sheets

Economic and social uncertainty

- Effectiveness of stimulus
- Significant disruptions in sectors and value chains
- Inflation trajectory
- Increased unrest and social conflict

Potential GDP growth

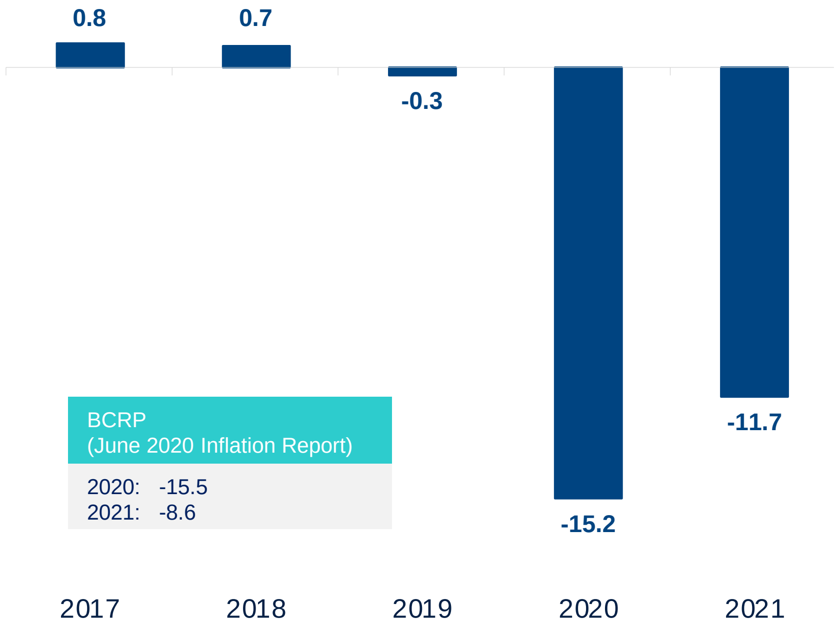
- The pandemic raises many questions about potential growth

Given the assumptions used in the base scenario and 2Q20 results (better than expected), we are more likely to see GDP growth in the upper half of the range for 2020

Consequences: in the short term a strong cyclical contraction and, in the medium term, a (temporary) slowdown in potential growth

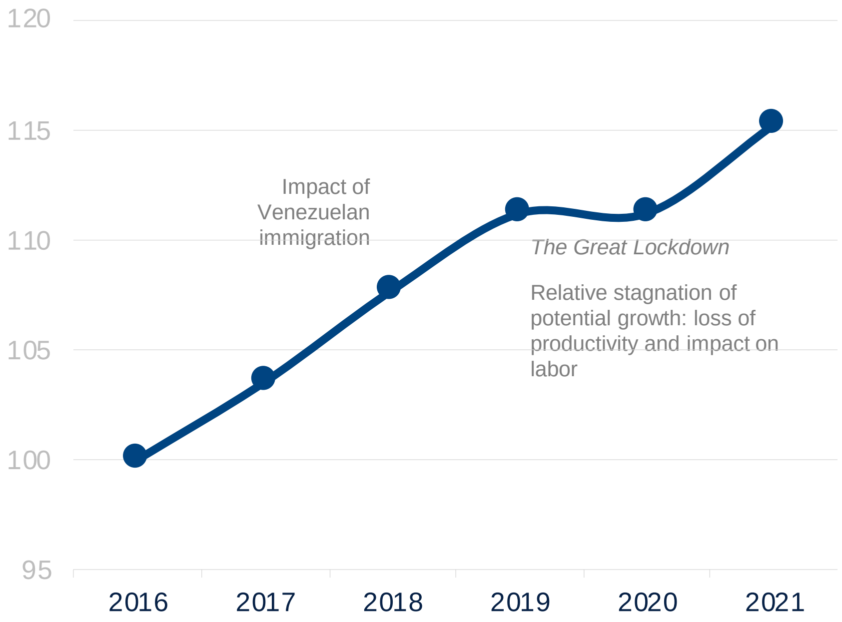
OUTPUT GAP*

(% OF POTENTIAL GDP)



POTENTIAL GDP*

(ANNUAL INDEX 2016=100)



* BBVA Research estimates based on output trends

Source: BCRP and BBVA Research

BBVA Research

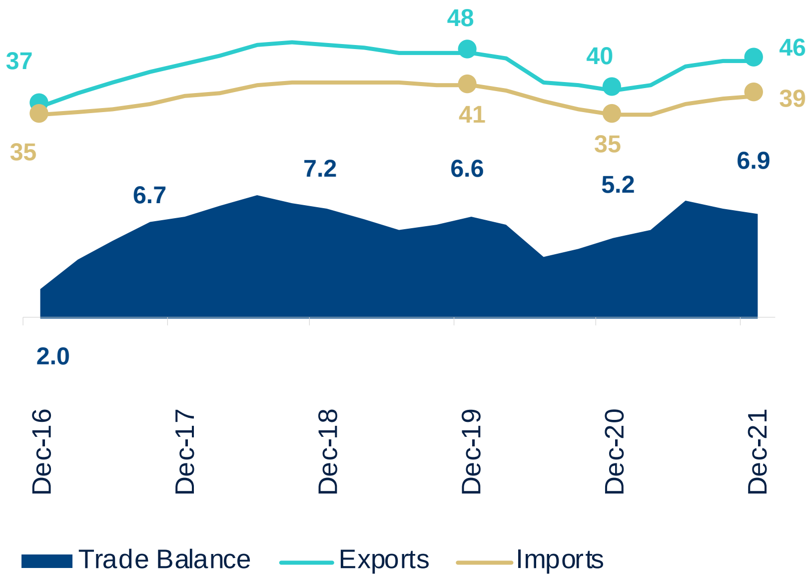
2.2

External sector and exchange rate

While lower than in previous years, the trade surplus will remain significant in 2020 and improve in 2021...

BALANCE OF TRADE

(USD BILLION, CUMULATIVE OVER THE LAST FOUR QUARTERS)



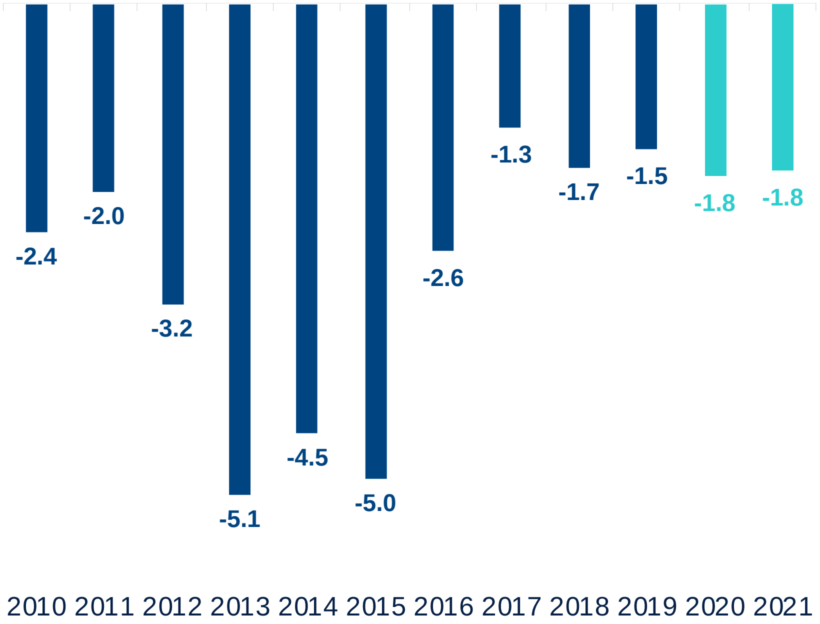
Source: BCRP and BBVA Research

Trade surplus of around USD 5 billion this year

- Recovery of mining output improving export volumes
- Industrial metal prices improving, although converging at lower levels than in 2019
- Abundant global liquidity and uncertainty keep the price of gold relatively high
- Weak domestic demand affects import volumes in the same way
- An upward trend in the price of crude going forward

…which will help maintain a small current account deficit and prevent any major foreign financing problems

BALANCE OF PAYMENTS CURRENT ACCOUNT
(% of GDP)



Source: BCRP and BBVA Research

On the financial side, the base scenario takes into account:

External factors

- Increased capital inflows to EM (low interest rates in developed economies and abundant liquidity).

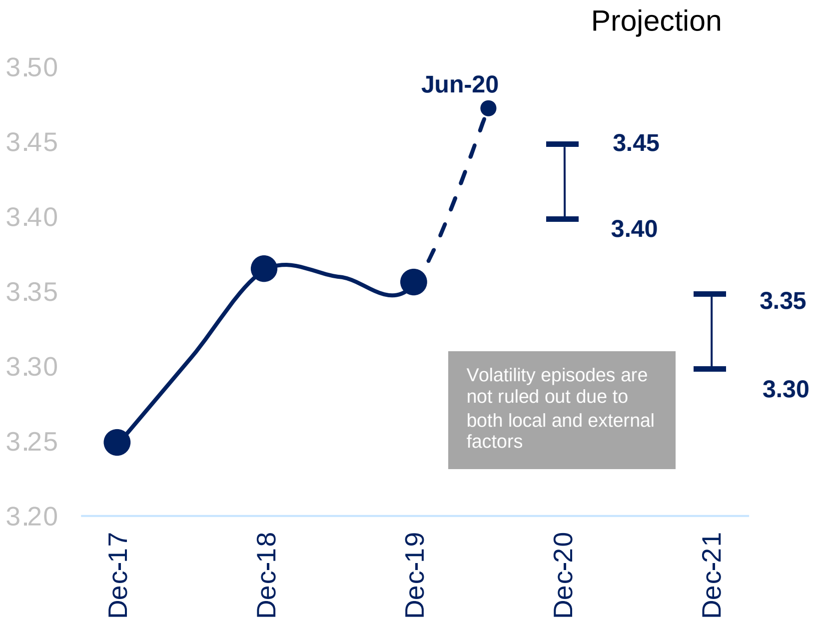
Local factors

- Liquidation of foreign investments by pension fund administrators (PFA) to accommodate withdrawals of contributors (around USD 8 billion or 4% of GDP).
- Foreign direct investment (for example, in mining for the resumption of large mine construction).
- The fiscal stimulus announced by the government will be partly financed with foreign resources.

Under this scenario, which incorporates contained risk aversion from the second half of this year, there will be some appreciation of the PEN during the remainder of 2020

EXCHANGE RATE

(USD/PEN, AVERAGE FOR THE MONTH)



Source: BCRP and BBVA Research

Appreciation of the PEN due to…

- Renewed appetite for emerging-economy assets in the second half of the year.
- Balance of trade surplus will remain significant.
- PFAs liquidate investments abroad to accommodate the withdrawals of contributors.

Although…

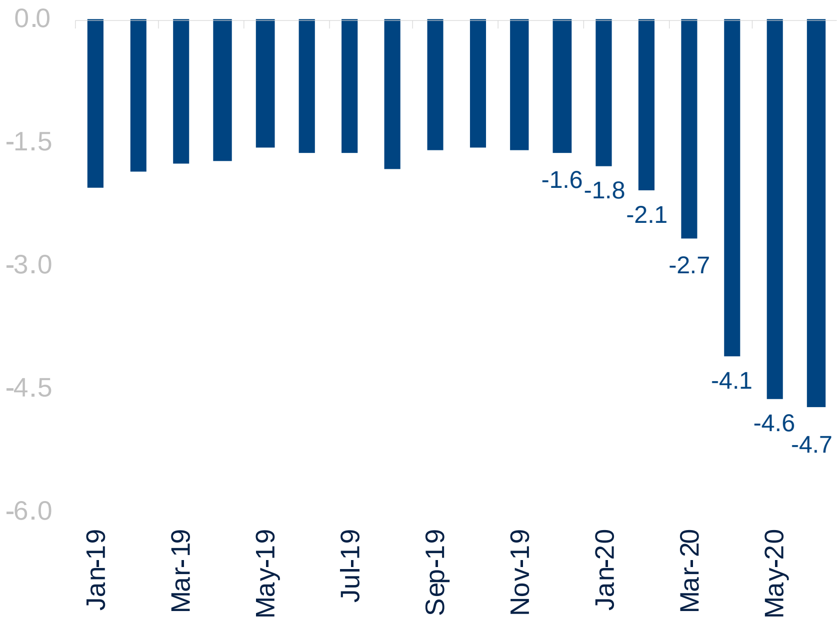
- Strong increase in PEN liquidity for corporate financing (Reactiva Perú).
- Uncertainty in the market due to presidential and congressional elections in 2021.

BBVA Research

2.3
Fiscal balance and public debt

Due to the deterioration of tax revenue and increased public expenditure to deal with the pandemic, the government deficit has increased

FISCAL BALANCE*
(CUMULATIVE LAST 12 MONTHS, % OF GDP)



Lower activity and lower metal prices

Tax relief measures

→ Lower tax revenue ↓

Transfers

- Universal Family Bonus
- Subsidy for private employer payrolls

→ Higher expenditure ↑

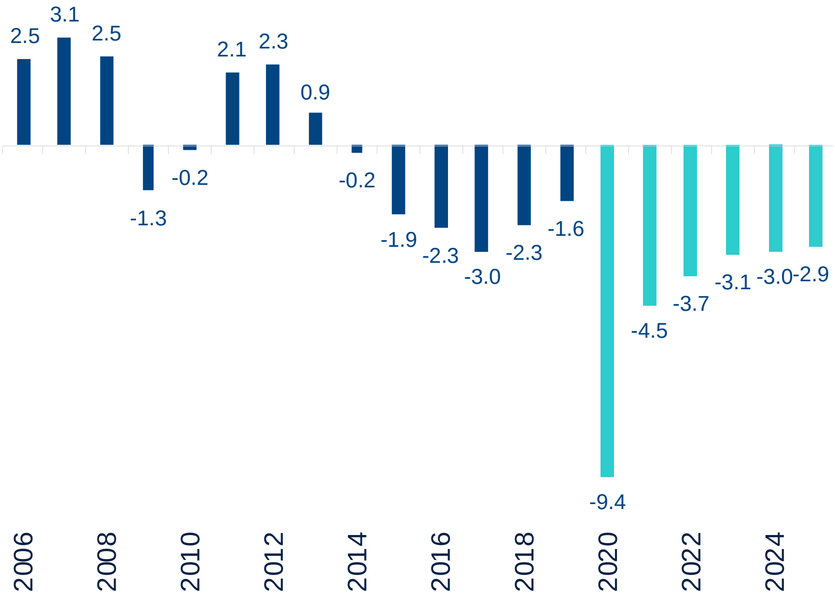
TRANSFERS
(% OF GDP)

3.3	3.2	4.2
December 2018	December 2019	June** 2020

* Non-financial public sector
**Cumulative last 12 months Source: BCRP and BBVA Research

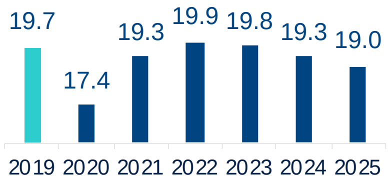
Large GDP deficit in 2020: reducing it will require the reversal of the higher (temporary) pandemic expenditure and revenue recovery measures

FISCAL BALANCE*
(% OF GDP)



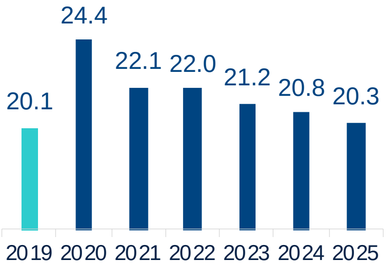
* Non-financial public sector.
Source: BCRP and BBVA Research

*CENTRAL GOVERNMENT REVENUE
(% OF GDP)



Revenue in 2020 affected by tax non-compliance and credit facilities (in addition to isolation measures, the cycle and metal prices). Revenue normalizes in the next three years.

CENTRAL GOVERNMENT EXPENDITURE
(% OF GDP)



Acceleration of public investment in 4Q20 (Reconstrucción con Cambios and Arranca Perú programs).

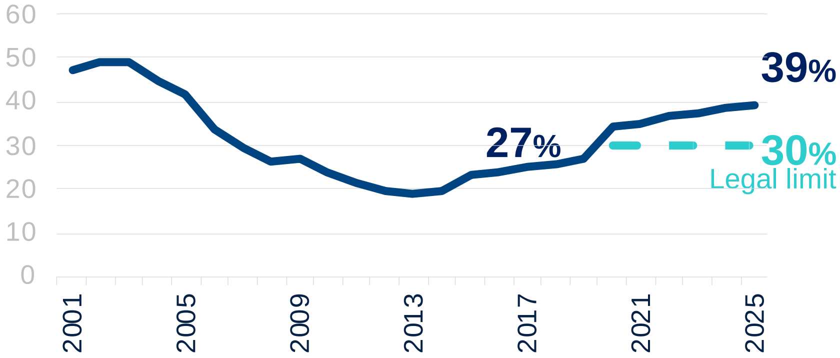
Going forward, current expenditure will tend to normalize, particularly transfers.

Source: BCRP and BBVA Research

We estimate that gross public debt will rise to 34% of GDP this year and to around 40% in the medium term

This ratio is manageable, but action is required to stabilize it

GROSS PUBLIC DEBT*
(% OF GDP)



	2019	2020	2021	2022	2023	2024	2025
Gross public debt	**26.8**	**34.5**	**35.0**	**36.6**	**37.6**	**38.5**	**39.2**
Local currency	18.3	21.3	21.3	22.9	23.9	24.6	25.9
Foreign currency	8.5	13.2	13.8	13.7	13.7	13.8	13.3

* Non-financial public sector.
Source: BCRP and BBVA Research

- The forecast takes into account the use of assets, including the Fiscal Stabilization Fund (2.5% of GDP) and greater indebtedness.
- For 2020, it is assumed that 80% of total disbursements (foreign and domestic) will be from foreign sources.
- For the next year, it is assumed that this percentage will be 50% and later 30%, which is consistent with a recovery scenario for domestic asset demand in local currency.

Despite the severe impact of the pandemic on fiscal accounts, the Peruvian government maintains its credit rating

LATIN AMERICA CLASSIFICATION AND CREDIT OUTLOOK OF LONG-TERM PUBLIC DEBT IN FOREIGN CURRENCY

COUNTRY	S&P	Moody's	Fitch
Peru	BBB+	A3	BBB+
Chile	A+	A1	A
Colombia	BBB-	Baa2	BBB-
Mexico	BBB	Baa1	BBB-
Brazil	BB-	Ba2	BB-

Stable outlook   Negative outlook

Source: Trading Economics and BBVA Research

- Moody's kept its credit rating for the government's foreign currency debt at A3.
- Our estimate of around 40% for the gross public debt ratio is manageable for Peru and compares well with countries with similar credit ratings.
- However, stabilizing gross public debt (as a % of GDP) in the medium term will likely require additional action from the next government administration.
- Care must be taken with proposals, mainly on the legislative side, so as not to further complicate tax accounts or undermine the business environment.

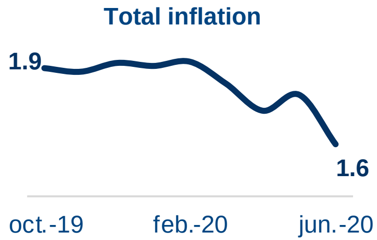
BBVA Research

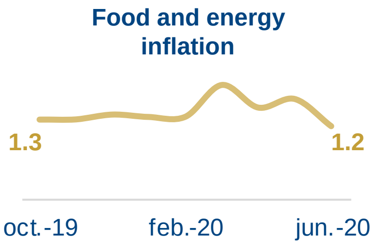
2.4

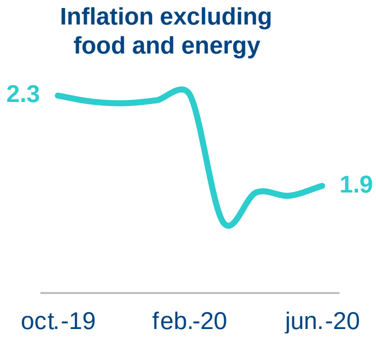
Inflation and monetary policy

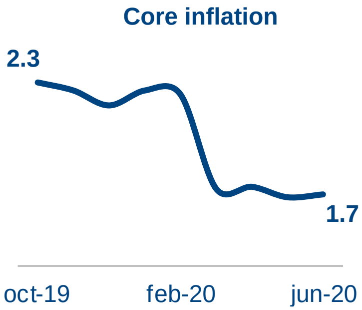
Inflation is beginning to fall and is currently at 1.6%

INFLATION MEASURES
(YoY % CHANGE)



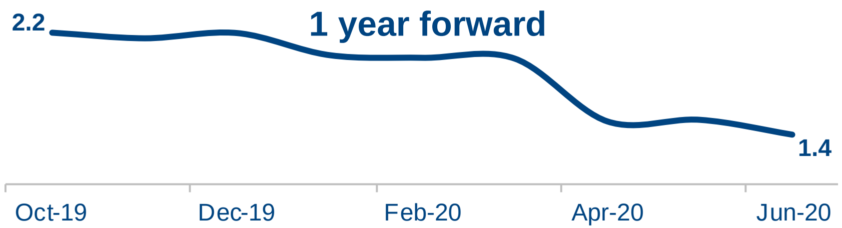


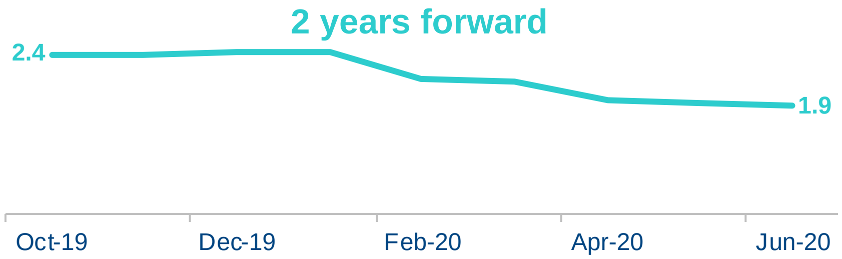




Source: INEI, BCRP and BBVA Research

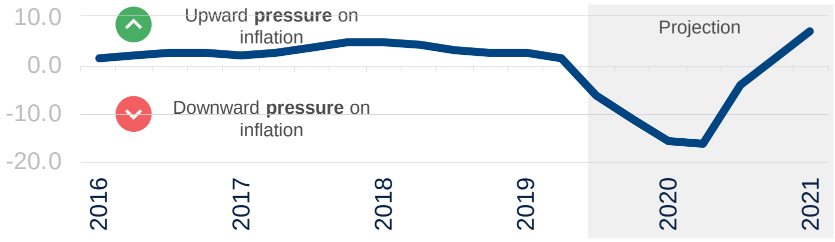
INFLATIONARY EXPECTATIONS
(%)



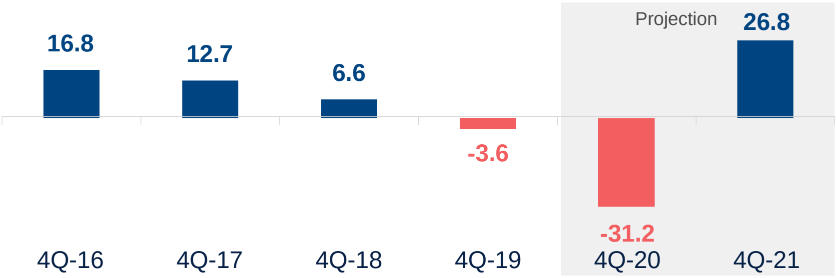


Going forward, inflation will continue to fall as a result of negative shocks to activity and the decline in oil prices

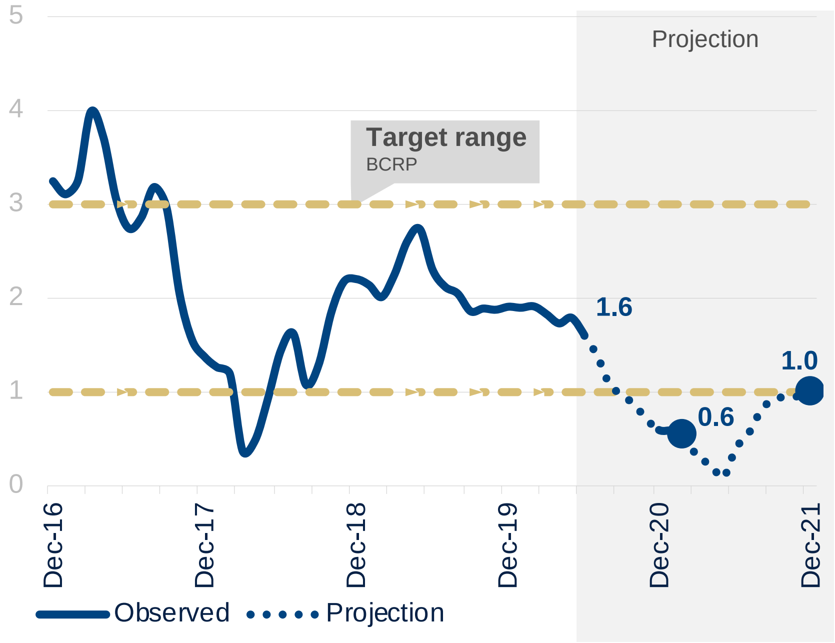
PRIVATE EXPENDITURE
(YoY %, CHANGE, CUMULATIVE LAST 4Q)



PRICE OF WTI CRUDE
(YoY % YOY, EOP)



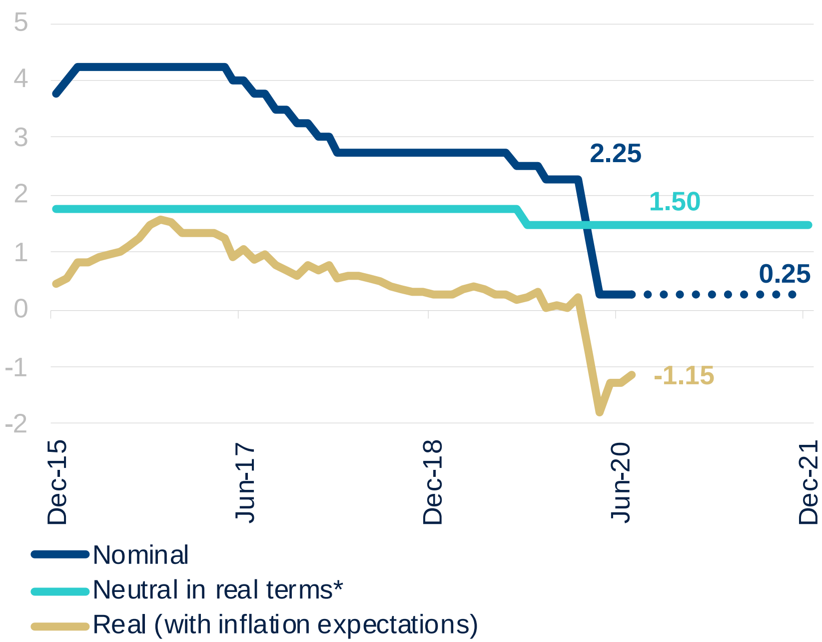
INFLATION
(YoY % CHANGE IN CPI)



Source: INEI, BCRP and BBVA Research

The BCRP will keep the policy rate at its historical minimum level for a prolonged period and will boost the transmission of monetary impulses

REFERENCE INTEREST RATE
(%)



BCRP Statement: July 2020

- Inflation below the target range in 2020 and 2021 due to significant weakening of domestic demand.
- Action to sustain the payments chain.
- A highly expansionary monetary stance over a long period.

BBVA Research projection:

- Reference rate at its current level (0.25%) up to at least the end of 2021.
- Possible unconventional measures to expand monetary stimulus

* The neutral rate was re-estimated in the September 2019 Inflation Report, from 1.75% to 1.50%. Own estimates point to a value of close to 1.25%, providing less in the way of monetary stimulus.
Source: BCRP

03

Summary of macroeconomic forecasts

Macroeconomic forecasts: summary

	2018	2019	2020 (f)	2021 (f)
GDP (% chge.)	4.0	2.2	-15.0	8.0
Domestic demand (excluding inventories, % chge.)	3.6	2.9	-13.2	6.4
Private expenditure (% chge.)	4.0	3.2	-15.4	6.6
Private consumption (% chge.)	3.8	3.0	-10.7	5.3
Private investment (% chge.)	4.5	4.0	-31.7	12.4
Public expenditure (% chge.)	1.6	1.0	-1.4	5.5
Public consumption (% chge.)	0.1	2.1	2.9	2.6
Public investment (% chge.)	5.6	-1.4	-12.1	14.0
Exchange rate (vs. USD, eop)	3.37	3.36	3.40–3.45	3.30–3.35
Inflation (% YoY, eop)	2.2	1.9	0.6	1.0
Monetary policy interest rate (%, eop)	2.75	2.25	0.25	0.25
Fiscal balance (% GDP)	-2.3	-1.6	-9.4	-4.5
Balance of payments: current account (% GDP)	-1.7	-1.5	-1.8	-1.8
Exports (USD billion)	49.0	47.7	40.2	46.1
Imports (USD billion)	41.9	41.1	35.0	39.2

(f) Forecast. Forecast closing date: July 15, 2020.
Source: BCRP and BBVA Research Peru

Disclaimer

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Peru Economic Outlook

3Q20

Closing date: July 15

July 2020

Creating Opportunities