

Peru Economic Outlook

1Q21

Closing date: January 15

January 2021

Key messages (I)

- Global economic activity rebounded more than expected in the third quarter of 2020, but moderated in the fourth quarter due to increased coronavirus infections (US, Europe, new virus variants).
- The Covid-19 vaccine inoculation process has already begun in some of the major global economies, in line with expectations. In this context, and with the support of economic stimuli, financial tensions have returned to pre-crisis levels, favouring LatAm's stock markets, metal prices and risk premia.
- Locally, high-frequency economic activity indicators show that the recovery has continued, but more moderately since the fourth quarter of 2020. On the health side, the general overview points to the beginning of a second wave of infections.
- The baseline scenario for macroeconomic forecasts considers a relatively favourable external environment for Peru due to the recovery of the global economy, higher industrial metal prices, and capital inflows towards emerging markets. Locally, the baseline scenario assumes that, in the event of rebounds in coronavirus infection rates, restrictions on mobility will be targeted, thereby making their economic impact relatively limited. It also considers that both regulatory and electoral uncertainty will remain high in the first months of 2021, affecting private sector spending decisions.

Key messages (II)

- In this context, GDP is projected to grow by 10% in 2021 (-11,5% in 2020), largely due to a "carry-over effect" that we forecast to be of around eight percentage points.
- On the fiscal side, the deficit is projected to be 4,7% of GDP this year (8,9% in 2020). Hence, gross public debt should stay at around 35,0% of GDP. Moving forward, stabilising this ratio below 40% will require the next government administration to implement measures in order to increase tax revenues.
- In the foreign exchange market, episodes of depreciation pressures on the local currency cannot be ruled out during the first quarter in response to electoral process uncertainty. However, by the second half of this year, the projected high trade surplus (due to the recovery of mining production and high metal prices) and lower global risk aversion (which will favour the inflow of capital into emerging economies in an environment of abundant global liquidity) will provide support for the Peruvian sol. As a result, the exchange rate will end the year between 3,40 and 3,45 soles per dollar.
- In the absence of demand pressures on prices, the Peruvian Central Bank (BCRP) will have room to continue providing monetary stimulus to the economy. In this context, the Central Bank is expected to maintain the policy rate at 0,25% until mid-2022 and will continue to provide liquidity support and to strengthen forward-guidance for the market.

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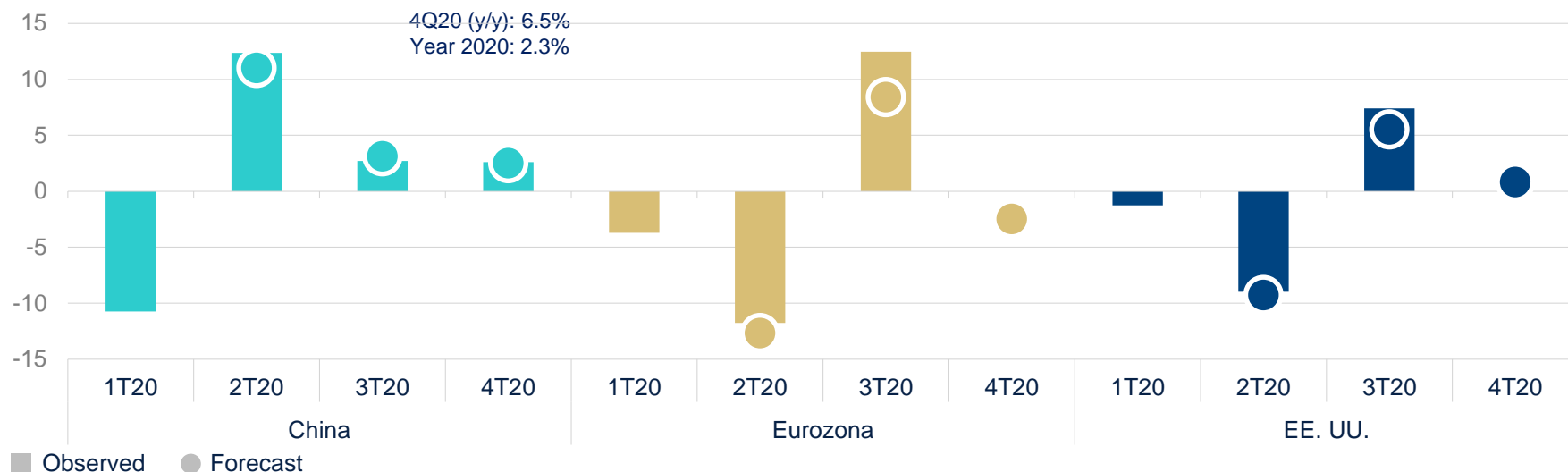
01

How are financial markets
and economic activity
evolving?

Economic growth has picked up significantly and more than expected in the third quarter, but has moderated in the fourth due to the increase in infections

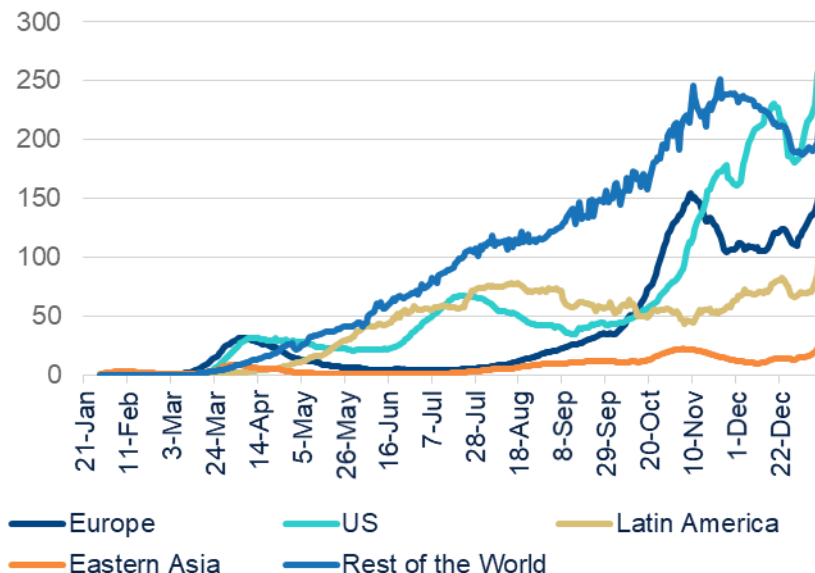
GDP: OBSERVED AND FORECASTED

(Q/Q %)



Infections have surged in the last months, particularly in the US and Europe; the new variants of the virus pose a threat

DAILY CASES OF COVID-19 (*) (THOUSANDS OF PEOPLE, 7-DAY MOVING AVERAGE)



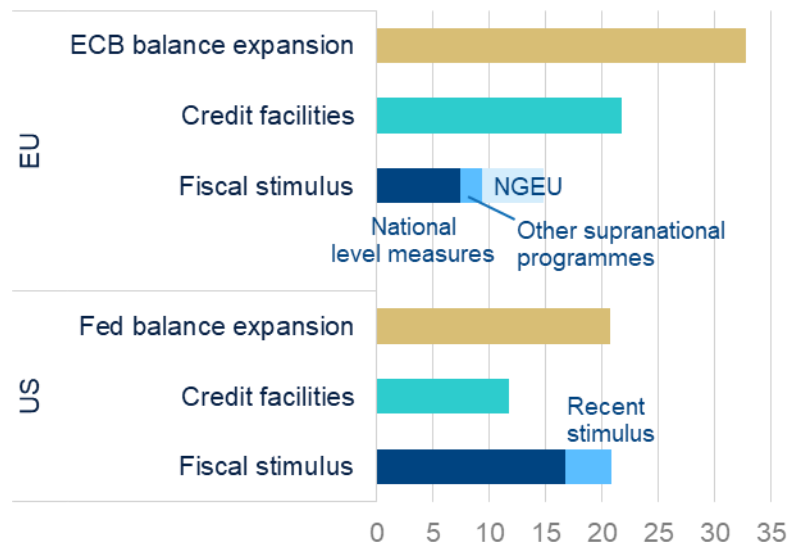
- In the **US**, **Europe** and **LatAm** contagions have increased again in the last few weeks.
- **Eastern Asia** is experiencing outbreaks, but the situation remains under control.
- **Rising uncertainty** on the evolution of the pandemic due to **the new strains** of the virus.
- **Mobility** has decreased again, particularly in recent weeks and in Europe, but less than in the first wave.

(*): Europe: Germany, Spain, France, Italy, Portugal, United Kingdom, and Turkey. Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay. Eastern Asia: China, South Korea, Japan and Singapur.
Source: BBVA Research based on data from John Hopkins University.

Economic policy remains committed to the recovery: reinforced monetary stimuli, NGEU approval, and new fiscal measures in the US

ECONOMIC STIMULI *

(% OF GDP)



- **ECB:** new stimuli announced in December, including the extension of the asset purchasing programme.
- **Fed:** economic support through zero level interest rates and quantitative easing.
- **Fiscal policy in Europe:** NGEU funds will be available from around mid-year.
- **Fiscal policy in the US:** imminent additional measures after a recent package of 0.9 trillion dollars.

* Fiscal stimulus: expenditure increases and tax cuts, excluding resources used in credit programs. In the case of the Eurozone, national level measures represent the average stimulus launched in Germany, France, Italy and Spain while supranational measures include the EIB measures and the SURE. Credit Programs: in the case of US it includes the Fed credit facilities. For the Eurozone it represents the average of Credit Guarantee Funds in Germany, France, Italy and Spain. CBs balances: expected accumulated increase between 2020 y 2021.

Source: BBVA Research based on local statistics.

Covid-19 vaccine inoculation process has already started in some of the main world economies, in line with expectations

EU



Population covered by the vaccine purchase contracts already signed

(not all approved yet)

Inoculation started at a low pace with the BioNTech/Pfizer vaccine.

US



Population covered by the vaccine purchase contracts already signed

(not all approved yet)

Inoculation started with the BioNTech/Pfizer and Moderna vaccines.

CHINA

Inoculation started with the Sinopharm vaccine.

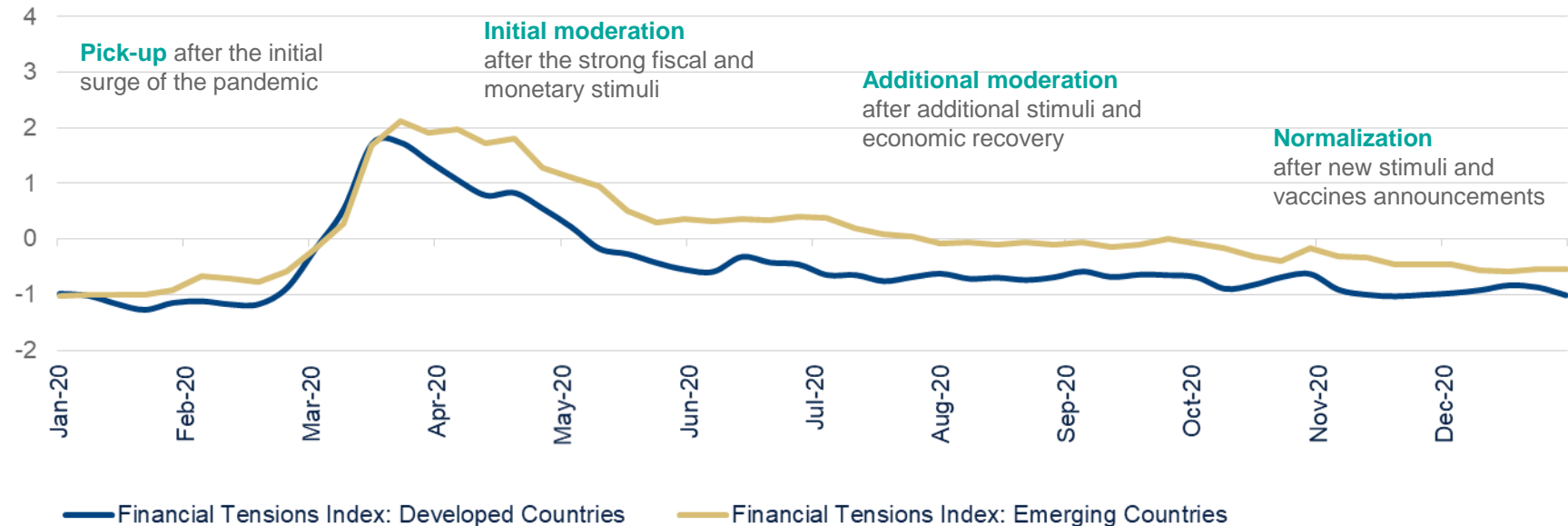
OTHER REGIONS

Heterogeneity across countries.
Ongoing vaccination in Israel, United Kingdom, Russia, Argentina, Chile, Mexico etc.

Financial tensions have converged to pre-crisis levels, thanks to economic stimuli and the vaccine development

FINANCIAL TENSIONS

(FINANCIAL TENSIONS INDEX: AVERAGE FROM 2006 = 0)



In this environment, financial market indicators have improved...

S&P 500
(POINTS)



Source: Bloomberg and BBVA Research.

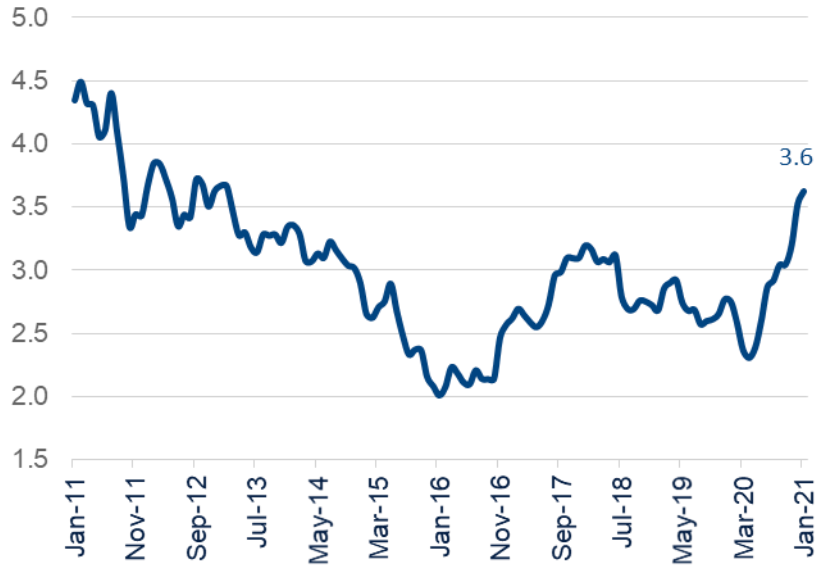
US TREASURY BOND YIELDS
(%)



Source: Bloomberg and BBVA Research.

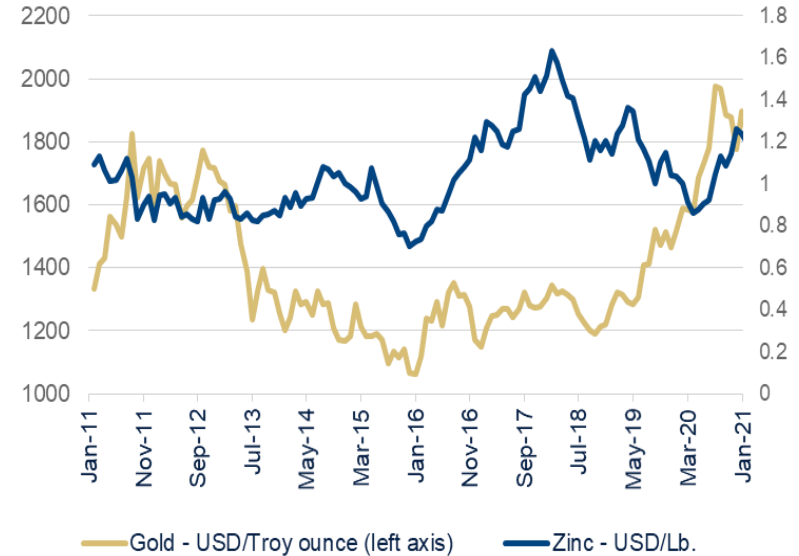
... and the price of copper is at a seven-year high...

COPPER PRICE (USD/lb.)



Source: Bloomberg and BBVA Research.

GOLD AND ZINC PRICES



Source: Bloomberg and BBVA Research.

... while regional currencies have remained relatively stable in recent weeks...

LATAM: EXCHANGE RATES

(LOCAL CURRENCY UNITS PER USD; INDEX DEC-31-19 = 100)



Source: Bloomberg and BBVA Research.

LATAM: EXCHANGE RATES

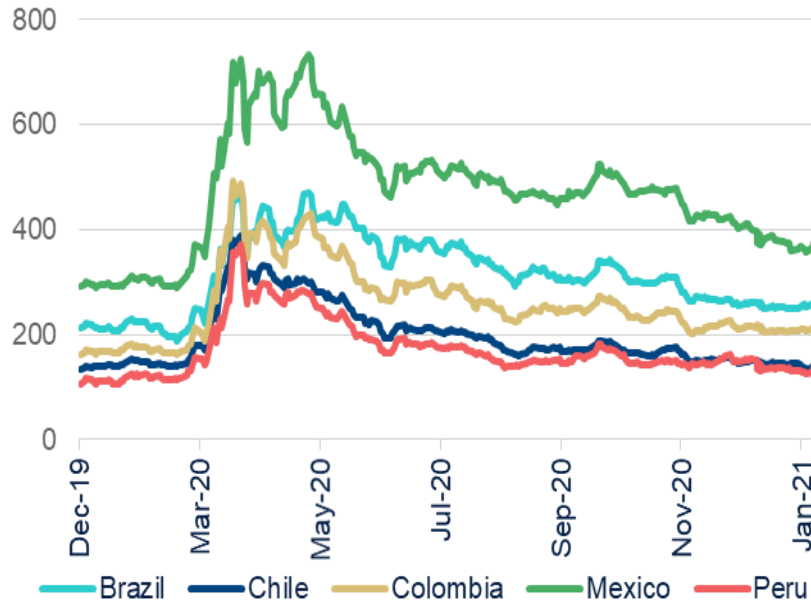
("-": APPRECIATION OF LOCAL CURRENCY; "+": DEPRECIATION)

	Cumulative 2021	1 month to date	3 months to date
Brazil	2.0%	3.6%	-5.2%
Chile	3.1%	-1.3%	-8.7%
Colombia	1.0%	1.3%	-9.2%
Mexico	-0.6%	-1.1%	-6.7%
Peru	-0.1%	0.4%	0.7%

Source: Bloomberg and BBVA Research.

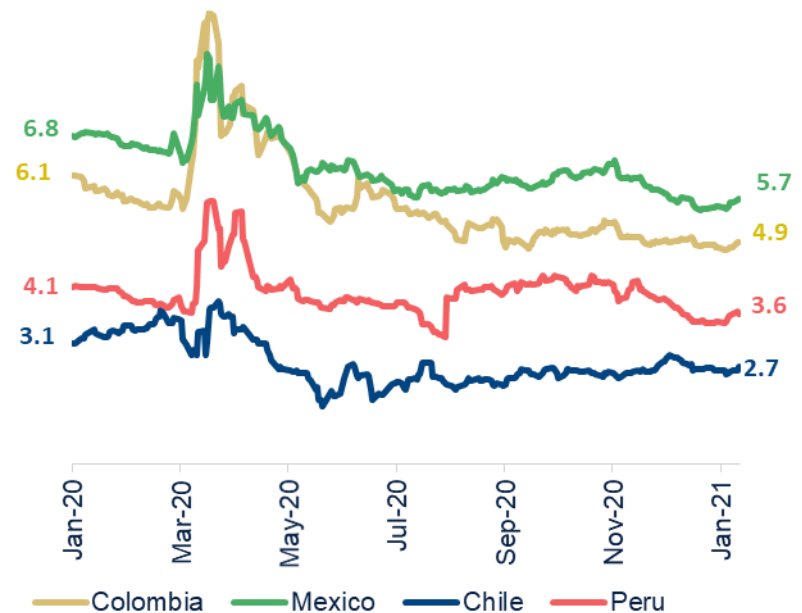
... in a context in which the EMBIs are falling and sovereign bond yields have registered relatively narrow changes

EMBI
(POINTS)



Source: Bloomberg and BBVA Research.

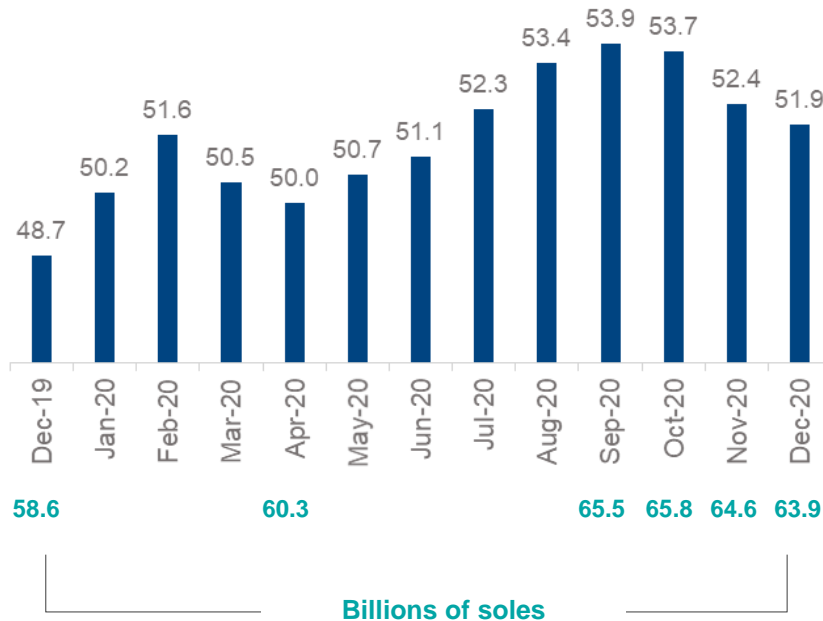
10-YEAR SOVEREIGN BOND YIELDS
(%)



Source: Bloomberg and BBVA Research.

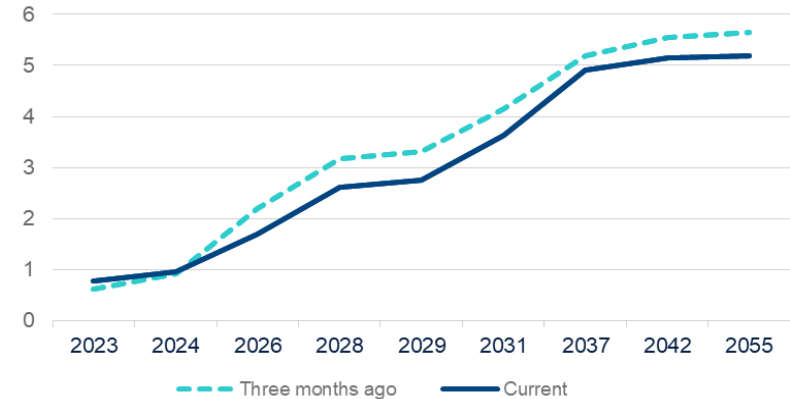
In Peru, in particular, the mid-long stretch of the sovereign bonds curve has fallen since the period of turbulence in November

SOVEREIGN BOND HOLDINGS BY NON-RESIDENTS (% OF TOTAL)



Source: MEF and BBVA Research

SOVEREIGN BOND YIELD CURVE (%)



DIFFERENCE: CURRENT VS. PREVIOUS PERIOD (BASIS POINTS)

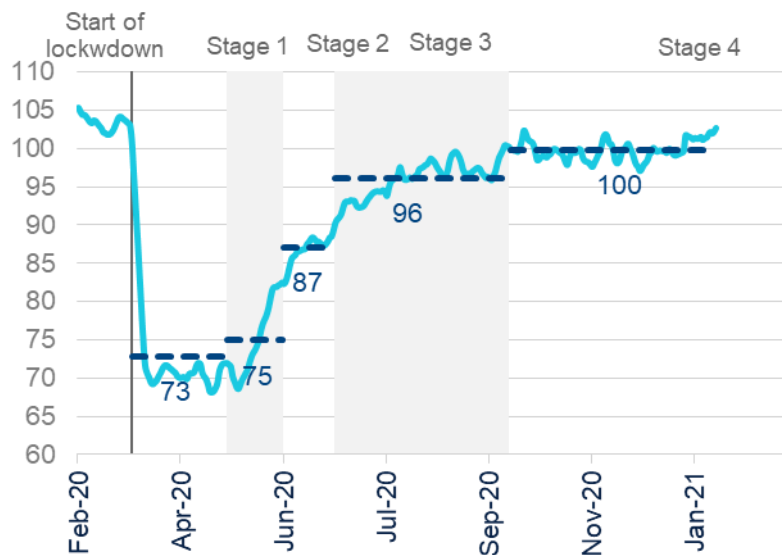
	2023	2024	2026	2028	2029	2031	2042
A month ago	8	9	6	1	6	5	7
Three months ago	16	5	-50	-57	-57	-52	-41
A year ago	-163	-193	-183	-142	-138	-94	-9

Source: Bloomberg and BBVA Research.

High frequency indicators indicate that normalisation of local economic activity has continued, but more moderately since 4Q20

PERU: ELECTRICITY OUTPUT

(AS A % OF THE LEVEL IN THE SAME PERIOD OF 2019, 7-DAY AVERAGE)

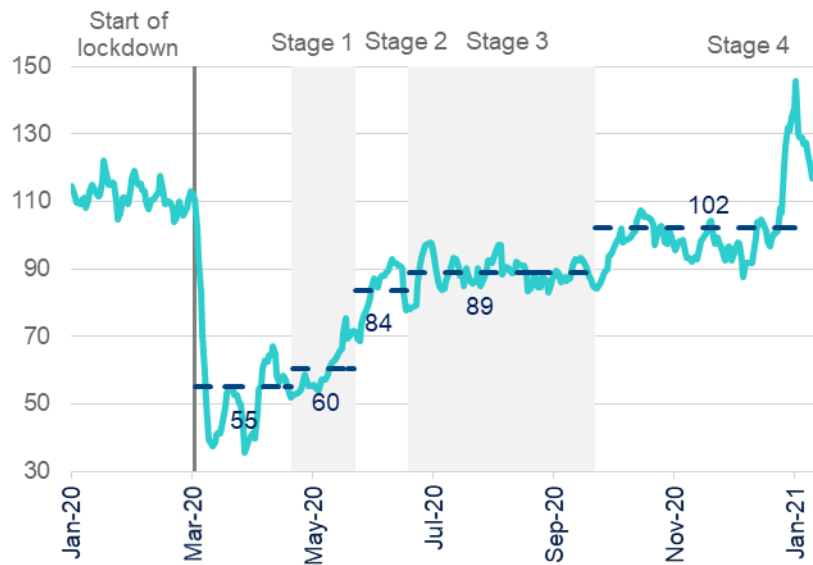


- The recovery reflected the resumption of activity in various sectors (supply factors). It has now lost momentum.
- This moderation of the process of return to normal activity is also seen in the indicators for private spending (consumption, investment).
- The improvement in investment demand is consistent with increased imports of technology and telecommunications-related goods, as well as increased domestic consumption of cement.

High frequency indicators indicate that normalisation of local economic activity has continued, but more moderately since 4Q20

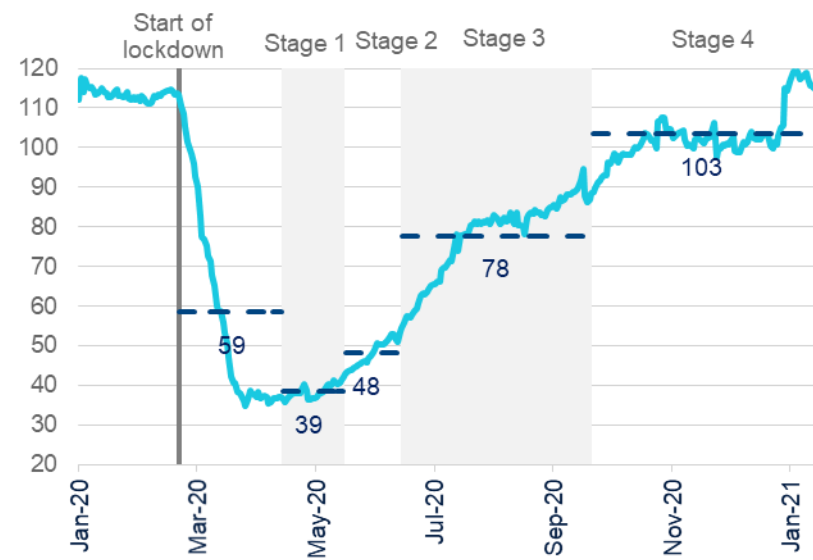
CONSUMPTION INDICATOR^{1, 2}

(AS A % OF THE LEVEL IN THE SAME PERIOD OF 2019, 7-DAY AVERAGE)



INVESTMENT INDICATOR^{1, 3}

(AS A % OF THE LEVEL IN THE SAME PERIOD OF 2019, 28-DAY AVERAGE)



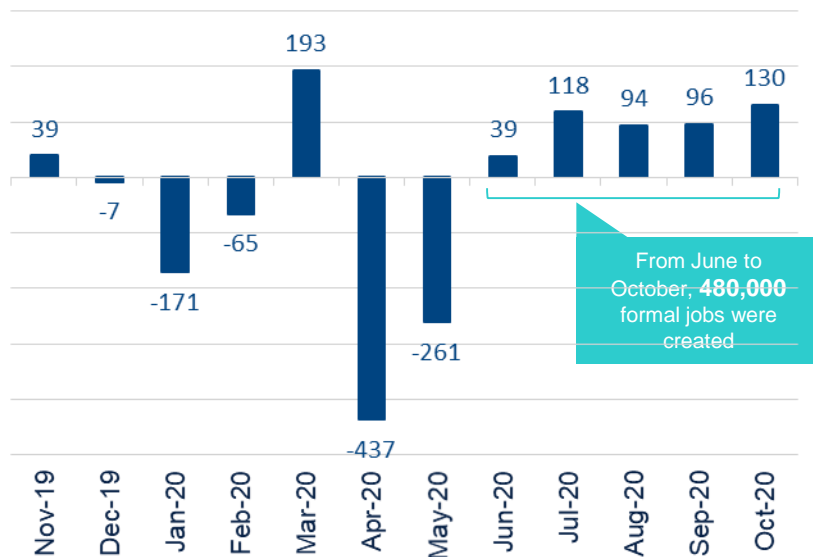
1: Information available up to January 15. 2: Credit and debit card purchases and withdrawals by individuals are taken into consideration. 3: Income into the accounts of companies operating in investment goods is taken into consideration.

Source: BBVA.

Formal employment at the national level showed recovery in the second half of 2020, but still remains 4% below the pre-crisis level

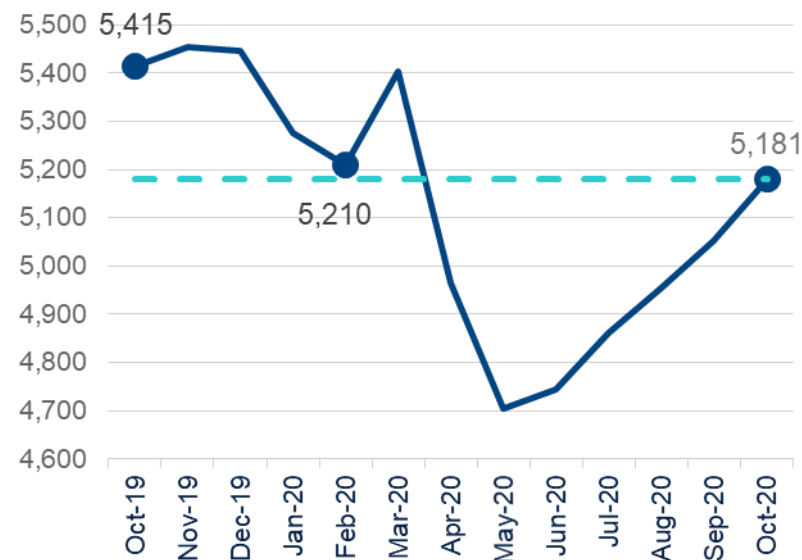
FORMAL EMPLOYMENT AT NATIONAL LEVEL

(MONTHLY CHANGE, THOUSANDS OF PEOPLE)



FORMAL EMPLOYMENT AT NATIONAL LEVEL

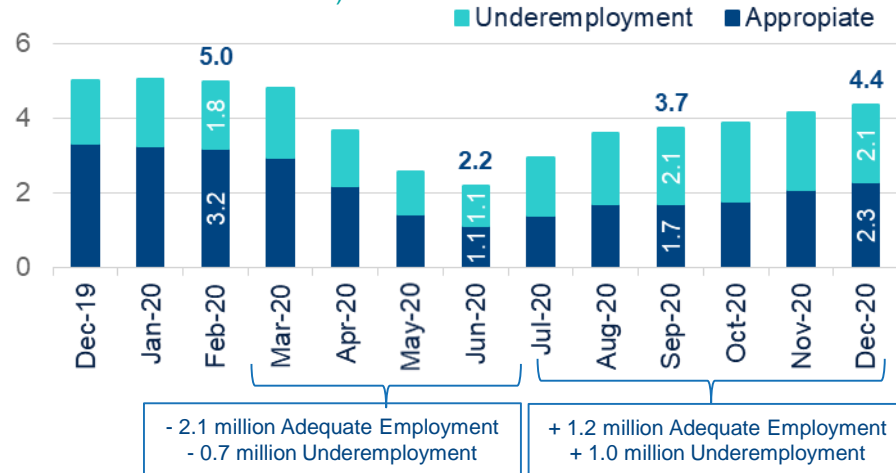
(THOUSANDS OF PEOPLE)



In the Lima Metropolitan Area, labour indicators, such as adequate employment, have also shown improvement: a possible support for consumption this year?

EMPLOYMENT IN THE LIMA METROPOLITAN AREA

(EMPLOYED EAP, MILLIONS OF PEOPLE, AVERAGE FOR THE LAST THREE MONTHS)



UNDEREMPLOYED

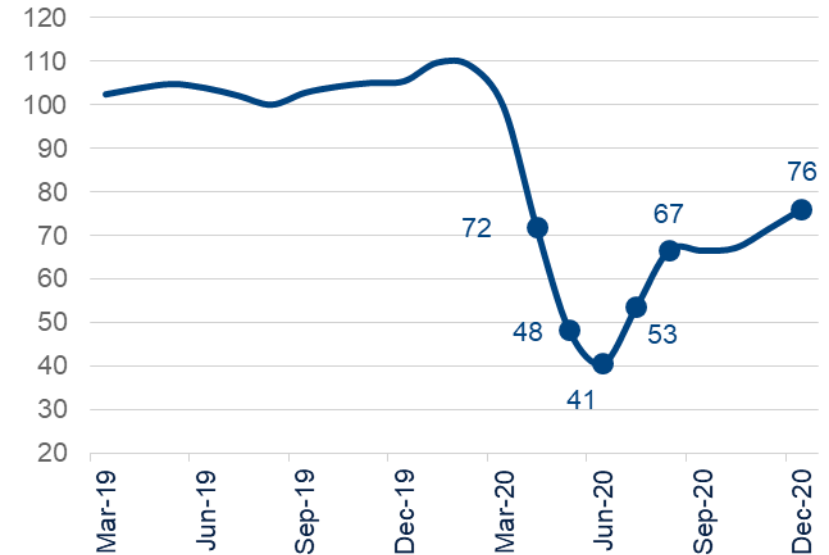
(% OF EMPLOYED EAP, AVERAGE FOR LAST THREE MONTHS)

Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
39.1	40.2	43.7	49.9	52.7	53.4	55.0	54.1	49.8	47.6

Source: INEI and BBVA Research.

PAYROLL OF WORKERS IN LIMA

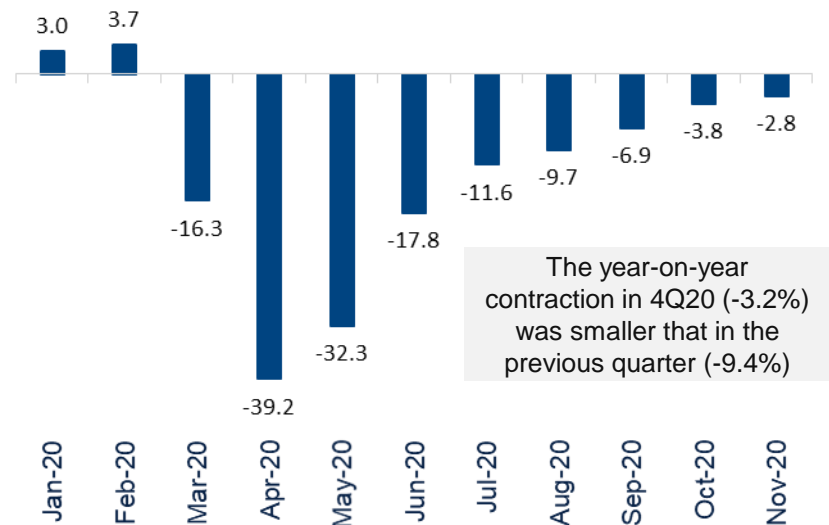
(AS A PERCENTAGE OF THE LEVEL REACHED IN THE SAME PERIOD IN 2019, AVERAGE FOR THE LAST THREE MONTHS)



Source: INEI and BBVA Research.

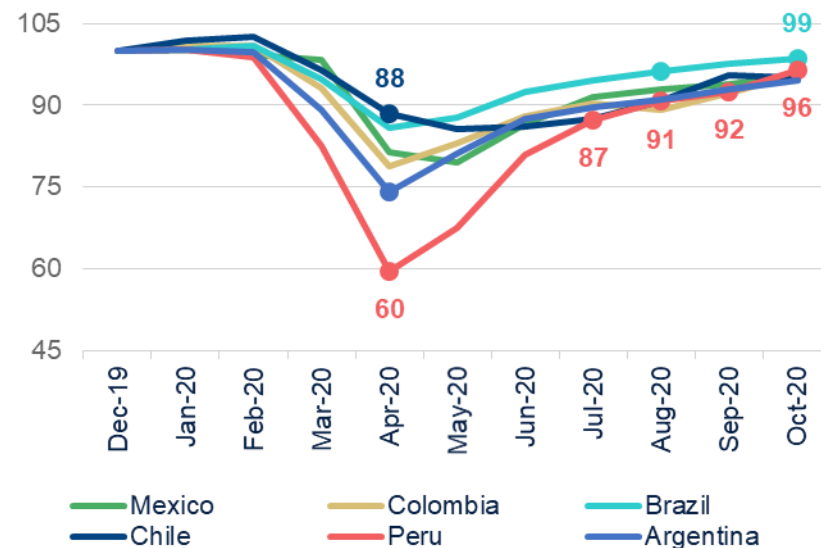
In this context, the year-on-year contraction of GDP has moderated and local economic activity has shown a stronger rebound than the rest of LatAm

GDP (YoY % CHANGE)



Source: INEI and BBVA Research.

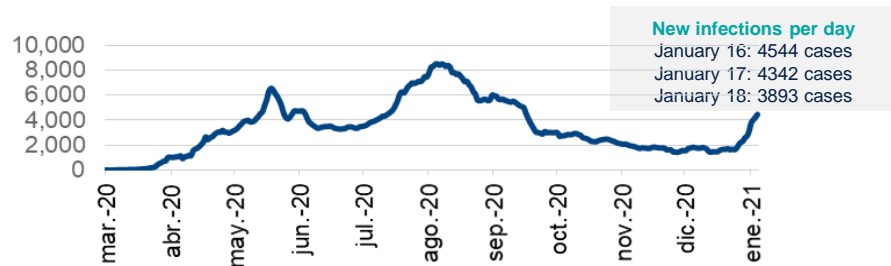
LATAM: ECONOMIC ACTIVITY (SEASONALLY ADJUSTED, AS A % OF THE LEVEL REACHED IN DEC. 19)



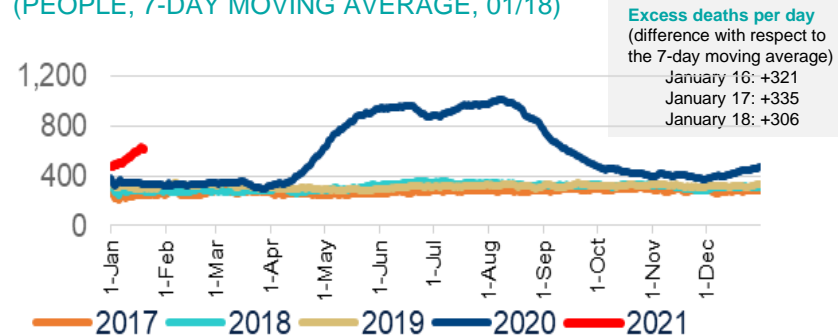
Source: Argentina: National Institute of Statistics and Census (INDEC); Brazil: Central Bank of Brazil (BCB); Mexico: National Institute of Statistics and Geography (INEGI); Colombia: National Administrative Department of Statistics (DANE), Chile: Central Bank of Chile, Peru: BCPR and BBVA Research.

On the health emergency side, indicators show the onset of a second wave, with high ICU bed occupancy

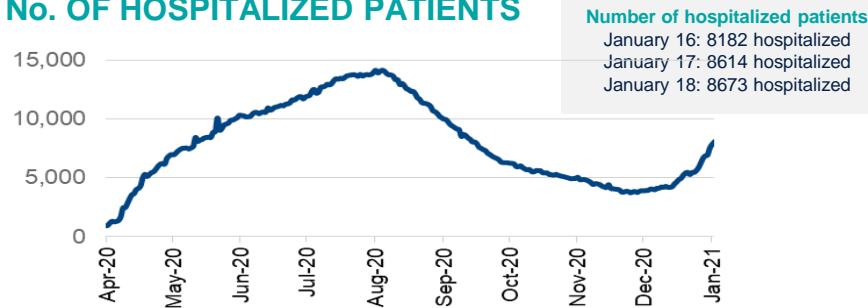
NEW DAILY INFECTIONS¹ (7-DAY MOVING AVERAGE)



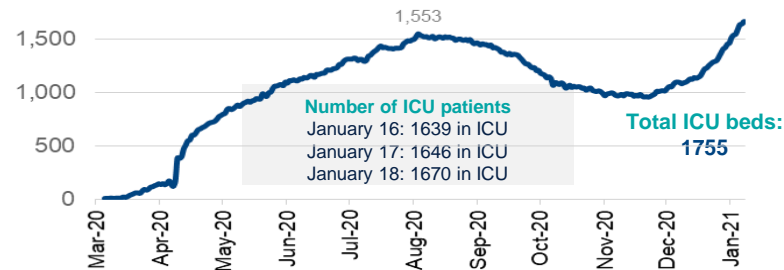
DAILY DEATHS ACCORDING TO SINADEF² (PEOPLE, 7-DAY MOVING AVERAGE, 01/18)



No. OF HOSPITALIZED PATIENTS



No. OF HOSPITALIZED IN ICU



1: Corresponds to cases detected with PCR, PR and antigen tests recorded on the day, of which a fraction were performed on previous days

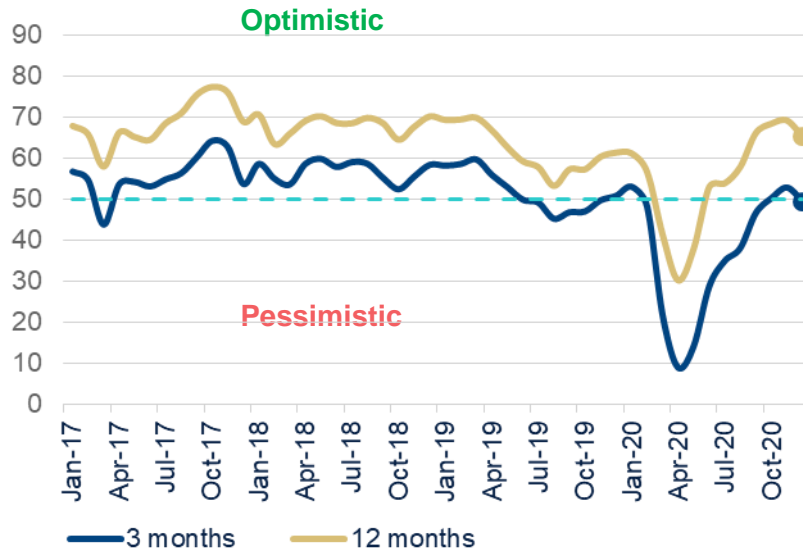
2: SINADEF (the national record of deaths) conducts major data reviews for the 14 days prior to the last update date.

3: Daily excess deaths are calculated as the difference between the 7-day moving average of deaths and the average number of deaths in 2017, 2018 and 2019.

Source: MINSA and BBVA Research.

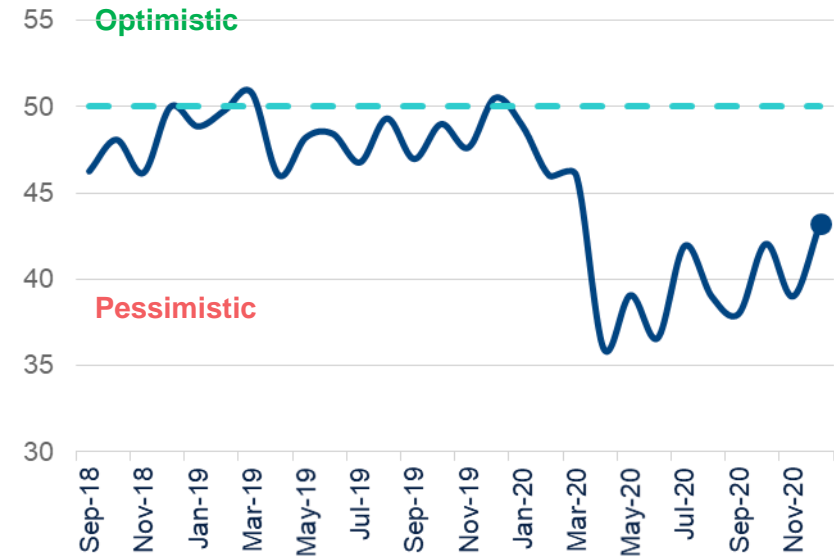
In this context of relative improvement, business confidence is recovering, but consumer confidence remains weak

BUSINESS CONFIDENCE (POINTS)



Source: BCRP and BBVA Research.

CONSUMER CONFIDENCE (POINTS)



Source: Apoyo Consultoría and BBVA Research.

02

Quarterly review of macroeconomic forecasts

2.1. GDP and economic activity

The baseline forecast scenario for 2021 and 2022 involves the following assumptions for external and domestic factors

EXTERNAL

01 Health emergency

Mass distribution of vaccines in major economies in the first half of the year followed later by other countries.

Return to "normal" in 2022.

02 Global growth

Global growth will slow down more than expected in the short term due to increased levels of infection, but will recover strongly from mid-2021 (economic stimulus will remain in place at least until recovery is consolidated). Gradual reduction of volatility and of risk aversion throughout 2021.

03 Metals

High metal prices (promising outlook for copper).

04 Capital flows

Emerging markets will continue to attract capital, albeit with differentiation.

The baseline forecast scenario for 2021 and 2022 involves the following assumptions for external and domestic factors

LOCAL

05 Health



More focused lockdowns and mobility restrictions. Vaccine distributed locally in the second half of 2021.

06 Demand and banking



Significant "rebound effect" for 2021. In 2022, positive effects of the wider extension of the vaccination process

On the supply side, there is little additional space to boost activity (until the vaccine is available).

On the demand side, weak private sector spending: caution, deteriorating employment conditions.

Increased spending on maintenance ("*Arranca Perú*" program) and infrastructure construction (reconstruction of the north of the country, ports, airports, Lima metro, mines).

The banking sector continues to show resilience.

07 Political situation



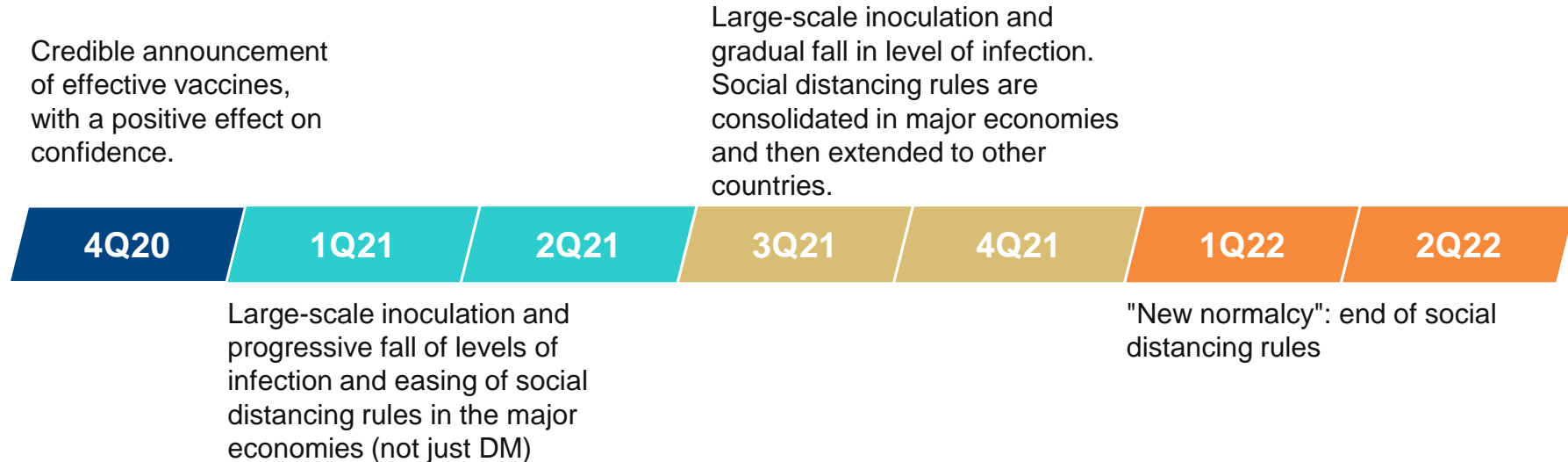
Uncertainty in regulatory matters until the first half of 2021.

Uncertainty related to the 2Q21 election result.

The 2021 general election will be won by a candidate who will generally maintain the essential framework of economic policy over the past two decades.

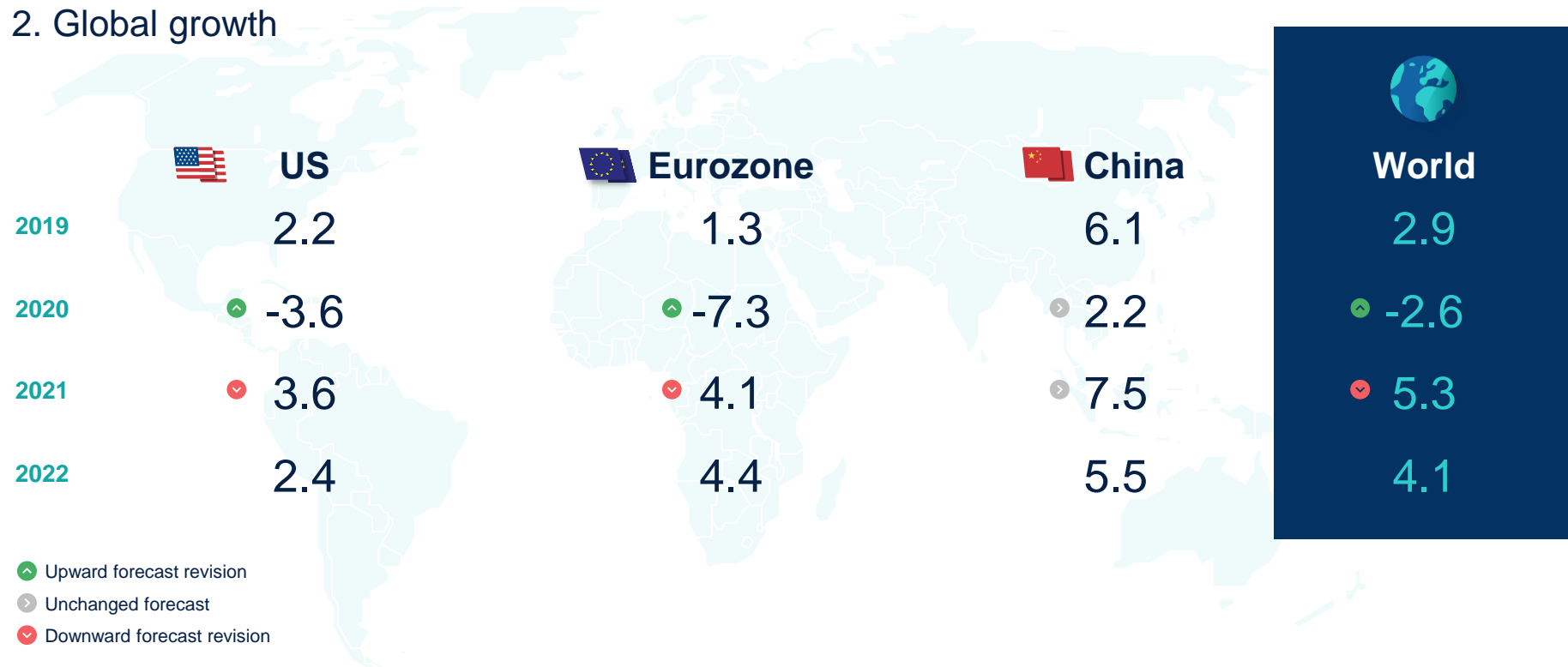
Mass distribution of vaccines in major economies in the first half of the year, followed later by other countries

1. Health emergency



Economic growth will slow down more than expected in the short-term, due to rising contagions, but it will invigorate from mid-year on

2. Global growth

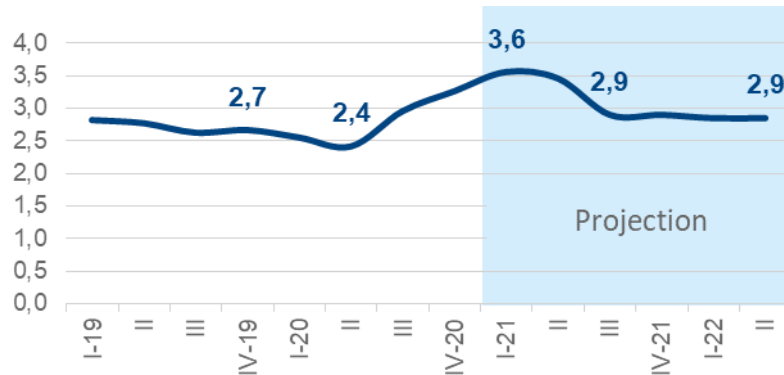


Industrial metals prices at high levels... leading to a promising outlook for copper

3. Metal prices

COPPER PRICE

(AVERAGE FOR THE PERIOD, USD/lb.)



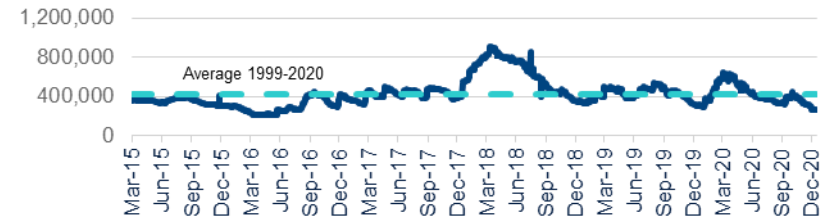
	2019	2020	2021	2022
Copper (USD/lb.)	2.72	2.80	3.20	2.81
Oil (USD barrel)	57	39	52	56
Terms of trade (% chge. YoY)	-1.8	6.3	5.4	-7.3

Source: Bloomberg and BBVA Research.

COPPER PRICE AND NON-COMMERCIAL NET POSITIONS



COPPER INVENTORIES (MT)

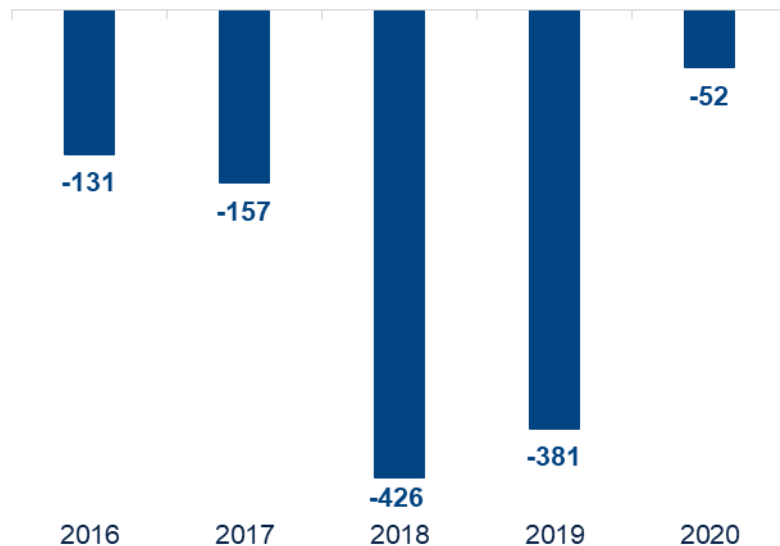


The renewed volume of global economic activity (particularly in the case of China), increasing concern about global warming and ample levels of liquidity will all support the price of copper.

Industrial metals prices at high levels... leading to a promising outlook for copper

3. Metal prices

COPPER GLOBAL BALANCE SHEET (THOUSANDS OF METRIC TONS)



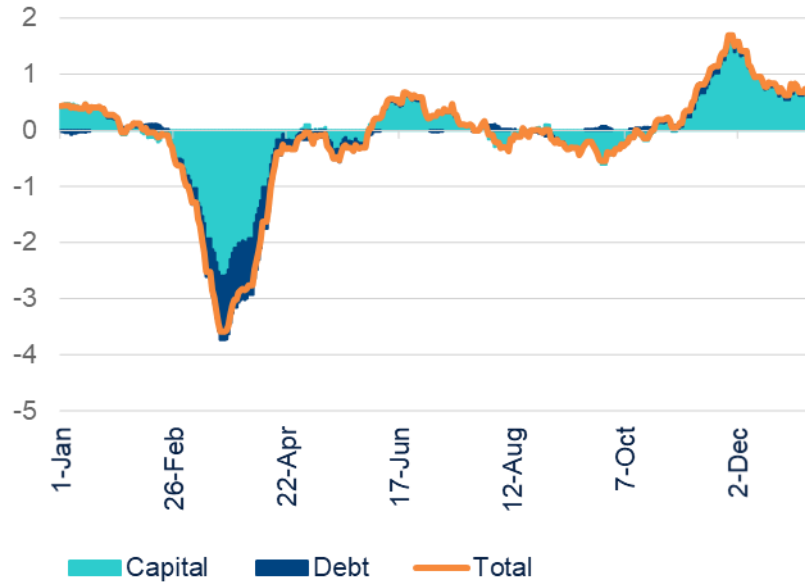
Source: ICSG.

- The price of copper will benefit from structural supports in the coming years.
- Investment in "green infrastructure" (particularly in the United States with Biden) and conversion from conventional vehicles to electric vehicles (EV) (greater concern for global warming).
- With regard to the recently initiated reconversion to EV: (i) the minimum autonomy required has already been attained (200 miles for both Tesla Model 3 and Chevy Bolt); (ii) there are currently 1.3 billion light cars in the world, only 1.2 million of which are EV (an EV demands 3 to 4 times more copper than a conventional vehicle).
- Limiting factor: the cost of the battery.
- Green investment and EV may well raise demand for copper by 8.5 million MT over the next 10 years, equivalent to one-third of today's global demand.

Capital flows into emerging markets are assumed, but with differentiation

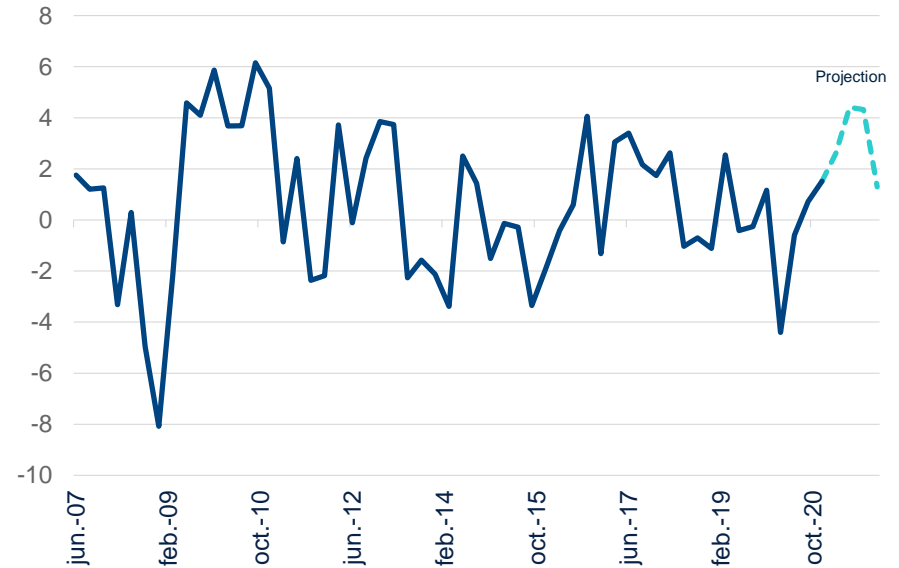
4. Capital flows into emerging markets

CAPITAL FLOWS INTO EMERGING MARKETS
(USD BILLIONS, 28-DAY MOVING AVERAGE)



Source: Bloomberg, IIF and BBVA Research.

CAPITAL FLOWS INTO EMERGING ECONOMIES
(% OF ASSETS ADMINISTERED)



Source: BBVA Research.

On the health side, the baseline scenario considers that in the event of new rebounds in the levels of infections, restrictions on mobility will be targeted

5. Local health situation

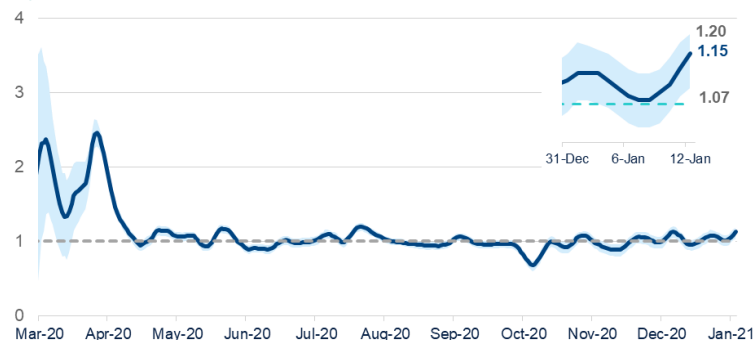
DAILY TESTS WITH POSITIVE RESULTS* (% OF TOTAL, 7-DAY MOVING AVERAGE)



Daily tests with positive results (as a % of total daily tests performed)
January 16: 16%
January 17: 14%
January 18: 16%

* PCR and PR tests with positive results as % of daily PCR and PR tests performed.

R_t IN REAL TIME



Source: MINSA and BBVA Research.

- The baseline scenario considers that any possible lockdown and mobility restrictions will be targeted.
- The impact they will have on activity will therefore be relatively limited.
- It also assumes that an effective vaccine will begin to be distributed locally and widely in the second half of 2021.

On the demand side, increased expenditure on infrastructure, maintenance, and construction

6. Demand and the Banking System



"Arranca Perú" program

USD 2 billion (2020).

USD 944 million (2021).

About 80% related to road maintenance activities.



"Reconstrucción con Cambios" ("Reconstruction with Changes" program)¹

USD 2 billion (from 2021).

This includes integral solutions for 17 rivers, 5 mountain streams and 7 stormwater drains in coastal cities.

Reconstruction and infrastructure in health (15 hospitals) and education (74 schools).



Building new infrastructure

Lima Metro Line 2.

Ports: San Martín, Salaverry and Chancay.

Jorge Chávez Airport.

1: The contract was signed with the UK government in June.

Source: MEF, *Reconstrucción con Cambios*, press reports and BBVA Research.

Banks are comfortably meeting the regulator's requirements in response to the crisis and have consolidated their position

6. Demand and the Banking System

FINANCIAL INDICATORS OF THE BANKING SYSTEM

	Required by the regulator	COVID-19 Pandemic	
		Dec 19	Nov 20
SOLVENCY			
Global Capital Ratio	10	14.5	15.5
Outstanding Provisions/Credit		152	178
ASSET QUALITY			
Outstanding Credit (SBS criterion)*/Direct Credit		3.0	3.7
Outstanding Credit in LC (SBS criterion)*/Direct Credit in Local Currency		3.3	3.8
Outstanding Credit in FC (SBS criterion)*/Direct Credit in Foreign Currency		2.3	3.5
PROFITABILITY			
Annualized Net Income/Average Property		18.3	5.4
Annualized Net Income/Average Asset		2.3	0.6
LIQUIDITY			
LC Liquidity Ratio (Average Balances of the Month)	8.0	27.0	49.6
FC Liquidity Ratio (Average Balances of the Month)	20.0	49.6	51.5

Banks are facing this crisis with ample capital and provisions.

Increases in non-performing loans, especially for consumer credit

Sharp drop in profitability, but remains positive despite higher provisions.

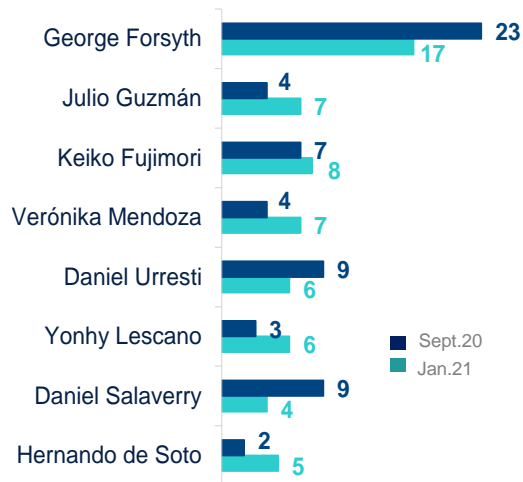
Adequate liquidity supported by Peruvian Central Bank (BCRP) measures.

Finally, electoral and regulatory uncertainty will affect private sector spending decisions in the first half of 2021

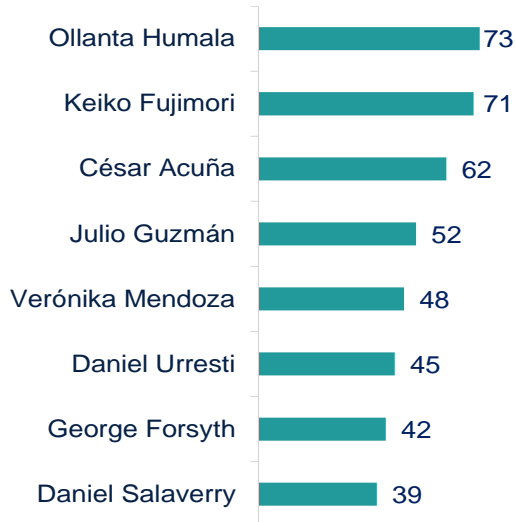
7. Political situation

INTENTIONS TO VOTE FOR THE 2021 PRESIDENTIAL ELECTION (%)

(%)



ANTI-VOTE SENTIMENT (%)



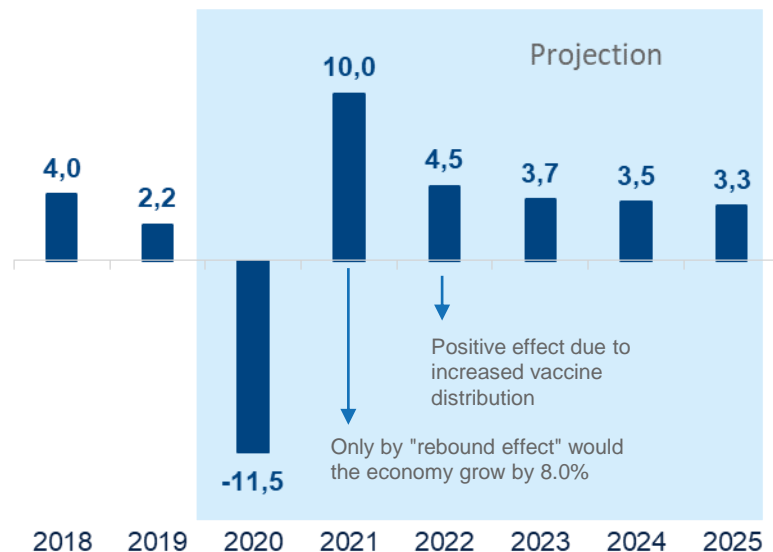
POLITICAL PHASES OF THE ELECTORAL CAMPAIGN



Under this baseline scenario, GDP is expected to increase by 10% this year, largely due to a "rebound effect"

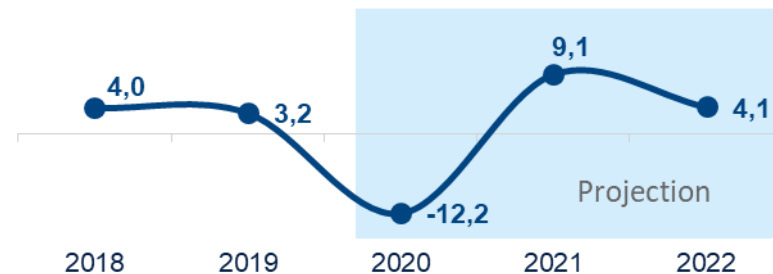
GDP

(YoY % CHANGE)



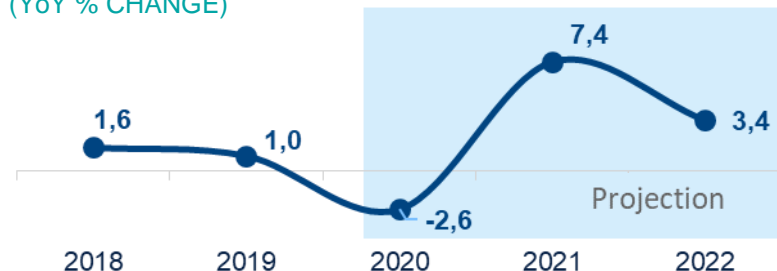
PRIVATE SPENDING

(EXCLUDES INVENTORY ACCUMULATION, YoY % CHANGE)



PUBLIC EXPENDITURE

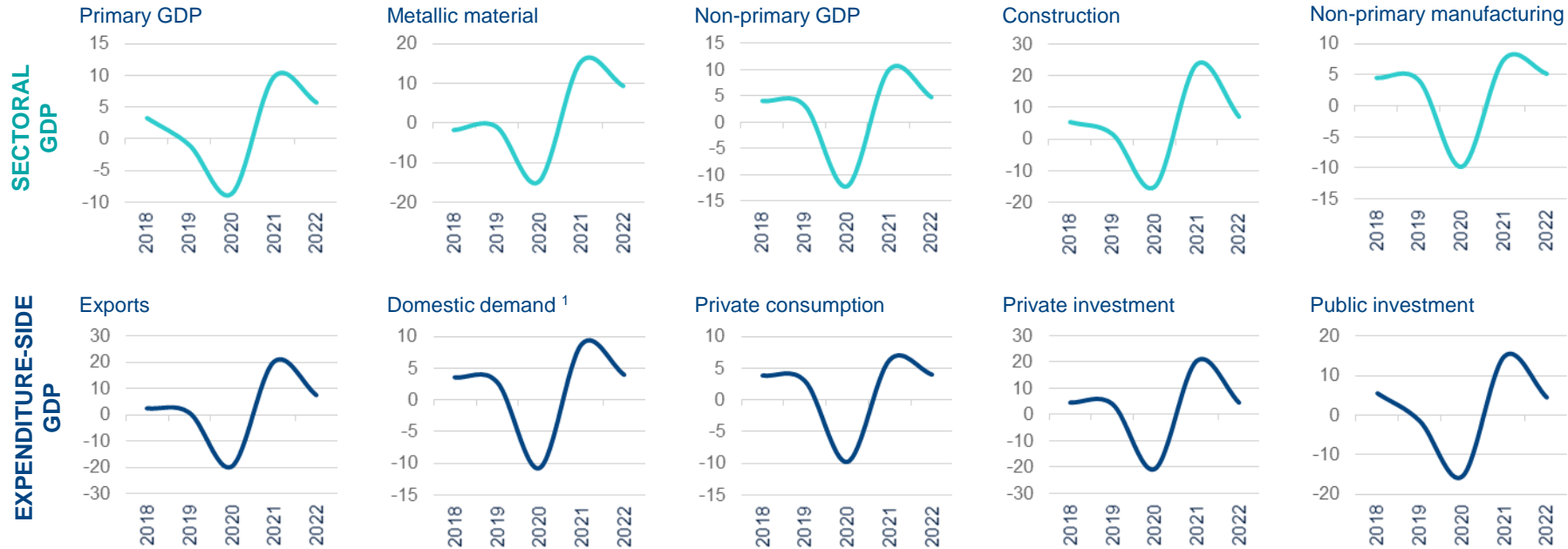
(YoY % CHANGE)



Under this baseline scenario, GDP is expected to increase by 10% this year, largely due to a "rebound effect"

GDP: SELECTED COMPONENTS FOR THE SECTORAL AND EXPENDITURE SIDES

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

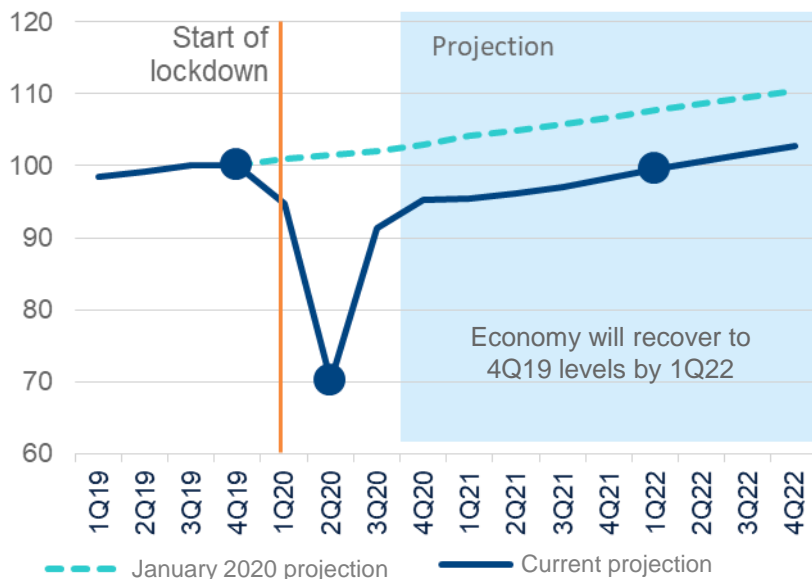


1: Excludes inventory accumulation
Source: BCRP and BBVA Research.

The severity of the crisis and its aftermath on demand will induce a slow output recovery

PERU GDP: LEVEL

SEASONALLY ADJUSTED QUARTERLY INDEX, 4Q19 = 100)



Source: BCRP and BBVA Research.

CONSUMPTION

- Family income has declined: Jobs have been lost, formal jobs will take a long time to recover, tendency toward informality, excess labor supply
- Consumption expenditure has been affected, moreover, by family caution and increased precautionary saving

PUBLIC INVESTMENT

- Private investment restricted by existing overcapacity, corporate indebtedness and context of high uncertainty

PUBLIC SPENDING

- Can it be significantly expanded? From 2022 onward, fiscal consolidation efforts (to stabilize public finances and prevent excessive growth in government debt) to impose restrictions on the expansion of public spending

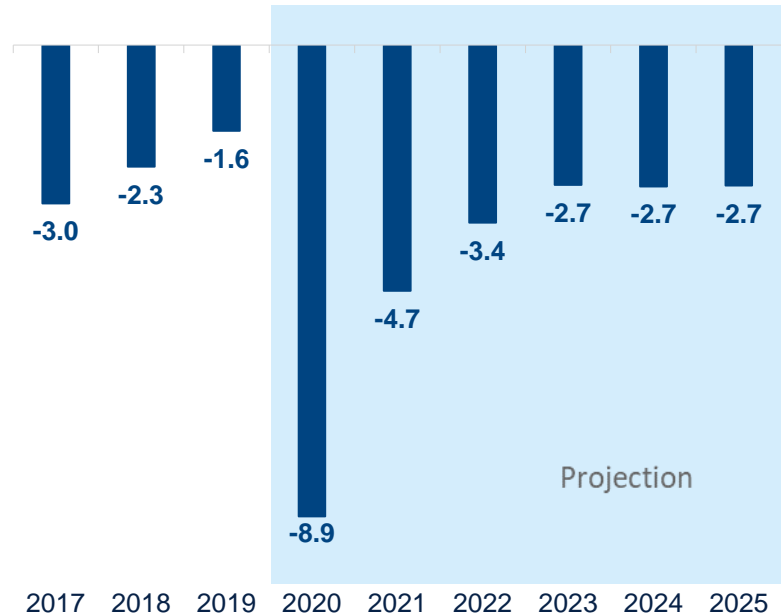
02

Quarterly review of macroeconomic forecasts

2.2. Fiscal result and public debt

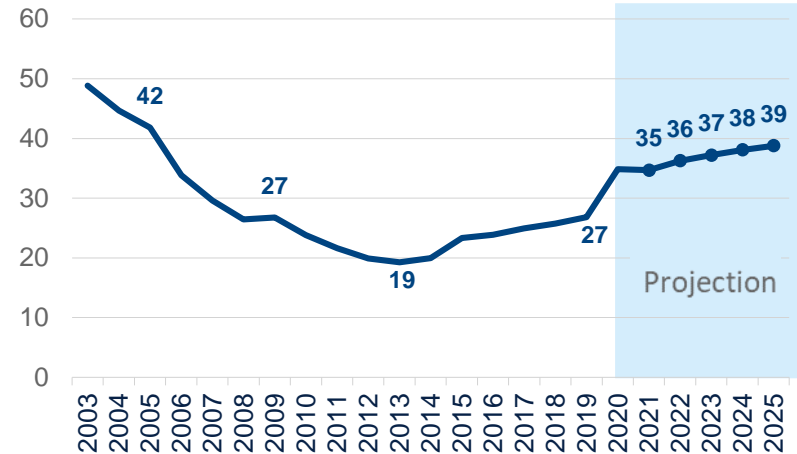
Fiscal position: stabilisation of public debt will require measures to recover revenues

FISCAL BALANCE (% OF GDP)



Source: BCRP, MEF and BBVA Research

GROSS PUBLIC DEBT (% OF GDP)



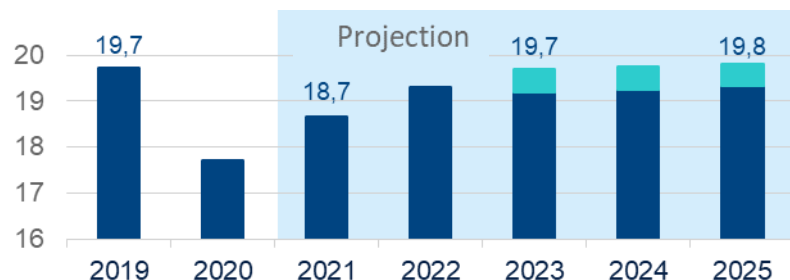
Baseline scenario considers that the sovereign credit rating will not change within the forecast horizon (new government to introduce measures to raise revenues from 2023).

Source: BCRP, MEF and BBVA Research

Fiscal position: stabilisation of public debt will require measures to recover revenues

CENTRAL GOVERNMENT REVENUE

(% OF GDP)



CENTRAL GOVERNMENT SPENDING

(% OF GDP)



- As of 2023, fiscal revenue needs (at 0.5% of GDP each year) will be considered to prevent public debt from exceeding 40% of GDP.
- Possible tax measures: (i) increase in VAT; (ii) increase in ISC (Selective Consumption Tax); (iii) reduction of the exonerated segment of personal income tax; (iv) simplification of tax regimes for MSMEs; (v) changes to capital gains tax; (vi) revision of the property tax; (vii) others (severance indemnity [CTS], ISC in Amazonia, drawback provisions).
- Adjustment of spending through the reversal of transfers.

02

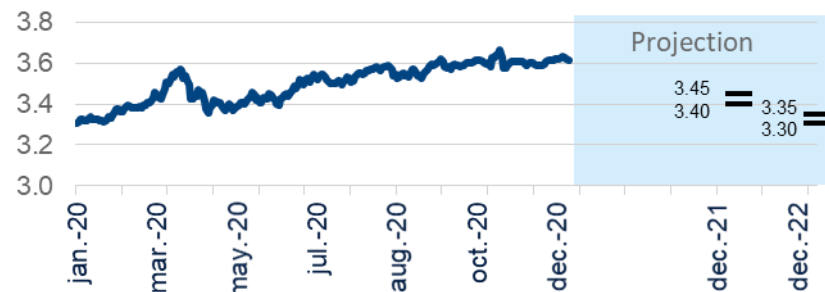
Quarterly review of macroeconomic forecasts

2.3. External sector and exchange rate

After a 1Q21 marked by volatility, trade surplus and capital inflows (portfolio investments) will support the Peruvian sol (PEN)

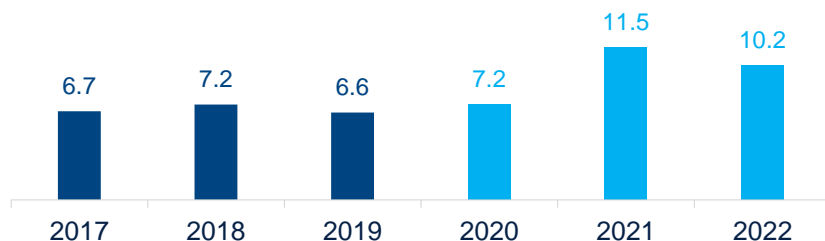
EXCHANGE RATE

(SOLES PER USD)



BALANCE OF TRADE

(USD BILLIONS)



Source: BCRP and BBVA Research.

- At the beginning of 2021, upward pressure on the exchange rate (depreciation of the local currency) in the context of the electoral process.
- One of the sources of these pressures will be the increased demand from foreign investors for coverage of their exposures in assets denominated in local currency.
- Then, subject to the electoral outcome and success in containing the pandemic, a downward correction in the exchange rate is anticipated due to: (i) strong trade surplus this year (high metal prices); and (ii) lower overall level of risk aversion (favors capital inflows in an environment of abundant global liquidity).
- In this context, the exchange rate at the end of 2021 could be between 3.40 and 3.45 soles per USD.

02

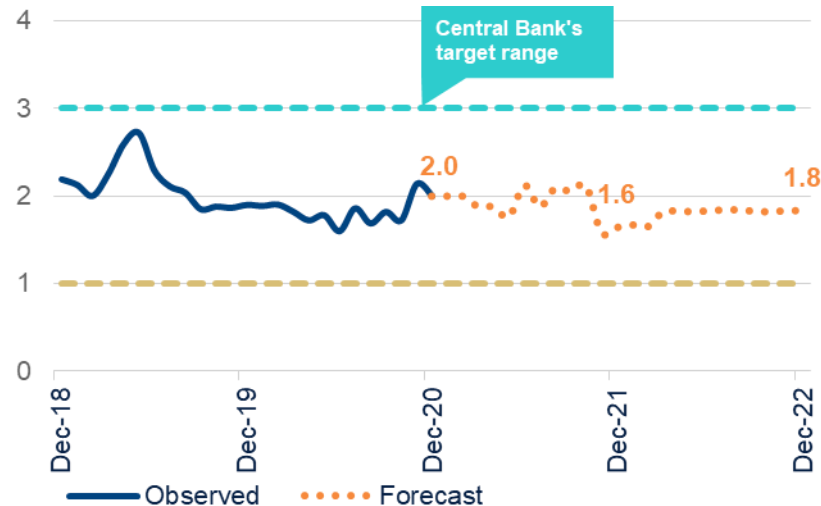
Quarterly review of macroeconomic forecasts

2.4. Inflation and monetary policy

Inflation: at the lower half of the Central Bank's target range in a context of weak demand

INFLATION

(YoY % CHANGE IN CPI)



Source: BCRP and BBVA Research.

DETERMINING FACTORS IN INFLATION FORECAST

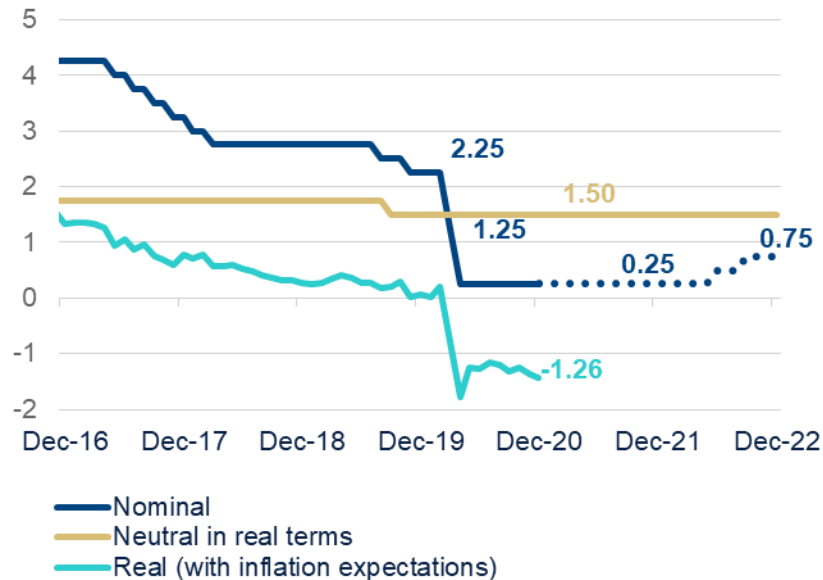
- Weak demand following the impact of the coronavirus on employment and consumer confidence, and a strong appreciation in the value of the PEN will push inflation down in 2021, despite the higher oil prices.
- The recovery in activity and higher oil prices will lead to a rise in inflation in 2022.

Inflation has resisted the downward trend in recent months due to transient factors: increased costs (health protocols), a higher exchange rate and climatic anomalies.

Monetary policy: policy rate at 0,25% until mid-2022

REFERENCE INTEREST RATE

(%)



- In its December statement, the Central Bank reaffirmed its commitment to keeping the interest rate at its current level for a prolonged period.
- It also maintained its inflation forecast for 2021: it expects inflation to be at the lower end of the target range.
- The Central Bank will continue efforts to promote the transfer of the reference interest rate to financial institutions' interest rates using instruments such as the recently announced rate swaps (for mortgage loans).

¹ 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 and BBVA Research.



03

Risks

Risks: uncertainty will remain high



Epidemiological uncertainty

- Virus mutations and new waves of infection.
- Vaccines: rate of distribution, effectiveness, social rejection.
- Herd immunity.
- "New normalcy" and social preferences.



Economic and social uncertainty

- Effectiveness of stimuli.
- The deterioration of corporate, public sector and banking balance sheets
- Economic consequences of COVID-19: Potential GDP and credit rating downgrades
- Risk aversion, financial tensions and emerging market flows



Political uncertainty

- Governance problems
- Social protests
- Populism, electoral process and regulatory risk



Geopolitical uncertainty

- New US administration
- Rivalry between China and the United States.
- Protectionism.



04

Summary of projections

Macroeconomic forecasts: summary

	2018	2019	2020 (f)	2021 (f)	2022 (f)
GDP (% chge.)	4.0	2.2	-11.5	10.0	4.5
Domestic demand (excluding inventories, % chge.)	3.6	2.9	-10.7	8.8	4.0
Private spending (% chge.)	4.0	3.2	-12.2	9.1	4.1
Private consumption (% chge.)	3.8	3.0	-9.8	6.3	4.0
Private investment (% chge.)	4.5	4.0	-20.6	20.3	4.5
Public spending (% chge.)	1.6	1.0	-2.6	7.4	3.4
Public consumption (% chge.)	0.1	2.1	2.6	4.9	3.0
Public investment (% chge.)	5.6	-1.4	-15.6	15.0	4.5
Exchange rate (vs. USD, eop)	3.37	3.36	3.60	3.41	3.34
Inflation (% YoY, eop)	2.2	1.9	2.0	1.6	1.8
Monetary policy interest rate (% , eop)	2.75	2.25	0.25	0.25	0.75
Fiscal balance (% GDP)	-2.3	-1.6	-8.9	-4.7	-3.4
Balance of payments current account (% GDP)	-1.7	-1.5	0.2	-1.0	-1.0
Exports (USD billion)	49.1	47.7	41.0	51.7	53.1
Imports (USD billion)	41.9	41.1	33.8	40.2	42.9

(f) Forecast. Forecast closing date: January 15, 2021.

Source: BCRP and BBVA Research Peru.



05

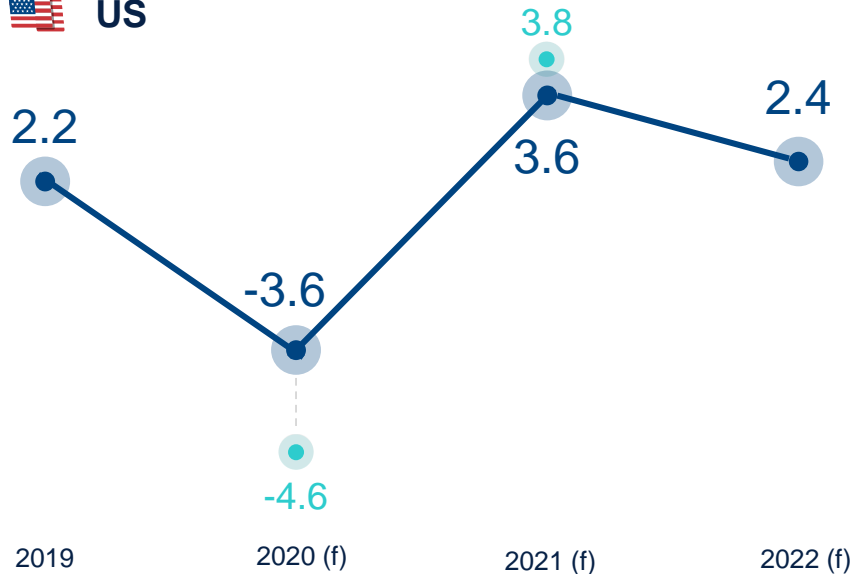
Annexes

US: GDP is forecast to grow 3.6% in 2021 and 2.4% in 2022, but prospects of more stimuli add an upward bias to these figures

GDP: ANNUAL GROWTH (%)

(%)

 US



● Actual ● Previous

(f): forecast.

Source: BBVA Research.

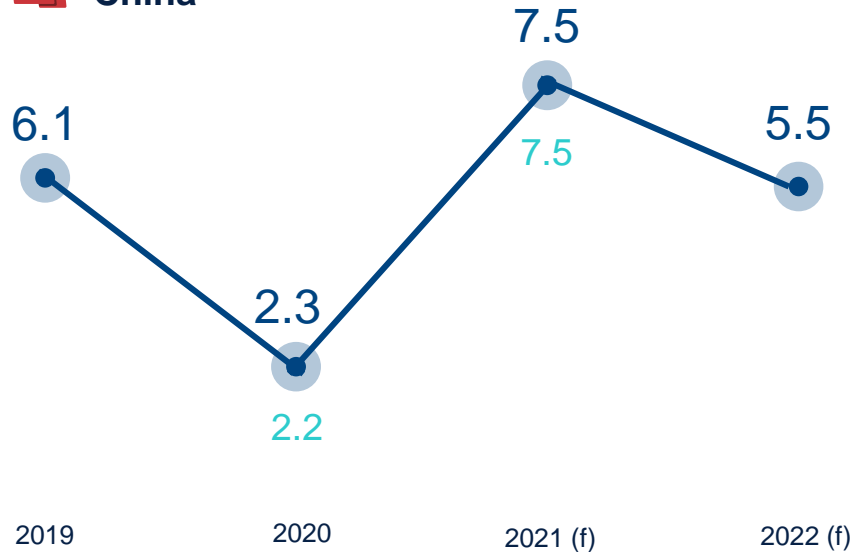
- **Growth** is moderating at the end of 2020 and beginning of 2021, due to the pandemic.
- Given that the Democratic Party will control the Presidency and Congress, there are reinforced expectations of new **stimuli** to sustain the recovery.
- More **fiscal** measures will be announced soon, adding an upward bias to growth forecasts.
- **Fed** will keep supporting the economy through asset purchases and unchanged rates until 2025.
- **Inflation** will stay around 2%.
- Covid evolution and its effects on the economy remain as the main sources of **uncertainty**.

China: after skipping a contraction in 2020, the economy will grow significantly again in 2021

GDP: ANNUAL GROWTH

(%)

 China



● Actual ● Previous

(f): forecast.

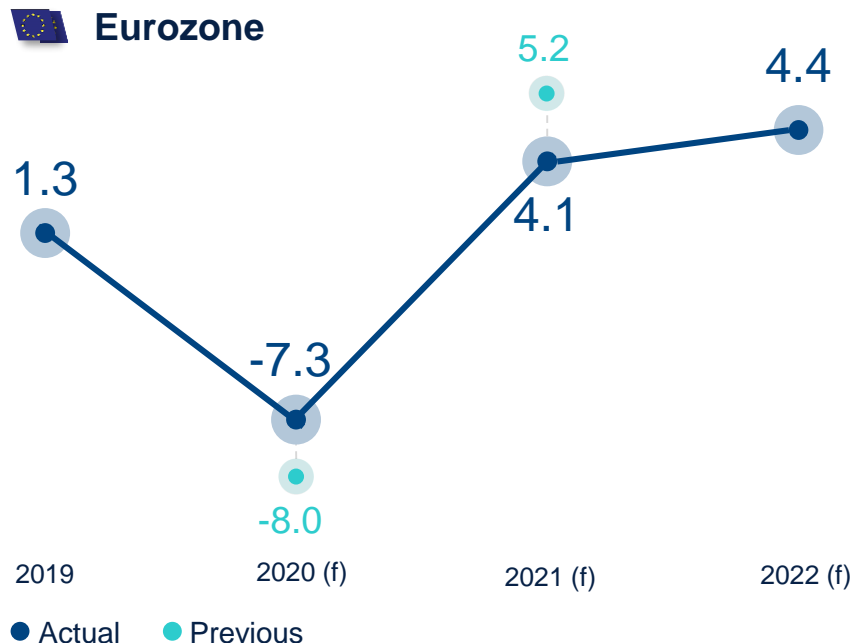
Source: BBVA Research.

- The recovery continues with a greater dynamism in supply, although the gap with demand is narrowing.
- Inflationary pressures are limited and deflation continues to pose a risk.
- Interest rates will remain unchanged, but tighter financial regulation is likely.
- No additional fiscal stimuli is foreseen.
- Risks also include the US relationship, a default of debt bonds of state enterprises and the housing market.

Eurozone: slower recovery in 2021 due to the ongoing expansion of the pandemic; NGEU funds and vaccines will boost GDP from mid-year on

GDP: ANNUAL GROWTH

(%)



Source: BBVA Research.

- **Lower private demand** due to rising contagions and new confinements, but also support from public spending and exports in the short-run.
- **NGEU**: Little effect in the short-term, but in the long-term its impact could be more significant.
- **Monetary policy** has turned even more accommodative on greater uncertainty and the risks coming from the pandemic and low inflation.
- The euro will continue to appreciate moderately, converging gradually to its equilibrium level.
- After achieving a *brexit* deal, the main **risks** are those related to the pandemic.

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