Peru
Economic Outlook

2Q21
Closing date: April 20th

April 2021
Contents

01 How are global activity and the financial markets evolving?

02 How is local activity evolving?

03 Quarterly review of macroeconomic forecasts
   3.1 GDP and economic activity
   3.2 Fiscal balance and public debt
   3.3 External sector and foreign exchange
   3.4 Inflation and monetary policy

04 Risks

05 Summary of macroeconomic forecasts

06 Annexes
Key messages (I)

The global economy continues to recover despite the still complicated epidemiological context. In the US, the new fiscal stimuli are reinforcing the commitment of economic policies to recovery, but are also generating risks and readjustments in the global financial markets. Industrial metal prices, in turn, are being supported by the prospects for "green infrastructure" investment in the larger economies. Overall, good prospects for global growth and commodity prices are shaping a favourable external environment for the Peruvian economy.

On the local side, economic activity has shown resilience so far in 2021, beyond specific factors that negatively affected its performance in the first couple of months of the year (the tightening of lockdown measures due to the health crisis and having one less day in February).

The forecasts for the Peruvian economy shown in this report assume that external conditions will continue to be favourable for the country and are strongly conditional upon the electoral outcome and the measures to be announced and implemented by the new administration that will take office at the end of July. Although some deterioration of macroeconomic fundamentals is anticipated, projections for growth and fiscal and financial variables consider that, in general, the next government will maintain an environment of macroeconomic stability conducive to the development of private sector initiatives.
Key messages (II)

- On the health side, it is assumed that in order to face the possible complications of the COVID-19 pandemic, mobility restrictions similar to those currently being implemented will continue (a severe lockdown is not being considered) and that the most vulnerable sectors of the population will be vaccinated no later than the fourth quarter of this year.

- Given the initial conditions and assumptions considered, the Peruvian economy is expected to grow by 10% this year, largely reflecting a significant "rebound effect" (estimated at about nine percentage points), and by 4.8% in 2022, as the vaccination process moves forward thus allowing a greater relaxation of isolation measures and mobility constraints, as well as the restoration of confidence, which will favour private sector spending in a "new normal" context.

- On the fiscal side, it is assumed that the next administration will seek to stabilise public debt (as a percentage of GDP). To this end, both a gradual moderation of government spending and the adoption of tax measures are expected in order to ensure a structural increase in fiscal revenues (given that the recovery of tax collection due to cyclical factors and/or high metal prices is not expected to be sufficient). Hence, gross public debt is projected to stabilise at a level equivalent to around 40% of GDP in the coming years, which is sustainable for the Peruvian economy (given the development of its capital market and the government's current access to external markets) and will compare favourably with the public debts (as a percentage of GDP) of other Latin American and emerging economies.
Key messages (III)

- If measures to contain public spending and increase tax revenues fail to materialise, the public debt-to-GDP ratio will remain on an upward trend and the government’s credit rating would be put at risk, implying higher interest rates that would affect medium-term economic growth. Conversely, in an optimistic scenario, the implementation of supply-side measures to accelerate the expansion of the economy in a sustained and sustainable way would help stabilise public finances in the coming years.

- In the foreign exchange market, episodes of high volatility are expected in the short term in the context of the general elections process underway, with a Central Bank that will probably continue to intervene in order to moderate sharp exchange rate movements. The Peruvian currency (PEN) is supported by the strong trade surplus expected for both this year and the next one coupled with a decrease in global risk aversion in the second half of the 2021 (due to the roll out of the vaccination process and the dynamism of the world's major economies), which will induce capital inflows into emerging economies. In this environment, an appreciation of the PEN can be expected by the end of this year (towards levels between PEN 3.45–3.50 per USD). However, this expected strengthening of the local currency is highly conditional on the announcements made and the actions taken by the next government regarding the country’s macroeconomic management. It should be added that, next year, an element that will induce downward pressures on the PEN (depreciation) is the likely start of tapering by the Fed (driving up medium- and long-term interest rates in dollars at a global level).
Key messages (IV)

Finally, in a context in which no significant demand pressures on prices are expected (inflation is estimated to remain around 2.0% in the coming quarters), the BCRP (*Banco Central de Reserva del Perú* — the Peruvian Central Bank) will maintain a strongly expansionary monetary policy with a reference interest rate that will remain at its current level of 0.25% until mid-2022. In this way, the BCRP will continue to stimulate private spending in order to consolidate the recovery of the economy towards its pre-pandemic levels. The monetary authority is also expected to continue implementing liquidity expansion measures to ensure the normal functioning of the payments chain, facilitate credit operations, and enhance the pass-through of the reference interest rate to financial institutions' interest rates. However, in an adverse scenario of significant and sustained turbulence in the local financial and foreign exchange markets, it is not ruled out that the Central Bank may eventually adjust monetary conditions to some extent.
How are global activity and the financial markets evolving?
The global economy continues to recover despite the still difficult epidemiological context.

New fiscal stimuli in the United States are reinforcing the commitment of economic policies to recovery, but are also generating risks.

In this environment, there were readjustments in global financial markets, with an initial period of volatility in emerging countries.

Overall, good prospects for global growth and commodity prices are shaping a favorable external environment for the Peruvian economy.
Growth is accelerating in the US, moderating in China and remains negative in Europe at the start of 2021, following a better-than-expected end of 2020.

GDP LEVEL IN REAL TERMS (*)
(4Q19=100)

US

China

Eurozone

GDP growth in 2020

(*) Observed data up to 4Q20. BBVA Research forecasts for 1Q21
Source: BBVA Research based on local statistics.
COVID-19 infections have increased again, following a sharp decrease at the start of the year, but mobility remains relatively high

- Recent augment in infections in the US and, mainly, in Europe and Latin America, which have been forced to consider new restrictions.
- Virus mutations facilitate its spread.
- Less severe restrictions have limited the effect of contagions on mobility and on economic activity.

WORLD DAILY COVID-19 CASES AND GLOBAL MOBILITY RESTRAINT INDEX (*)
(CASES: THOUSANDS OF PEOPLE, 7-DAY MOVING AVERAGE)

(*) The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). Higher values represent lower mobility. BBVA Research based on data from John Hopkins University and Google.
Vaccination has advanced quickly in some regions, but supply restrictions have limited progress in most countries

- The inoculation process advances with heterogeneity across countries.
- A growing but still insufficient supply has prevented a quicker rollout of vaccines.
- Logistical and confidence problems have also weighed negatively on the pace of vaccination.
- The available vaccines exhibit a high rate of effectiveness, according to growing evidence.

Source: BBVA Research based on data from Our World in Data.
The new fiscal impulse in the US reinforces the view that economic policy is fully committed to the recovery, although it creates risks.

Fiscal policy in the US: approved measures supporting consumption (13% of GDP) and measures supporting investment currently being discussed (up to 15% of GDP over the next 10-15 years).

The Fed is not worried about inflation and has suggested it will keep interest rates at zero level through at least 2023.

In Europe the focus is on making NGEU funds available from mid year on.

The ECB is intensifying asset purchases in this quarter with the aim of preserving the monetary policy accommodative stance.

(*) GDP loss in 2020: difference between forecasted GDP before the crisis and the actual data. Fiscal stimuli to be implemented from 2021. US: USD 900 billions approved in Dec 2020 and USD 1.900 billion approved in Mar 2021. EU: NGEU and measures announced by the main countries in the region.

Source: BBVA Research.
Fast vaccination and the fiscal impulse in the US have triggered an increase in long term yields and a dollar appreciation

- Fiscal measures in the US have reinforced growth and inflation prospects.
- Markets have brought forward their forecasts for the withdrawal of monetary stimuli.
- Long term debt yields have significantly increased in the US, and at a lower degree in Europe.
- Equity markets have exhibited volatility episodes.
- The dollar has appreciated and emerging markets assets have suffered losses amid diminished capital inflows.

**10-YEAR BOND YIELDS (%)**

Source: BBVA Research based on data from Bloomberg.
In this context, global risk aversion has diminished, stock market indices have reached record levels (albeit with volatility) and the dollar has appreciated.
Gains continued in metal prices during the year and capital inflows to emerging markets have tended to normalize

**COPPER PRICE**
(USD/POUND, MONTHLY AVERAGE)

**COPPER PRICE**
(USD/POUND, DAILY)

**CAPITAL FLOWS TO EMERGING COUNTRIES**
(USD BILLIONS, AVERAGE 28-DAY MOVING AVERAGE)

Source: Bloomberg and BBVA Research.

Source: Bloomberg, IIF and BBVA Research.
In the region, assets have recouped some of the losses they accumulated, which also reflected idiosyncratic factors.

### LATAM: EXCHANGE RATES
(Local Currency Units per USD; Index Jan-01-21 = 100)

<table>
<thead>
<tr>
<th>Country</th>
<th>Cumulative 2021</th>
<th>Cumulative since end of February</th>
<th>Cumulative since end of March</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>7.1%</td>
<td>-0.6%</td>
<td>-2.5%</td>
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<tr>
<td>Colombia</td>
<td>6.1%</td>
<td>0.9%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Peru</td>
<td>2.1%</td>
<td>1.2%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.3%</td>
<td>-4.2%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Chile</td>
<td>-2.1%</td>
<td>-3.9%</td>
<td>-2.9%</td>
</tr>
</tbody>
</table>

Source: Bloomberg and BBVA Research.
In the region, assets have recouped some of the losses they accumulated, which also reflected idiosyncratic factors.

### LATAM: EMBI

**LATAM: EMBI**

(POINTS)

<table>
<thead>
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<th>Cumulative since end of February</th>
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<tbody>
<tr>
<td>Peru</td>
<td>43</td>
<td>11</td>
<td>23</td>
</tr>
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<td>Colombia</td>
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<tr>
<td>Brazil</td>
<td>18</td>
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<tr>
<td>Mexico</td>
<td>-16</td>
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</tr>
<tr>
<td>Chile</td>
<td>-17</td>
<td>-15</td>
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Source: Bloomberg and BBVA Research.
In the region, assets have recouped some of the losses they accumulated, which also reflected idiosyncratic factors.

**LATAM: 10-YEAR SOVEREIGN BOND YIELDS**

(%)  

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<tbody>
<tr>
<td><strong>31.12.20</strong></td>
<td>241</td>
<td>176</td>
<td>154</td>
<td>116</td>
<td>86</td>
</tr>
<tr>
<td><strong>28.02.21</strong></td>
<td>84</td>
<td>125</td>
<td>81</td>
<td>45</td>
<td>55</td>
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<tr>
<td><strong>31.03.21</strong></td>
<td>-10</td>
<td>23</td>
<td>10</td>
<td>-14</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Bloomberg and BBVA Research.

**PERU: SOVEREIGN BOND YIELD CURVE**

(%)  

Source: Bloomberg and BBVA Research.

**LATAM: 10-YEAR SOVEREIGN BOND YIELDS**

(CHANGE IN CURRENT VALUE VS. REPORTED DATE, BP)

<table>
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<tr>
<th>Date</th>
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**PERU: SOVEREIGN BONDS**

(CHANGE IN CURRENT VALUE VS. REPORTED DATE, BP)

<table>
<thead>
<tr>
<th>Date</th>
<th>2023</th>
<th>2024</th>
<th>2026</th>
<th>2028</th>
<th>2029</th>
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<th>2037</th>
<th>2042</th>
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<td>62</td>
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<td>143</td>
<td>156</td>
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<td>123</td>
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<tr>
<td><strong>28.02.21</strong></td>
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<td>74</td>
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<td>69</td>
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<td><strong>31.03.21</strong></td>
<td>0.4</td>
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<td>14</td>
<td>16</td>
<td>10</td>
<td>-10</td>
<td>-1</td>
<td>-2</td>
</tr>
</tbody>
</table>

Source: Bloomberg and BBVA Research.
How is local activity evolving?
Local economic activity has shown resilience so far in 2021, beyond specific factors that negatively affected its performance in the first two months of the year (the tightening of isolation measures due to the health crisis and having one less day in February).

The health situation remains complicated and the risk of a possible tightening of social distancing measures and mobility restrictions is latent.
Activity has shown resilience so far in 2021, beyond specific factors that affected its performance in the first two months of the year.

**GDP (YOY % CHANGE)**


Source: INEI (National Statistics & IT Institute) and BBVA Research.

The year-on-year contraction in February reflects the lesser amount of days (2020 was a leap year) and the tightening of lockdown measures in that month.

**ELECTRICITY PRODUCTION (YoY % CHANGE)**


As of April 20

Source: COES

% change over the same period in 2019
Activity has shown resilience so far in 2021, beyond specific factors that affected its performance in the first two months of the year.

Source: INEI

**DOMESTIC CEMENT CONSUMPTION**
(YoY % CHANGE)

**PUBLIC INVESTMENT**
1/
(YoY % CHANGE)

Source: BCRP (Central Bank) and MEF (Ministry of Economy & Finance)

1/ General government investment
Activity has shown resilience so far in 2021, beyond specific factors that affected its performance in the first two months of the year.

CONSUMPTION INDICATOR 1, 2
(YOY % CHANGE)

As of April 19

INVESTMENT INDICATOR 1, 3
(YOY % CHANGE)

As of April 19

1: Information up to April 6. 2: Credit and debit card purchases and withdrawals by individuals are taken into consideration. 3: Income into the accounts of companies dealing in investment assets is taken into consideration.

Source: BBVA.
Confidence also improved as of its latest (pre-election) print.

**CONSUMER CONFIDENCE (POINTS)**

- Optimistic
- Pessimistic

**BUSINESS CONFIDENCE (POINTS)**

- Optimistic
- Pessimistic

Source: Apoyo Consultoría and BBVA Research.

Source: BCRP and BBVA Research.
The labor market is also showing a tendency toward recovery, although it is lagging compared to the improvement in activity.

**EAP EMPLOYMENT RATE IN METROPOLITAN LIMA**
(THOUSANDS OF PEOPLE, AVERAGE OF LAST THREE MONTHS)

**SUB-EMPLOYMENT RATE IN METROPOLITAN LIMA**
(% OF EMPLOYED EAP, AVERAGE OF LAST THREE MONTHS)

**MONTHLY WAGE INCOME IN METROPOLITAN LIMA**
(IN PEN, LAST THREE MONTHS)

<table>
<thead>
<tr>
<th>LABOR MARKET INDICATORS IN LIMA (LAST THREE MONTHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb 20</td>
</tr>
<tr>
<td>Employment rate 1/</td>
</tr>
<tr>
<td>Unemployment rate</td>
</tr>
</tbody>
</table>

1/ The employment rate is calculated as the ratio of the employed economically active population (employed EAP) to the working age population (WAP). Source: INEI (EPE - Permanent Employment Survey).
Finally, in terms of the health crisis, the situation remains complicated and the risk of new lockdowns is latent.

**NEW INFECTIONS PER DAY** (MOVING AVERAGE OF THE LAST SEVEN DAYS)

**POSITIVITY RATE** (%)

Source: Ministry of Health of Peru, SINADEF (national record of deaths).
Finally, in terms of the health crisis, the situation remains complicated and the risk of new lockdowns is latent.

**NO. OF PERSONS HOSPITALIZED FOR COVID-19**

**DEATHS PER DAY**
(MOVING AVERAGE OF THE LAST SEVEN DAYS)

*Intensive care unit

Source: Ministry of Health of Peru, SINADEF (national record of deaths).
Quarterly review of macroeconomic forecasts

3.1. GDP and economic activity
The projections for Peru consider favorable external conditions and are strongly conditional on the maintenance of macroeconomic stability and a suitable environment for private initiatives.

ASSUMPTIONS ON THE EXTERNAL FRONT

**GLOBAL GROWTH**
- Global recovery, led by the US and China.
- Strengthened fiscal stimulus, unchanged interest rates in the largest economies, and start of tapering by the Fed in 2022.
- Limited risk aversion, only a gradual rise in long-term interest rates, and slight depreciation of the dollar.
- Growth forecasts consider mass vaccination in 2021, with high heterogeneity. New normal in 2022

**METALS**
- Metal prices find support at current levels (positive outlook for copper prices, in particular).

**CAPITAL FLOWS**
- Reduced risk aversion (due to economic recovery and vaccinations) will support demand for emerging market assets.
The projections for Peru consider favorable external conditions and are strongly conditional on the maintenance of macroeconomic stability and a suitable environment for private initiatives

ASSUMPTIONS ON THE LOCAL FRONT

**HEALTH**
- Possible deterioration of health indicators throughout the year leading to isolation measures AND mobility restrictions similar to the current ones (but without strict lockdown).
- Most vulnerable population completes vaccination in 4Q21, which favors the relaxation of isolation measures. Vaccination of the rest of the target population ends in the first half of 2022.

**DEMAND**
- Private investment: uncertainty factors (health, electoral) dispelled: (i) business expectations will consolidate an optimistic outlook; and (ii) private companies that have remained resilient so far will be in a position to resume investment spending. In addition, construction work will be reactivated.
- Private consumption: uncertainty factors (health, electoral) dispelled: (i) clearer improvement in employment and (ii) acceleration in household spending due to repressed demand (financed by a strong increase in savings in 2020).
- Public expenditure: (i) more moderate progress in expenditure on goods and services; (ii) reactivation of public works, including RCC (reconstruction with changes).
- Resilient banking sector.
- The carry-over to 2021 is around nine percentage points.

**POLICY**
- Uncertainty in regulatory matters, especially in the first half of 2021.
- Uncertainty related to the 2Q21 election result.
- After the general elections in 2Q21, macroeconomic stability and a suitable environment for the development of private sector initiatives are generally maintained.
Global growth will be higher than previously forecast and it will be led by the US and China

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>Eurozone</th>
<th>China</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>-3.5</td>
<td>-6.8</td>
<td>2.2</td>
<td>-3.3</td>
</tr>
<tr>
<td>2021</td>
<td>6.2</td>
<td>4.5</td>
<td>7.5</td>
<td>5.9</td>
</tr>
<tr>
<td>2022</td>
<td>5.1</td>
<td>4.9</td>
<td>5.5</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Source: BBVA Research.
US: growth will pick up sharply, but the Fed will take some time before starting to withdraw the monetary stimulus

Revised growth (2021: +2.6 pp; 2022: +2.7 pp) on stimulus, reopening and fast vaccination.

Approved fiscal measures will have a particularly strong effect on consumption.

A new, investment-focused fiscal package is likely to be approved in 2021.

Inflation will rebound, but will remain under control, averaging 2.5% in 2021.

The labor market recovery will be gradual and the Fed will only start hiking rates in 2023.

US: REAL GDP
(LINES REPRESENT GDP LEVEL AND FIGURES REPRESENT ACTUAL GDP GROWTH FORECASTS)

5.1%
6.2%
-3.5%

2019 2020 2021 2022

Actual forecasts
Pre-COVID forecasts

Source: BBVA Research.
Global growth: vaccination process has started, with much heterogeneity among countries, and will tend to become more widespread in the remainder of the year.

- **Mass vaccination** and **gradual relaxation** of isolation measures in the **most advanced countries**
- New outbreaks of the virus are likely

- **Mass vaccination** and **gradual relaxation** of isolation measures in **less developed countries**
- New outbreaks of the virus are still likely in these countries

- **Epidemic under control** in the **most advanced countries**

- **Epidemic under control** in less **developed countries**

- "**New normal**": end of restrictions (vaccines vs. new virus variants)
Metals: prices find support and maintain favorable outlook (industrial metals, in particular)

Recovery in global economic activity (US and China), increased concern about climate change (investment in "green infrastructure" and vehicle conversion) and abundant liquidity support copper prices.

| COPPER PRICE (AVERAGE FOR THE PERIOD, USD/GBP) |
|---------|---------|---------|---------|---------|
|         | 2019    | 2020    | 2021    | 2022    |
| Copper (USD/lb.) | 2.72    | 2.80    | 3.74    | 3.24    |
| Oil (WTI, USD/barrel) | 57      | 39      | 63      | 60      |
| Terms of trade (% chge. YoY) | -1.8    | 8.1     | 7.6     | -7.0    |

Source: Bloomberg and BBVA Research.
Metals: prices find support and maintain favorable outlook (industrial metals, in particular)

The price of copper will benefit from structural supports in the coming years.

Investment in "green infrastructure" (second fiscal package in the US) and conversion to electric vehicles (EVs) (major concern over global warming) is just beginning.

Conversion to EVs: (i) the minimum autonomy required has already been attained (200 miles for both Tesla Model 3 and Chevy Bolt); (ii) currently fewer than 0.1% of small cars in the world are EVs (an EV requires three to four 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.

Source: ICSG.
Capital flows: global risk aversion easing will boost demand for emerging-market assets

SUPPORT ELEMENTS
- Reduced global risk aversion, abundant international liquidity, low interest rates, and search for return
- Commodity prices at attractive levels
- Foreign demand: recovery of growth in major economies

UNFAVORABLE ELEMENTS
- Slower domestic growth: slow access to vaccines; stimuli reduced
- Higher long-term interest rates in the United States.
- Exposure to risk of financial volatility (Fed tapering, etc.)

CAPITAL FLOWS TO EMERGING ECONOMIES (% OF ASSETS MANAGED)

Source: Bloomberg, IIF and BBVA Research.
Local health situation: assumes measures similar to current ones and that the vulnerable population will be vaccinated by 4Q21.

* Assumes two doses required per vaccinated person. The conservative scenario takes information from official announcements of vaccine arrivals. The "current pace" scenario extrapolates the vaccination pace observed up to 04/12 to the months ahead. Source: Press releases and BBVA Research.

The baseline scenario considers that eventual lockdowns and mobility restrictions will be targeted (impacts on activity will be relatively limited).

The population most at risk amounts to 8.7 million. In a conservative scenario, it is assumed that by the end of this year all these people will be vaccinated. This will allow for greater flexibility in isolation measures and mobility restrictions.

It is also assumed that the target population (24.5 million people) will be fully vaccinated in the first half of 2022.
Demand: expenditure on infrastructure maintenance and construction will accelerate

"Arranca Perú" ("Kickstart Peru" program)
USD 944 million (2021)
About 80% related to road maintenance activities

Reconstruction with changes (RCC)
USD 2 billion (from 2021)

RCC projects under the government-to-government modality awarded from December 2020 to date (millions of USD)
Total: USD 766

- Lima Metro line 2
- Ports: San Martín, Salaverry and Chancay
- Lima Airport

*The Government awarded the Reconstruction with Changes (RCC) Government-to-Government Agreement to the United Kingdom in June 2020, which guarantees comprehensive advice for the execution of approximately USD 2 billion in construction works. Source: MEF, Reconstruction with Changes, Apoyo Consultoría, press reports and BBVA Research.
Demand: corporate wealth and accumulated private savings will support investment and consumption spending (repressed demand).

FINANCIAL SITUATION OF LARGE COMPANIES 1/

### Returns:
(EBITDA / Total sales)

- 2017: 11%
- 2018: 11%
- 2019: 10%
- 2020: 12%

### Liquidity
(Current assets / current liabilities)

- 2017: 1.4
- 2018: 1.4
- 2019: 1.4
- 2020: 1.6

### Leverage
(Debt/EBITDA)

- 2017: 3.0
- 2018: 2.8
- 2019: 3.0
- 2020: 3.3

NATIONAL PRIVATE SECTOR SAVINGS
(% OF NOMINAL GDP)

- 2017: 17.1
- 2018: 16.5
- 2019: 23.3
- 2020: 126

Billions of PEN

Increase in household savings in 2020 is equivalent to more than eight percentage points of nominal private consumption in 2020.

1/ Considers 419 companies with balance sheets as of 2020. Companies with sales of more than PEN 8 million.

Source: BCRP and BBVA
Political and electoral context: uncertainty factor

2021 FIRST-ROUND ELECTION RESULTS (% VALID VOTES)

- **Pedro Castillo**: Perú Libre (19.1%)
- **Keiko Fujimori**: Fuerza Popular (13.4%)

COMPOSITION OF THE NEXT CONGRESS (NUMBER OF SEATS)

- Perú Libre (Castillo): 37 seats
- Acción Popular (Lescano): 17 seats
- P. Morado (Guzmán): 15 seats
- APP (Acuña): 7 seats
- Fuerza Popular (Fujimori): 24 seats
- Juntos p. Perú (V. Mendoza): 5 seats
- Podemos Perú (Urresti): 4 seats
- Somos Perú (Salaverry / Vizcarra): 15 seats
- Avanza País (de Soto): 3 seats
- Renov. Popular (López Aliaga): 13 seats

IF TOMORROW WERE A PRESIDENTIAL RUN-OFF ELECTION, WHO WOULD YOU VOTE FOR? (%)

- **Pedro Castillo**: 42%
- **Keiko Fujimori**: 31%
- White/ Null vote: 16%
- No Answer: 11%

DISAPPROVAL (% OF RESPONDENTS WHO WOULD DEFINITELY NOT VOTE FOR HIM/HER)

- **Keiko Fujimori**: 55%
- **Pedro Castillo**: 33%

Source: ONPE

Source: Ipsos (April 15 and 16)
Given the initial conditions, and conditional on the assumptions described above, GDP is projected to expand by 10% in 2021 and 4.8% next year. 

GDP (YoY % CHANGE)

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>-11.1</td>
<td>4.0</td>
<td>2.2</td>
<td>4.8</td>
<td>3.8</td>
<td>3.6</td>
<td>3.4</td>
<td>3.3</td>
<td></td>
</tr>
</tbody>
</table>

Source: BCRP and BBVA Research.

PRIVATE SPENDING (EXCLUDES INVENTORY ACCUMULATION, YoY % CHANGE)

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projection</td>
<td>4.0</td>
<td>3.2</td>
<td>-10.6</td>
<td>10.7</td>
<td>4.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PUBLIC EXPENDITURE (YoY % CHANGE)

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projection</td>
<td>1.6</td>
<td>1.0</td>
<td>0.3</td>
<td>8.2</td>
<td>3.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Given the initial conditions, and conditional on the assumptions described above, GDP is projected to expand by 10% in 2021 and 4.8% next year.

GDP: SELECTED COMPONENTS FOR THE SECTORAL AND EXPENDITURE SIDES
(IN REAL TERMS, YOY % YEAR-ON-YEAR %, 2021–22 PROJECTIONS)

1: Excludes inventory accumulation
Source: BCRP and BBVA Research.
Quarterly review of macroeconomic forecasts

3.2. Fiscal result and public debt
Fiscal position: stabilization of public debt will require measures to recover revenues as well as...

- From 2022 onwards, the requirements (tax measures) are included as part of revenues in order to prevent gross public debt from exceeding a level equivalent to 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).

Source: BCRP, MEF and BBVA Research.

LATAM 2019: NET PUBLIC DEBT AS A SHARE OF TAX REVENUES* (%)

- Mexico
- Brasil
- Peru
- Colombia
- Chile

Projection for 2026

Countries with a credit rating similar to Peru (2019): 162% (average)

*Sovereign rating (Fitch)

Source: IMF, BCRP and BBVA Research.
Fiscal scenario: ...a gradual moderation of government spending... in order for public debt to stabilize at around 40% of GDP

Source: BCRP, MEF and BBVA Research
Quarterly review of macroeconomic forecasts

3.3. External sector and exchange rate
A record trade surplus is projected this year and a low external deficit. External savings will be key to finance higher investment in 2021 and 2022.

**BALANCE OF TRADE**
(USD BILLIONS)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.6</td>
<td>7.8</td>
<td>12.8</td>
<td>11.8</td>
<td></td>
</tr>
</tbody>
</table>

**MACROECONOMIC FLOWS: SAVINGS-INVESTMENT**
(% OF GDP)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021 (p)</th>
<th>2022 (p)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National savings</strong></td>
<td>19.9</td>
<td>19.3</td>
<td>19.9</td>
<td>20.0</td>
</tr>
<tr>
<td><strong>Public sector</strong></td>
<td>3.4</td>
<td>-4.0</td>
<td>1.6</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Private sector</strong></td>
<td>16.5</td>
<td>23.3</td>
<td>18.3</td>
<td>16.8</td>
</tr>
<tr>
<td><strong>External savings</strong></td>
<td>1.5</td>
<td>-0.5</td>
<td>0.6</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Public investment</strong></td>
<td>21.5</td>
<td>18.8</td>
<td>20.5</td>
<td>20.9</td>
</tr>
<tr>
<td><strong>Private sector</strong></td>
<td>4.6</td>
<td>4.2</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td><strong>Private sector</strong></td>
<td>16.8</td>
<td>14.6</td>
<td>16.0</td>
<td>16.3</td>
</tr>
</tbody>
</table>

**CURRENT ACCOUNT**
(% OF GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2020</th>
<th>2021 (p)</th>
<th>2022 (p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1.5</td>
<td>0.5</td>
<td>-0.6</td>
<td>-0.9</td>
<td></td>
</tr>
</tbody>
</table>

**EXTERNAL LIABILITIES***
(% OF GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2020</th>
<th>2021 (p)</th>
<th>2022 (p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.3</td>
<td>17.0</td>
<td>14.9</td>
<td>24.0</td>
<td>24.3</td>
</tr>
<tr>
<td>11.9</td>
<td>10.4</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(p) Projection
Source: BCRP and BBVA Research.

* Medium and long term
PEN supported by trade and lower global risk aversion, but uncertainty remains high due to election context

EXCHANGE RATE
(PEN PER USD)

Day after first-round results

Day after survey: Pedro Castillo with the best chance of winning the run-off election

Survey: Pedro Castillo led preferences with 13%.

Source: Bloomberg, BCRP

PERU: EMBI (POINTS)

PERU: CDS (POINTS)

SOVEREIGN BOND RATE CHANGE 20/04/ VS 09/04 (BPS)

- **PEN has support:** (i) strong trade surplus, and (ii) lower global risk aversion in 2H21.
- **Volatility** due to election campaign (announcements, polls) and external context.
- Active BCR in the FX market.
- Given supports, the exchange rate could fall towards S/3.45-3.50 per USD.
- But high uncertainty due to election result.
03

Quarterly review of macroeconomic forecasts

3.4. Inflation and monetary policy
Inflation: projected to be 2.3% at the end of this year and 2.0% next year amid weak demand

**Inflation**

(YoY % CHANGE IN CPI)

- **BCRP target range**
  - 2.0%
  - 2.6%
  - 2.3%

**Determining Factors in Inflation Forecast**

- Weak household spending (impact of the coronavirus on employment and consumer confidence) and appreciation of the PEN (2H21) push inflation down in the coming months, despite higher food and fuel prices.
- By 2022, inflation will be reduced thanks to the normalization of international oil and food prices.

**Price of WTI Oil and Corn**

(USD per barrel and USD per bushel)

Inflation has risen in the first months of the year due to temporary supply-side factors (health protocols, weather anomalies, social protests) and tariff adjustments with a one-off impact on the price level.

Source: BCRP and BBVA Research.
Monetary policy: reference rate at 0.25% until well into the second quarter of next year

In its April statement, the Central Bank (BCRP) reaffirmed its commitment to keeping the interest rate at its current level for a prolonged period.

Furthermore, it stressed the absence of inflationary pressures, despite the higher inflation observed in March.

It also noted that it maintains its expectation that inflation will be at the lower end of the target range during 2022.

The BCRP announced the reprogramming of S/ 16 billion of the Reactiva Peru Program (an additional year of grace, and extension of the total payment period from three to five years).

The BCRP is expected to maintain its efforts to enhance the transfer of the reference interest rate to financial institutions' interest rates.

---

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.
Risks
## Risks: uncertainty will remain high

<table>
<thead>
<tr>
<th>Epidemiological uncertainty</th>
<th>Economic and social uncertainty</th>
<th>Political uncertainty</th>
<th>Geopolitical uncertainty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutations of the virus</td>
<td>Global growth and inflation</td>
<td>Election result</td>
<td>Rivalry between China and the United States</td>
</tr>
<tr>
<td>Slow vaccination</td>
<td>Business insolvency</td>
<td>Governance problems</td>
<td>Protectionism</td>
</tr>
<tr>
<td>New waves of infection</td>
<td>Sustainability of public debt</td>
<td>Social protests</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Risk aversion, financial tensions and emerging market flows</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Summary of projections
## Macroeconomic forecasts: summary

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020 (f)</th>
<th>2021 (f)</th>
<th>2022 (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP (% chge.)</strong></td>
<td>4.0</td>
<td>2.2</td>
<td>-11.1</td>
<td>10.0</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Domestic demand (excluding inventories, % chge.)</strong></td>
<td>3.6</td>
<td>2.9</td>
<td>-8.9</td>
<td>10.3</td>
<td>4.1</td>
</tr>
<tr>
<td><strong>Private spending (% chge.)</strong></td>
<td>4.0</td>
<td>3.2</td>
<td>-10.6</td>
<td>10.7</td>
<td>4.3</td>
</tr>
<tr>
<td>Private consumption (% chge.)</td>
<td>3.8</td>
<td>3.0</td>
<td>-8.7</td>
<td>8.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Private investment (% chge.)</td>
<td>4.5</td>
<td>4.0</td>
<td>-17.2</td>
<td>20.9</td>
<td>4.6</td>
</tr>
<tr>
<td><strong>Public spending (% chge.)</strong></td>
<td>1.6</td>
<td>1.0</td>
<td>0.3</td>
<td>8.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Public consumption (% chge.)</td>
<td>0.1</td>
<td>2.1</td>
<td>7.5</td>
<td>4.8</td>
<td>3.0</td>
</tr>
<tr>
<td>Public investment (% chge.)</td>
<td>5.6</td>
<td>-1.4</td>
<td>-17.7</td>
<td>19.4</td>
<td>4.5</td>
</tr>
<tr>
<td><strong>Exchange rate (vs. USD, EOP)</strong></td>
<td>3.37</td>
<td>3.36</td>
<td>3.60</td>
<td>3.46</td>
<td>3.50</td>
</tr>
<tr>
<td><strong>Inflation (% y/y, eop)</strong></td>
<td>2.2</td>
<td>1.9</td>
<td>2.0</td>
<td>2.3</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Monetary policy interest rate (%, eop)</strong></td>
<td>2.75</td>
<td>2.25</td>
<td>0.25</td>
<td>0.25</td>
<td>0.75</td>
</tr>
<tr>
<td><strong>Fiscal balance (% GDP)</strong></td>
<td>-2.3</td>
<td>-1.6</td>
<td>-8.9</td>
<td>-4.7</td>
<td>-3.2</td>
</tr>
<tr>
<td><strong>Balance of payments: checking account (% GDP)</strong></td>
<td>-1.7</td>
<td>-1.5</td>
<td>0.5</td>
<td>-0.6</td>
<td>-0.9</td>
</tr>
<tr>
<td>Exports (USD billion)</td>
<td>49.1</td>
<td>47.7</td>
<td>42.4</td>
<td>55.7</td>
<td>56.8</td>
</tr>
<tr>
<td>Imports (USD billion)</td>
<td>41.9</td>
<td>41.1</td>
<td>34.7</td>
<td>42.8</td>
<td>45.0</td>
</tr>
</tbody>
</table>

Source: BCRP and BBVA Research Peru.
06
Annexes
China: having the pandemic under control will allow the economy to grow significantly, despite the gradual withdrawal of stimulus measures

- **Unchanged GDP forecasts**, but with an upward bias due to higher global growth.
- **Economic policy** is increasingly focused on curbing **financial risks**.
- **Interest rates will remain unchanged**, in a context of regulatory tightening.
- **Fiscal policy** will be less expansionary going forward than in 2020.
- **Tensions with the US** will remain on the radar during the J. Biden administration.

**CHINA: REAL GDP**
(LINES REPRESENT GDP LEVEL AND FIGURES REPRESENT ACTUAL GDP GROWTH FORECASTS)

- 2019: 2.2%
- 2020: 7.5%
- 2021: 5.5%
- 2022: 5.5%

- Actual forecasts
- Pre-COVID forecasts

Fuente: BBVA Research.
Eurozone: growth will accelerate from the middle of the year onwards due to vaccination, the NGEU and the effects of higher growth in the US

- The pandemic continues to affect the economy: GDP has fallen moderately in 4Q20 and probably also in 1Q21
- Higher growth forecasts (2021: + 0.4pp; 2022: + 0.5pp) mostly due to greater US dynamism
- The ECB will focus on maintaining accommodative monetary conditions, while reviewing its strategy
- NGEU: small short-term impact, but long-term effect could be high
- In a context of higher oil prices, inflation will average 1.5% this year

EUROZONE: REAL GDP
(LINES REPRESENT GDP LEVEL AND FIGURES REPRESENT ACTUAL GDP GROWTH FORECASTS)

- Actual forecasts
- Pre-COVID forecasts

Source: BBVA Research.
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Peru
Economic Outlook

2Q21
Closing date: April 20th

April 2021