BBVA Research

Peru Economic Outlook

3Q21

Closing date: July 19

Creando Oportunidades

BBVA Research

Contents

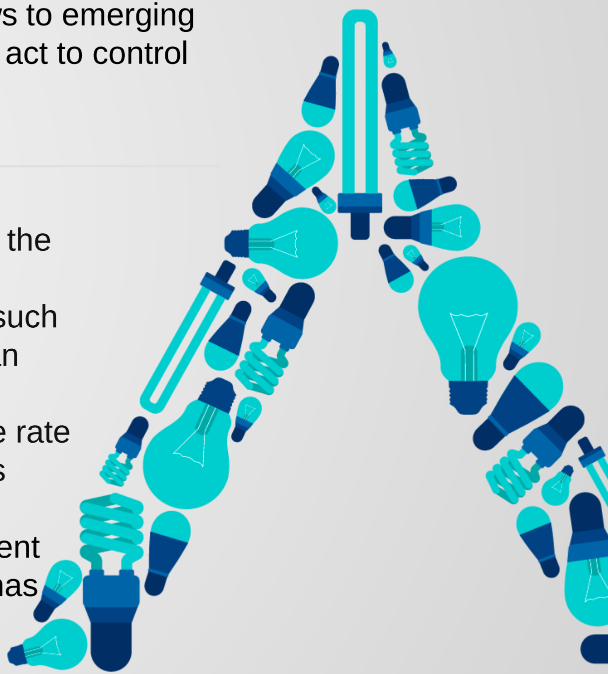
Key messages (I)

Global economic recovery

The global economic recovery is solidifying, thanks to greater control of the pandemic and significant stimulus, but inflation is a growing concern. In this context, metal prices have managed to maintain their accumulated gains, creating a favorable environment for the Peruvian economy, while capital inflows to emerging economies are easing. Markets are more convinced that the Fed will act to control inflation; the prospect of withdrawing stimuli creates volatility.

Local

On the local side, economic activity during the first half of the year showed better performance than expected three months ago. During the second quarter, this evolution was favored by increased household expenditure, which benefited from greater liquidity due to measures such as the total release of the Compensation for Time of Service (CTS, an unemployment protection scheme) deposits and new permitted withdrawals from private pension funds. In addition, the decline in the rate of COVID-19 infections and improvements in the vaccination process have favored consumption. On the other hand, given the uncertainty surrounding the election results, indicators related to private investment spending have lost momentum since May and business confidence has declined.



Key messages (II)

Forecasts

The forecasts for the Peruvian economy shown in this report assume that favorable external conditions will continue. Locally, the environment is viewed as being highly uncertain due to the health crisis and the political context. Regarding health conditions, a third wave is not ruled out in the coming months, but it is assumed that it will not have significant macroeconomic effects. The most vulnerable population should be vaccinated by the beginning of 4Q21, which will help the sustained recovery of activities (trade and services) that are still lagging behind. It is assumed that political uncertainty will prompt caution on private spending, especially in terms of investment.

Peruvian economy to grow

Given the initial conditions and assumptions considered, the Peruvian economy is projected to grow 9.0% this year and 4.3% in 2022. These forecasts are made in a highly uncertain scenario and are therefore subject to substantial revisions. The signals given and announcements made by the incoming administration will provide a better picture of how the economy is likely to evolve.

Fiscal

From a fiscal standpoint, this year's deficit is expected to exceed 4.0% of GDP and will remain above 3.0% going forward, despite the recovery of revenue (mainly from mining). In this context, debt is on the upswing (above 40% in the medium term), so the probability of a sovereign credit rating downgrade has increased.

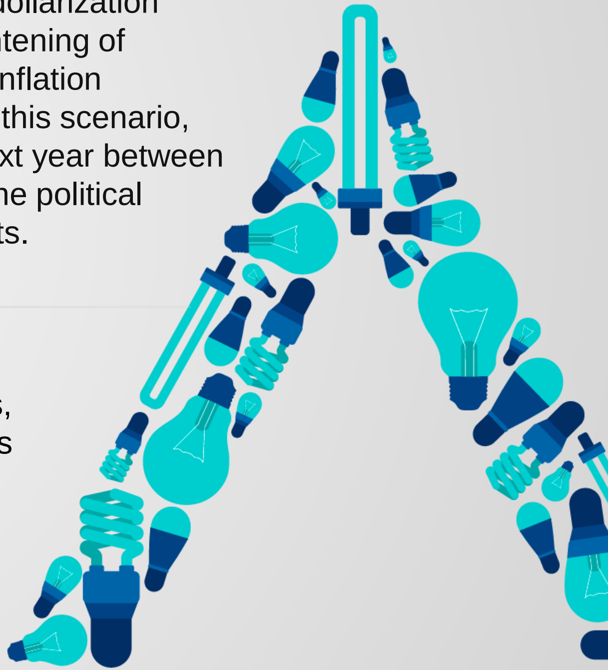
Key messages (III)

Exchange rate

Exchange rates will be facing two opposing forces. On one side, the significant trade surplus will drive a downward trend in this variable. But on the other, the political uncertainty, at least in the short term, will prompt investors to maintain defensive positions in foreign currency and the public, in general, to consolidate dollarization levels in their portfolios. In the same vein, a faster-than-anticipated tightening of monetary conditions by the Fed (e.g., tapering announcement) due to inflation concerns will also exert upward pressure on the exchange rate. Under this scenario, we predict that the local USD exchange rate will close this year and next year between 4.0 and 4.1 PEN per USD. It should be noted that an improvement in the political context could trigger a rapid revaluation of the local currency and assets.

Inflation

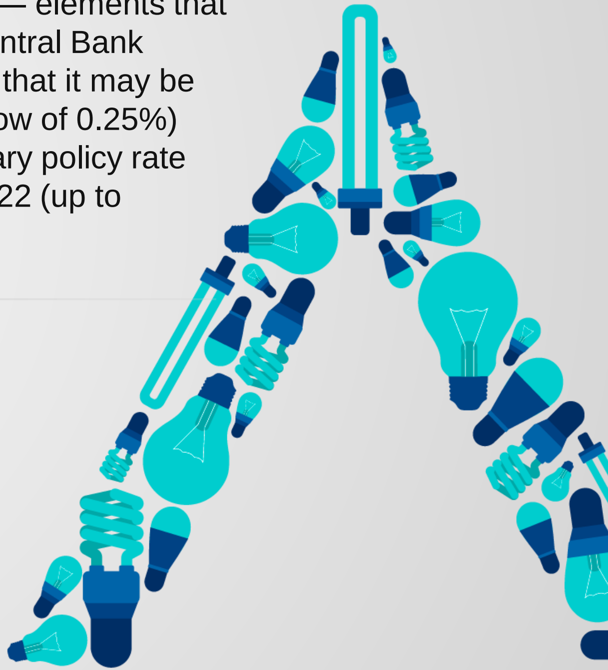
Inflation will remain above the upper limit of the target range over the coming months due to: (i) higher international commodity and oil prices, and (ii) the passing on of the exchange rate increase to domestic prices of supplies, imported finished goods, and goods and services denominated in USD. Given that inflation prospects seem to exhibit some inertia linked to realized inflation, it is likely that these will also move upward.



Key messages (IV)

The Central Bank faces a dilemma: a recovering economic activity that still requires a strong monetary stimulus, and an inflation rate that will remain above the upper limit of the target range in the coming months, plus exchange rate pressures — elements that point to the need to adjust monetary conditions. In this context, the Central Bank moderated its dovish tone in its June and July statements, suggesting that it may be inclined to begin normalizing its reference rate (currently at a historic low of 0.25%) earlier than expected. In this environment, we estimate a 25bp monetary policy rate hike in 3Q21 and three additional increases of similar magnitude in 2022 (up to 1.25%).

The main (negative) risks to our baseline scenario include (i) increased political uncertainty, (ii) worsening of the health crisis due to the emergence of new, more resistant or contagious variants of COVID-19, and (iii) a more aggressive tightening of the Fed's monetary policy stance, which would have a local impact on the exchange rate and interest rates.



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01

How are global activity and the financial markets evolving?

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- The global economic recovery is solidifying, thanks to greater control of the pandemic and significant stimulus, but inflation is a growing concern.
- In this context, metal prices have managed to maintain their accumulated gains, creating a favorable environment for the Peruvian economy, while capital inflows to emerging economies are easing.
- Markets are more convinced that the Fed will act to control inflation; the prospect of withdrawing stimuli creates volatility.

Economic recovery is solidifying, thanks to greater control of the pandemic and significant stimulus, but inflation is a growing concern

RECENT DEVELOPMENTS IN THE WORLD ECONOMY

COVID-19 — Increased vaccination; fewer infections despite new variants.

Activity and inflation — Strong recovery; significant rebound in inflation.

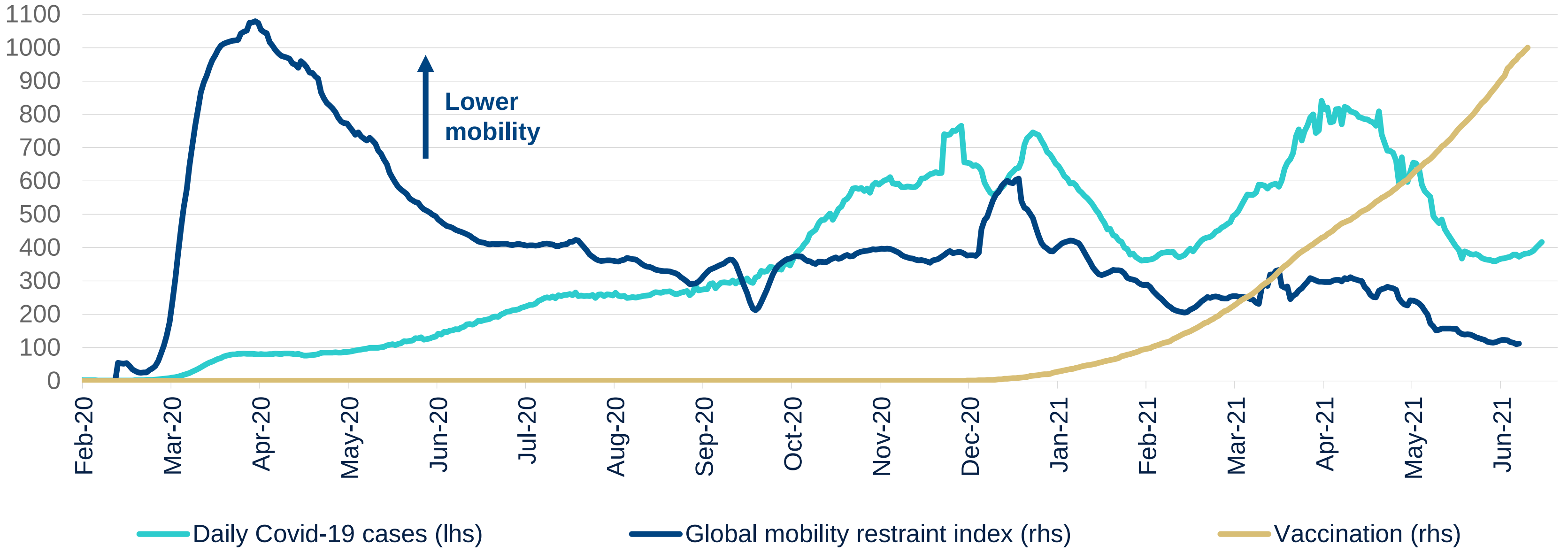
Economic policy — Focus on growth, but the process of stimulus withdrawal by the Fed and ECB is being outlined.

Financial markets — More complex environment, despite support from still-ample global liquidity.

The acceleration of vaccination has paved the way for a reduction of infections and an economic reopening, mainly in developed countries

WORLD: DAILY COVID-19 CASES, POPULATION VACCINATED AND MOBILITY RESTRAINT INDEX (*)

(THOUSANDS OF CONTAGIONS, 7-DAY MOVING AVERAGE; SHARE OF THE POPULATION WITH AT LEAST ONE DOSE OF THE ANTI-COVID VACCINES; MOBILITY RESTRAINT: 7-DAY MOVING AVERAGE)

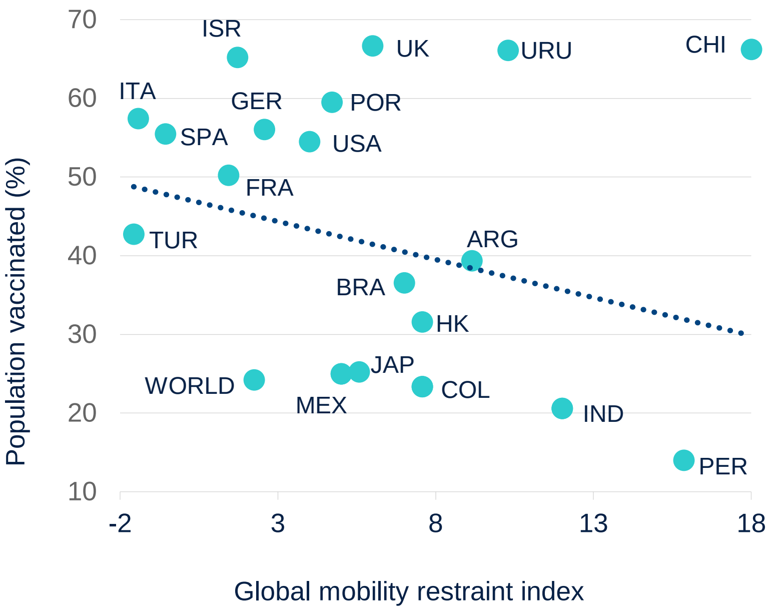


(*) The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). Higher values represent lower mobility. Vaccination data does not include figures for China.
Source: BBVA Research based on data by John Hopkins University, Google and Our World in Data.

Vaccination has already reached much of the population in the US and Europe, and is accelerating in emerging countries

POPULATION VACCINATED AND MOBILITY RESTRAINT (*)

SHARE OF THE POPULATION WITH AT LEAST ONE DOSE OF THE VACCINES; MOBILITY RESTRAINT INDEX: 7-DAY MOVING AVERAGE)

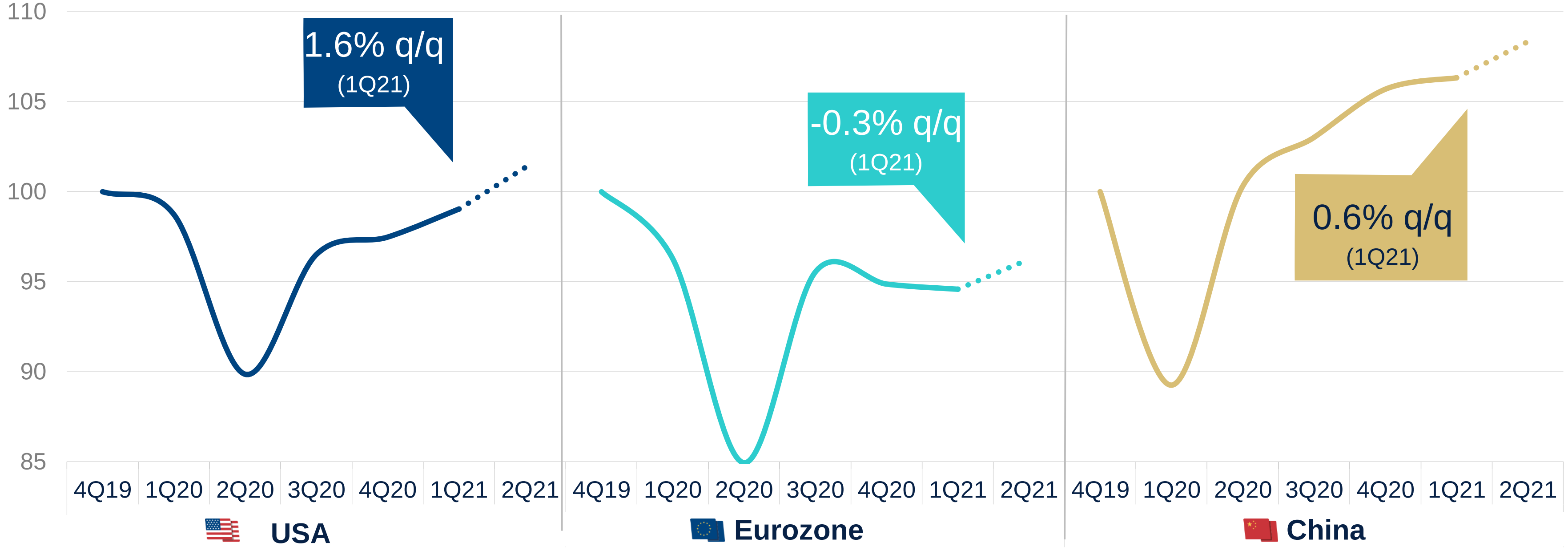


- Vaccination has reduced infections and increased mobility in the US and Europe.
- Vaccine inoculation has recently accelerated in Latin America, although infections remain at high levels.
- Recent outbreaks in countries with advanced vaccination (UK, Israel, Spain, Chile, etc.) maintain the concerns about new strains.
- Still, the available evidence suggests that the main vaccines are effective against the new variants of the coronavirus.

(*) The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). Higher values represent lower mobility. Vaccination data does not include figures for China.
Source: BBVA Research based on data by John Hopkins University, Google and Our World in Data.

Growth accelerates somewhat more than expected in the US, restarts in Europe, and remains high in China despite the recent moderation

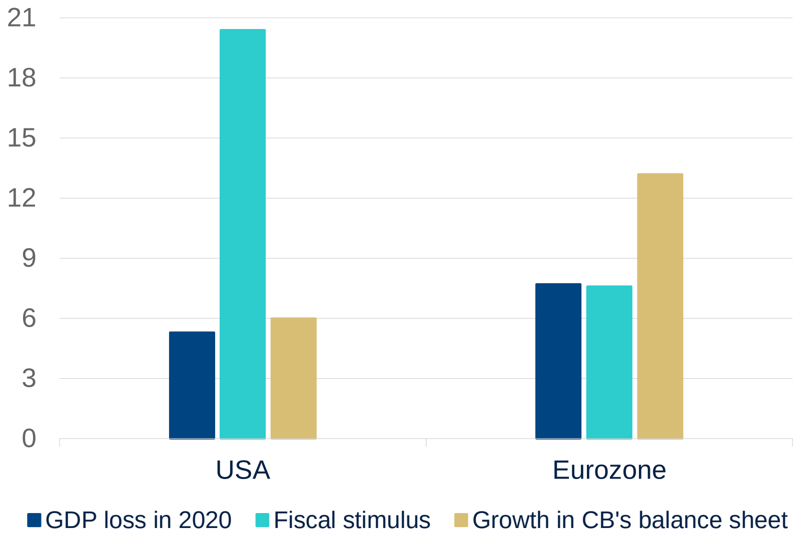
REAL GDP LEVEL (*)
(4Q19=100)



(*) Observed data till 1Q21. 2Q21: BBVA Research forecasts.
Source: BBVA Research based on local statistics.

Inflation and significant fiscal stimuli increase the pressure on central banks, which, however, remain focused on the recovery

GDP LOSS IN 2020 AND STIMULI FROM 2021(*)
(PP, % OF GDP)

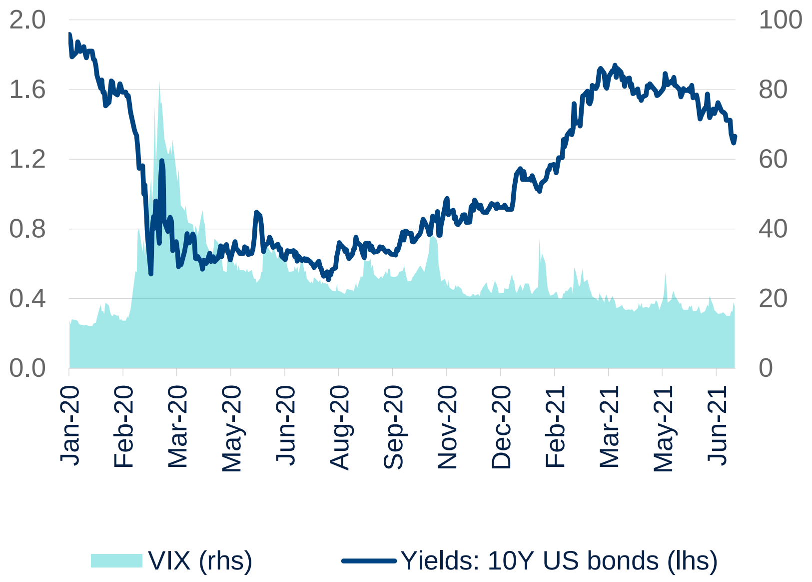


(*) GDP loss in 2020: difference between forecast GDP before the crisis and the actual data. Fiscal stimuli: US: USD 0.9tn approved in Dec/20, USD 1.9tn approved in Mar/21, and further USD 1.5tn expected ahead; UE: NGEU and measures announced by the main countries in the region. Central bank's balance sheet: expected accumulated expansion between the end of 2020 and the end of 2022.
Source: BBVA Research.

- The Fed has suggested that it will soon begin to discuss tapering bond purchases and that it will bring forward rate hikes, but not until 2023.
- Political debate in the US about additional fiscal stimuli, possibly less significant than anticipated and more focused on investment.
- In Europe, after the approval of the NGEU, the details for its implementation are being finalized; suspension of fiscal targets in 2021-22 increases scope for further stimulus.
- The ECB maintains a high rate of asset purchases; strategic review: “symmetric” inflation target of 2%.

Markets are more convinced that the Fed will act to control inflation; the prospect of stimulus withdrawal generates volatility

10-YEAR US BOND YIELD AND VIX
(%, INDEX)

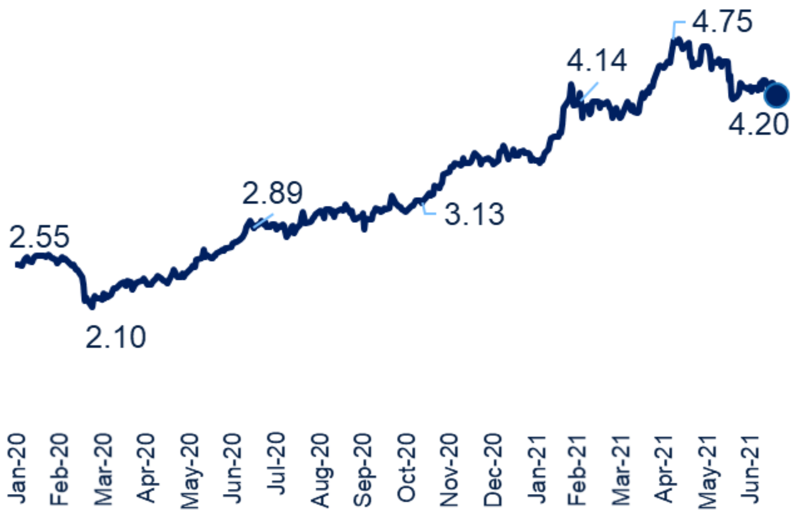


Source: BBVA Research based on data by Bloomberg.

- Short-term bond yields have risen in the US on the prospect of higher rates in early 2023 (or earlier).
- Long-term bond yields have fallen on the view that inflation will be controlled, the stabilization of growth expectations and lower bond supply.
- The rise in short-term rates has appreciated the US dollar and generated volatility ...
- ... but global liquidity continues to back equity markets, certain risk assets and moderate flows into emerging markets.

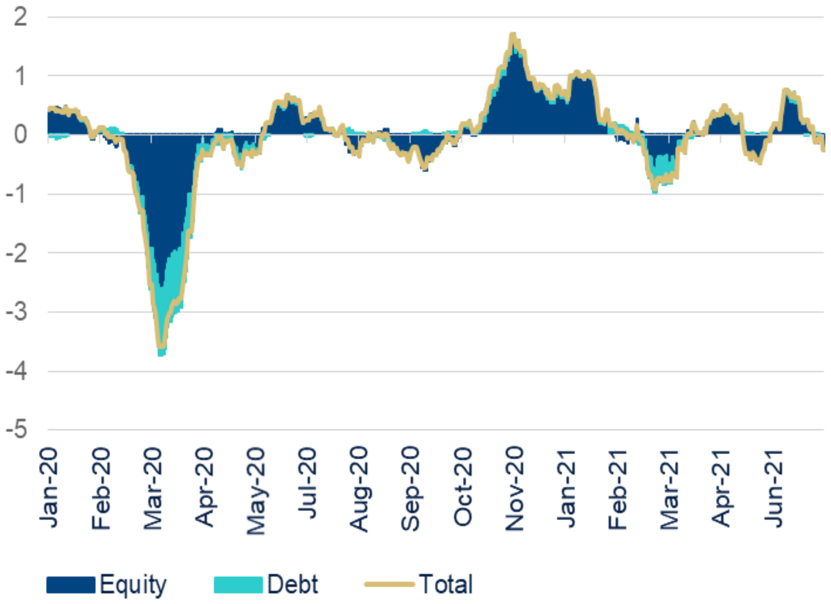
In this context, metal prices have corrected downward (but maintain accumulated gains) and capital inflows to emerging markets have slowed down

COPPER PRICE
(USD/POUND, DAILY)



Source: Bloomberg. Prepared by BBVA Research

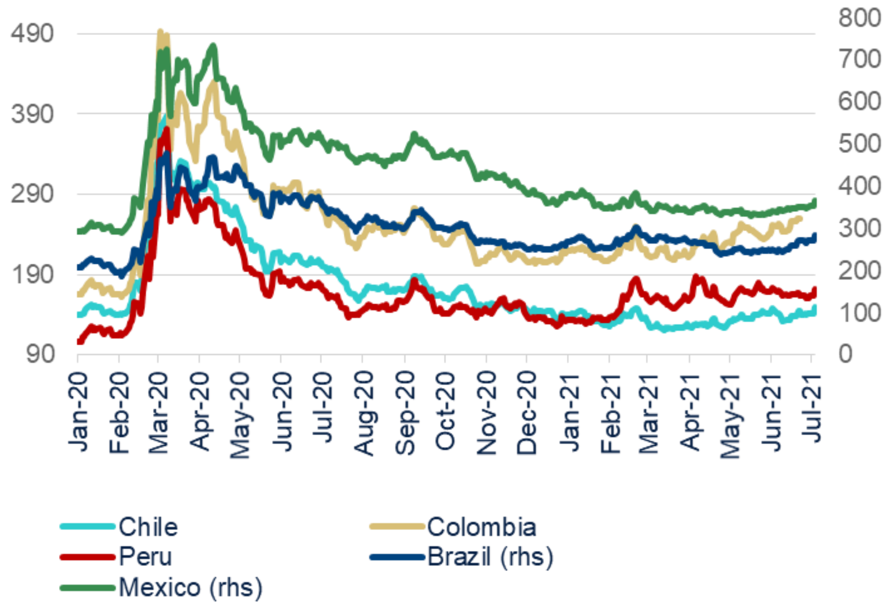
CAPITAL FLOWS TO EMERGING COUNTRIES (USD BILLIONS, AVERAGE 28-DAY MOVING AVERAGE)



Source: Bloomberg and IIF. Prepared by BBVA Research

In the region, risk premiums showed an upward trend in recent months, particularly in the Andean regions, due to idiosyncratic factors

LATAM: EMBI
(BASIS POINTS)



Source: Bloomberg. Prepared by BBVA Research

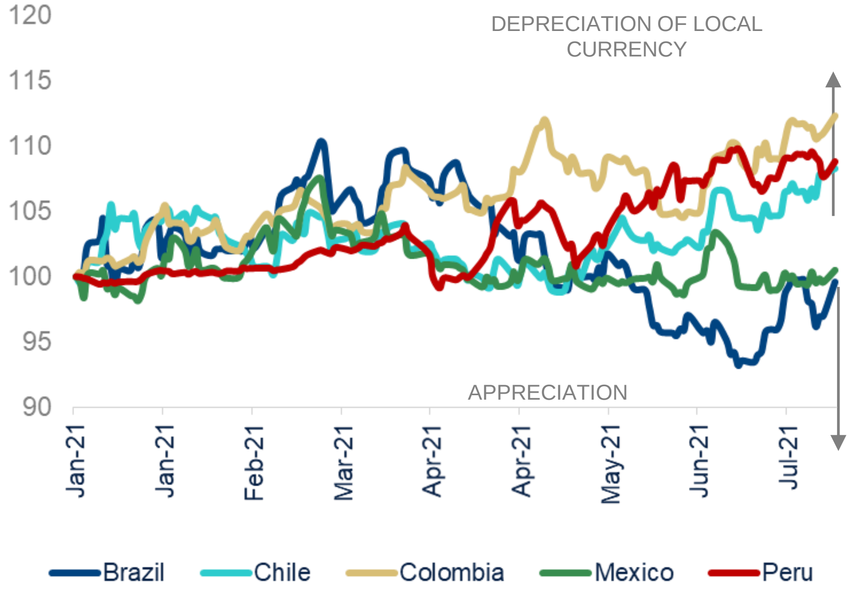
LATAM: EMBI
(CHANGE IN CURRENT VALUE VS. REPORTED DATE, BP)

	1Q21 Close (03/31/2021)	Cumulative for the year (12/31/2020)	Year-on-year (07/19/2020)
Brazil	11	33	-65
Colombia	54	64	7
Peru	19	39	2
Mexico	15	5	-132
Chile	27	5	-50

Source: Bloomberg. Prepared by BBVA Research

Bearish pressures (depreciation) on LatAm currencies

LATAM: EXCHANGE RATE
(LOCAL CURRENCY UNITS PER USD; INDEX JAN-01-21 = 100)



Source: Bloomberg. Prepared by BBVA Research

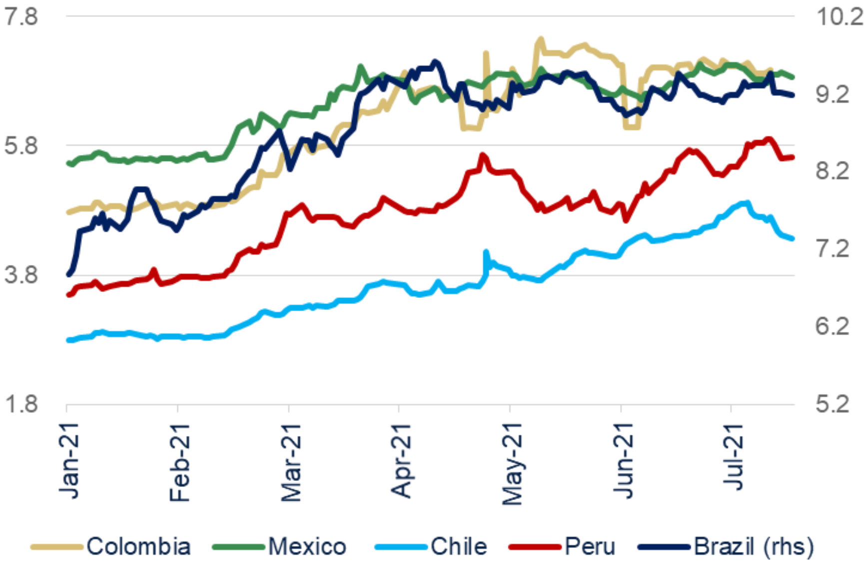
LATAM: EXCHANGE RATE
("-": APPRECIATION OF LOCAL CURRENCY; "+": DEPRECIATION) CURRENT VALUE VS. DATE INDICATED (%)

	1Q21 Close (03/31/2021)	Cumulative for the year (12/31/2020)	Year-on-year (07/19/2020)
Brazil	-8.0	1.0	-1.5
Colombia	4.1	12.4	5.5
Peru	5.5	9.1	12.7
Mexico	-1.2	0.8	-10.7
Chile	6.1	6.9	-3.1

Source: Bloomberg. Prepared by BBVA Research

Sovereign bond yields are rising

LATAM: 10-YEAR SOVEREIGN BOND YIELDS
(%)



Source: Bloomberg. Prepared by BBVA Research

LATAM: 10-YEAR SOVEREIGN BOND YIELDS
(%)

	Colombia	Mexico	Chile	Peru	Brazil
31.12.19	6.1	6.9	3.2	4.2	6.8
31.12.20	4.8	5.5	2.7	3.5	6.9
31.03.21	6.4	6.8	3.7	4.9	9.4
19.07.21	6.9	6.9	4.4	5.6	9.2

Variación del valor actual vs fecha indicada (pb)					
	Colombia	Mexico	Chile	Peru	Brazil
31.03.21	56	3	69	68	-24
31.12.20	209	133	172	212	227

Source: Bloomberg. Prepared by BBVA Research

Research

02

How is local activity evolving?

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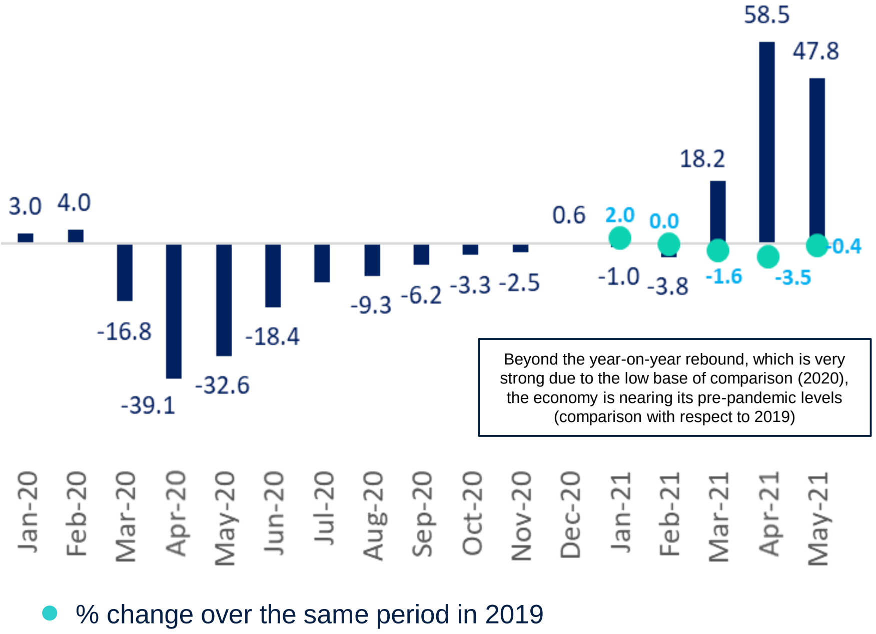
- On the local side, economic activity during the first half of the year showed better performance than expected three months ago.

- In the second quarter, households were provided with greater liquidity due to measures such as the total release of the Compensation for Time of Service deposits and new permitted withdrawals from pension funds. Together with improved health indicators and progress in the vaccination process, this would have supported household spending.

- On the other hand, given the uncertainty surrounding the election results, indicators related to private investment spending have lost momentum since May and business confidence has declined.

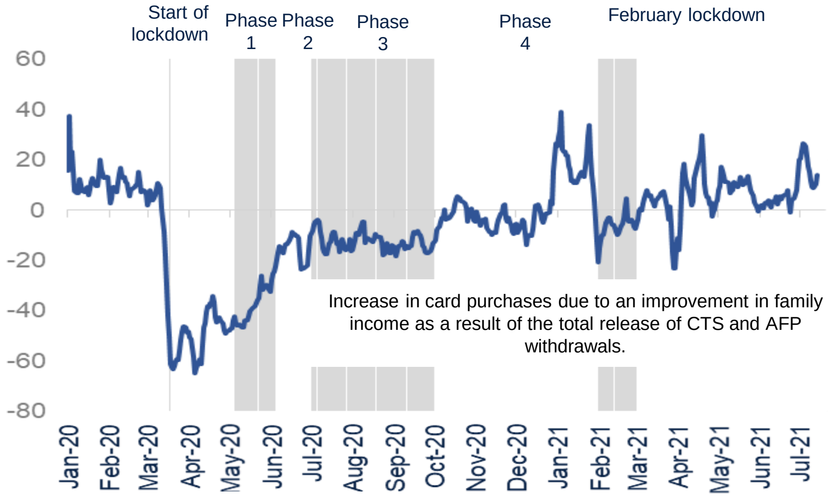
Year-to-date, activity continued its recovery to pre-pandemic levels, recently underpinned by some improvement in household expenditure.

GDP
(Y/Y % CHANGE)



Source: INEI. Prepared by BBVA Research

CONSUMPTION INDICATOR [1, 2]
(% CHANGE VS. THE SAME PERIOD OF 2019, IN REAL TERMS)



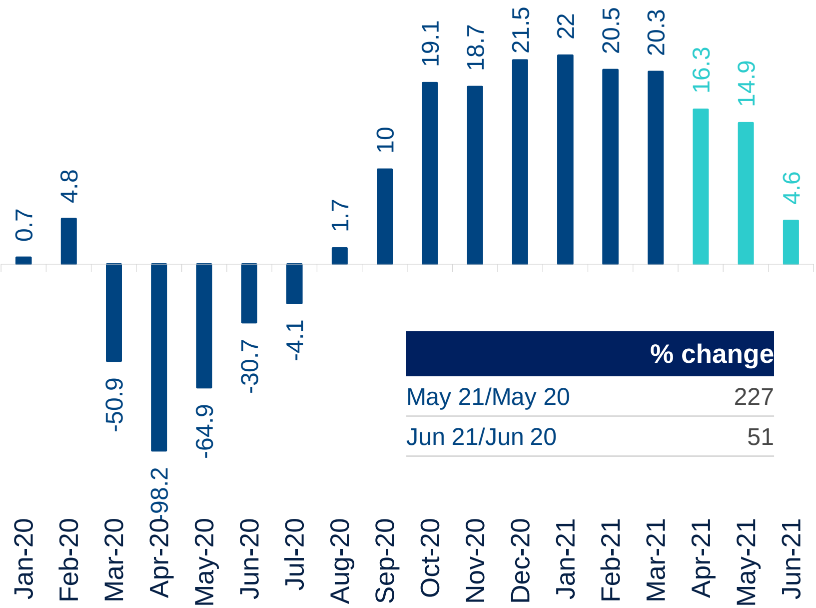
% change (monthly average)

	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	Jul 21
Compared to 2019	18.9%	-7.9%	3.3%	2.8%	8.3%	3.8%	16.2%
Compared to 2020	4.8%	-20.0%	36.8%	97.0%	88.6%	26.5%	32.5

1: Daily information as of July 19, 2021, 7-day rolling average. Information on the amounts of credit and debit card purchases made by households and ATM and teller withdrawals is used. 2: Each phase refers to the stages of resumption of economic activity.
Source: BBVA

However, on the other hand, spending and confidence indicators linked to private investment have lost dynamism (uncertainty due to the electoral results)...

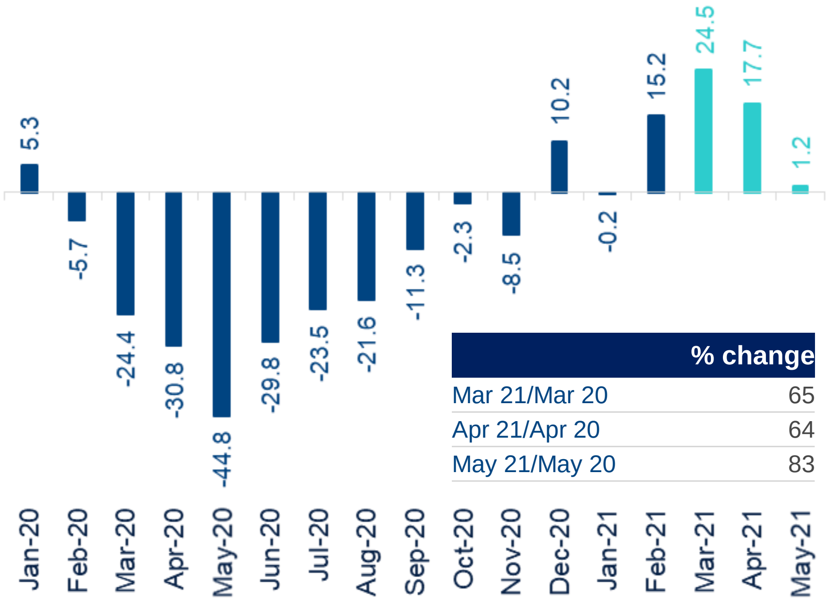
DOMESTIC CEMENT CONSUMPTION
(% CHANGE OVER THE SAME PERIOD IN 2019)



	% change
May 21/May 20	227
Jun 21/Jun 20	51

Source: BCRP. Prepared by BBVA Research

VOLUME OF CAPITAL GOODS IMPORTS[1]
(% CHANGE OVER THE SAME PERIOD IN 2019)

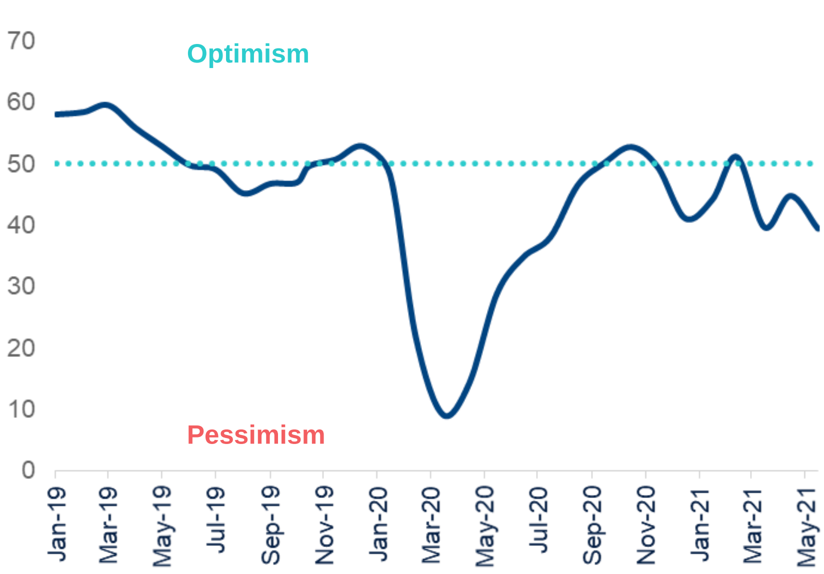


	% change
Mar 21/Mar 20	65
Apr 21/Apr 20	64
May 21/May 20	83

1: Without construction materials and without cell phones.
Source: BCRP. Prepared by BBVA Research

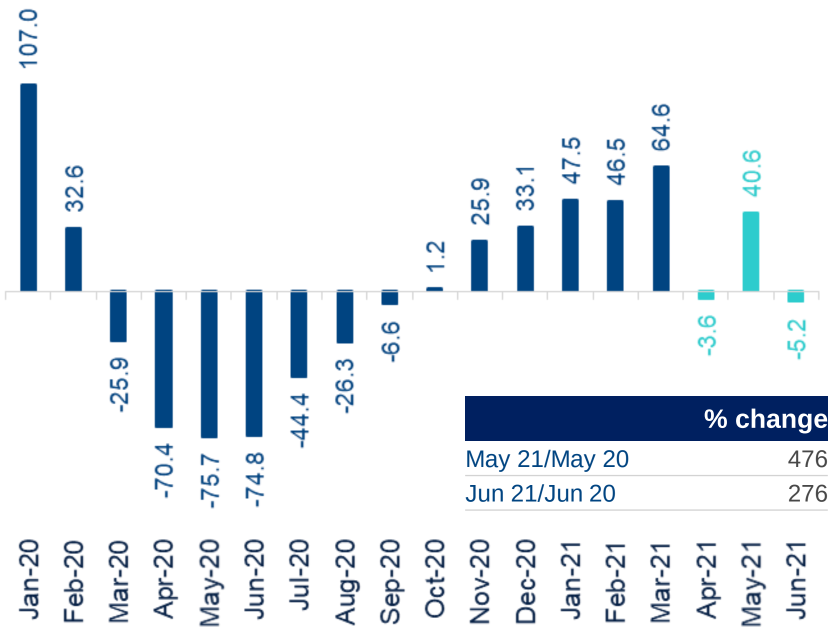
… and public investment weakened (fall in June compared to the same month of 2019)

BUSINESS CONFIDENCE
(POINTS)



Source: BCRP. Prepared by BBVA Research

PUBLIC INVESTMENT
(% CHANGE OVER THE SAME PERIOD IN 2019)

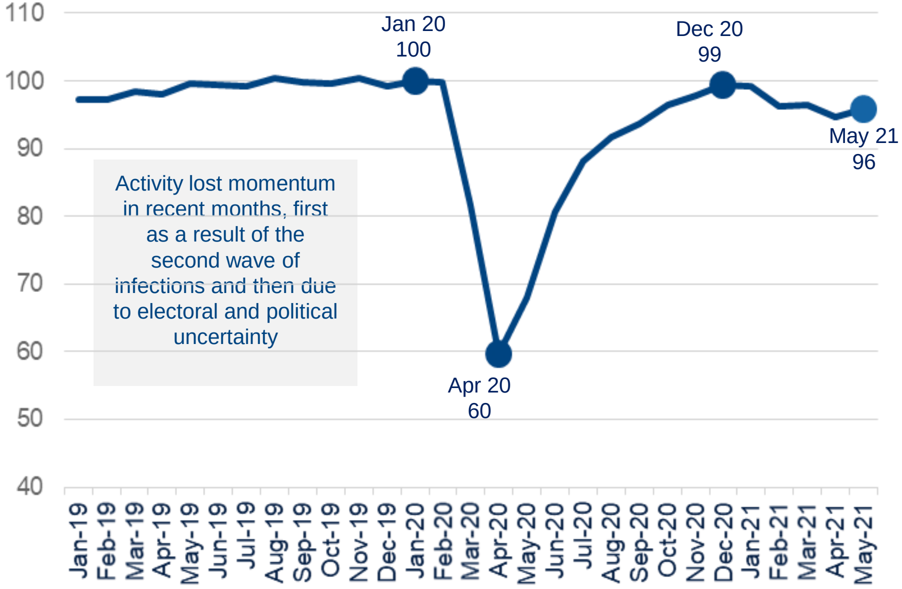


	% change
May 21/May 20	476
Jun 21/Jun 20	276

Source: BCRP. Prepared by BBVA Research

As a result, the economy's recovery lost some momentum in the second quarter but, overall, performance has been positive...

GDP
(SEASONALLY ADJUSTED, JAN. 20 = 100)



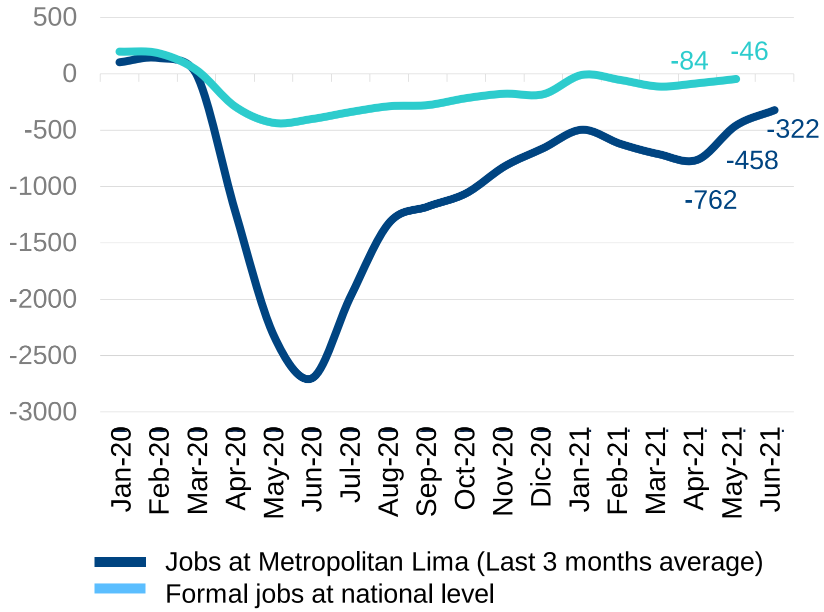
Source: INEI. Seasonally adjusted GDP estimate by BBVA Research

- Given the uncertainty surrounding the election results, indicators related to private investment spending have lost momentum since May and business confidence has declined.
- On the other hand, in the second quarter, households were provided with greater liquidity due to measures such as the total release of Compensation for Time of Service deposits and new permitted withdrawals from private pension funds.
- Together with improved health indicators and progress in the vaccination process, this would have supported household spending.

Employment and total wage bill are recovering but still below pre-pandemic levels

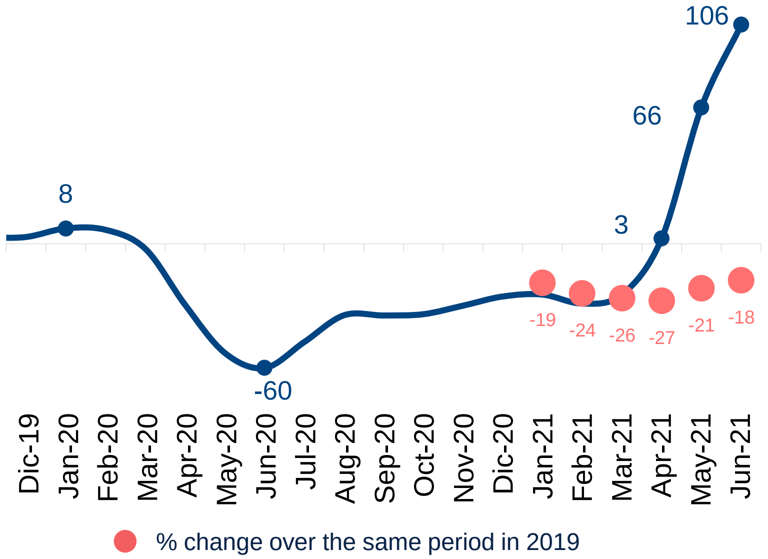
EMPLOYMENT

(CHANGE COMPARED TO THE SAME PERIOD OF 2019, THOUSANDS OF PEOPLE)



TOTAL WAGE BILL IN METROPOLITAN LIMA

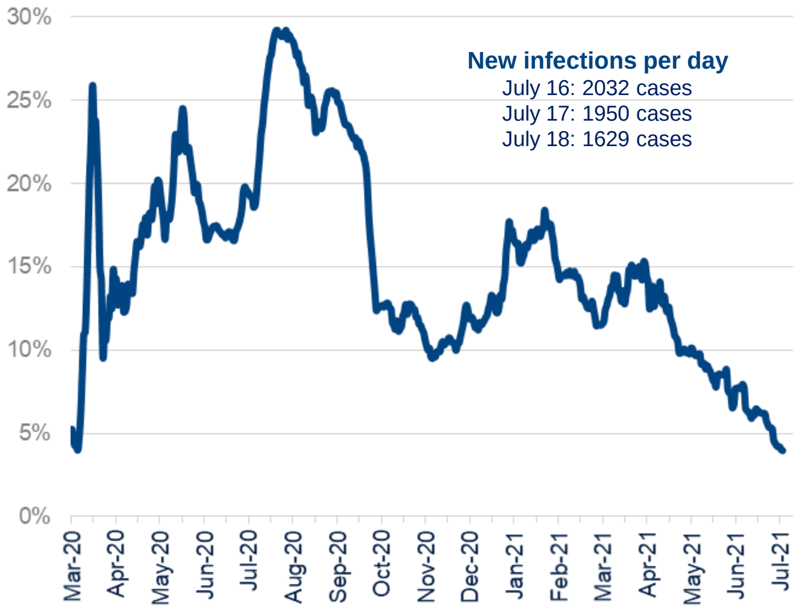
(% CHANGE ADJUSTED FOR INFLATION WITH RESPECT TO THE SAME PERIOD, 3-MONTH ROLLING AVERAGE)



Source: INEI and BCRP. Prepared by BBVA Research

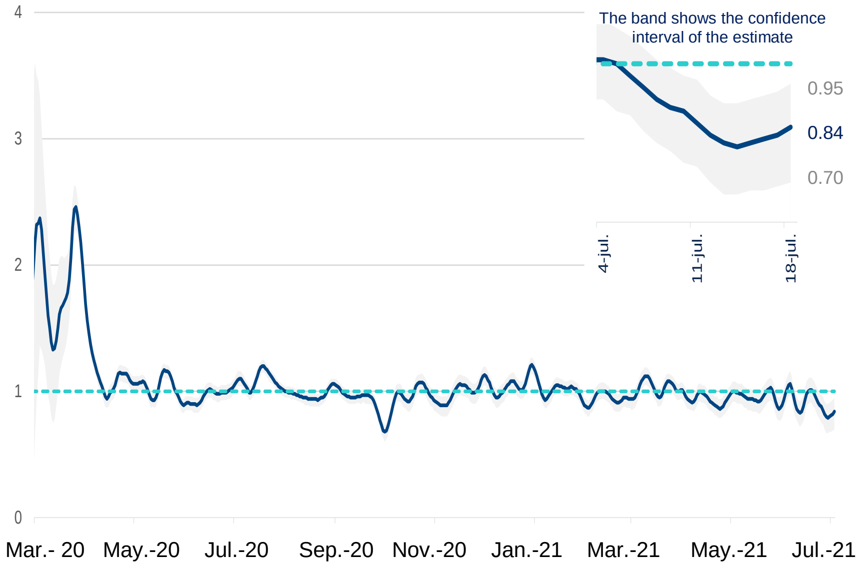
On the health care side, indicators have shown a significant improvement, but a third wave cannot be ruled out in the coming months (new variants)

DAILY TESTS WITH POSITIVE RESULTS
(% OF TOTAL, ROLLING AVERAGE OF THE LAST 7 DAYS)



Source: Ministry of Health of Peru. Prepared by BBVA Research

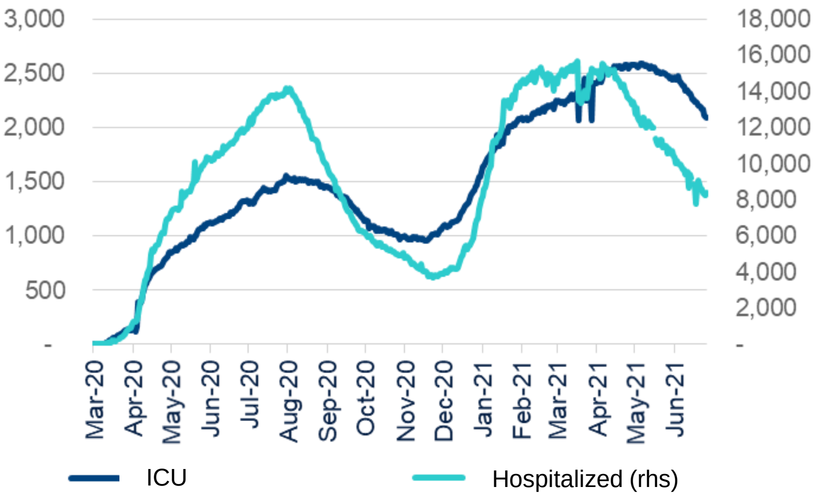
R_t IN REAL TIME[1/ 2/]



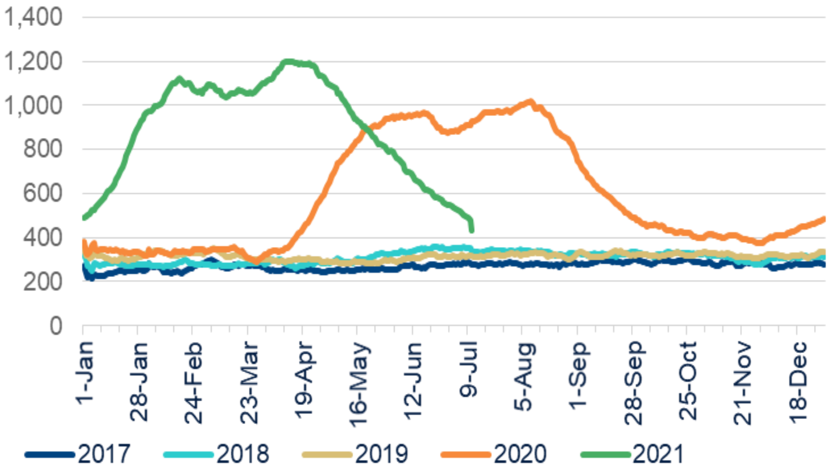
1/ Data as of July 18, 2021
2/ Data since March 6.
Source: Ministry of Health of Peru. Estimated by BBVA Research

On the health care side, indicators have shown a significant improvement, but a third wave cannot be ruled out in the coming months (new variants)

NO. OF PERSONS HOSPITALIZED FOR COVID-19



DEATHS PER DAY
(ROLLING AVERAGE FOR LAST SEVEN DAYS)

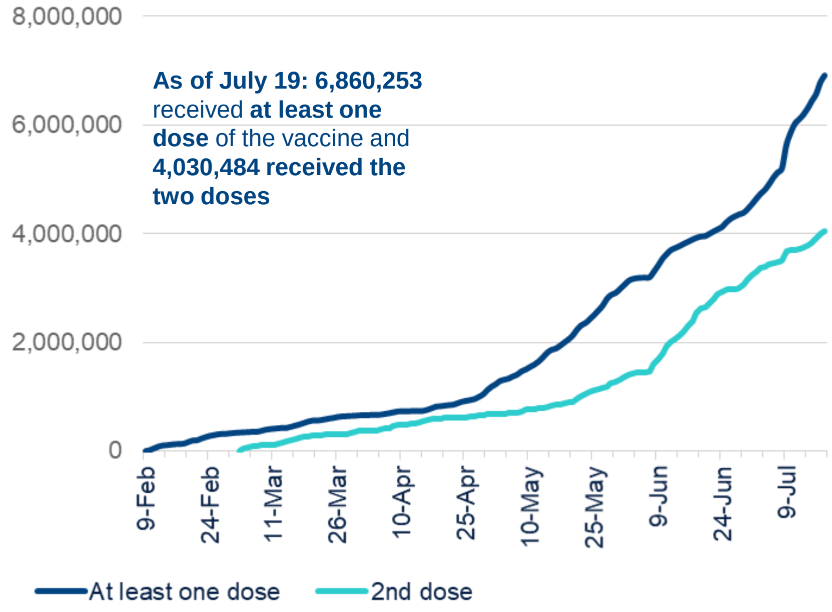


Source: Ministry of Health of Peru, SINADEF. Prepared by BBVA Research

The acceleration of the vaccination process is positive news: more than eight million doses are expected to be received in July.

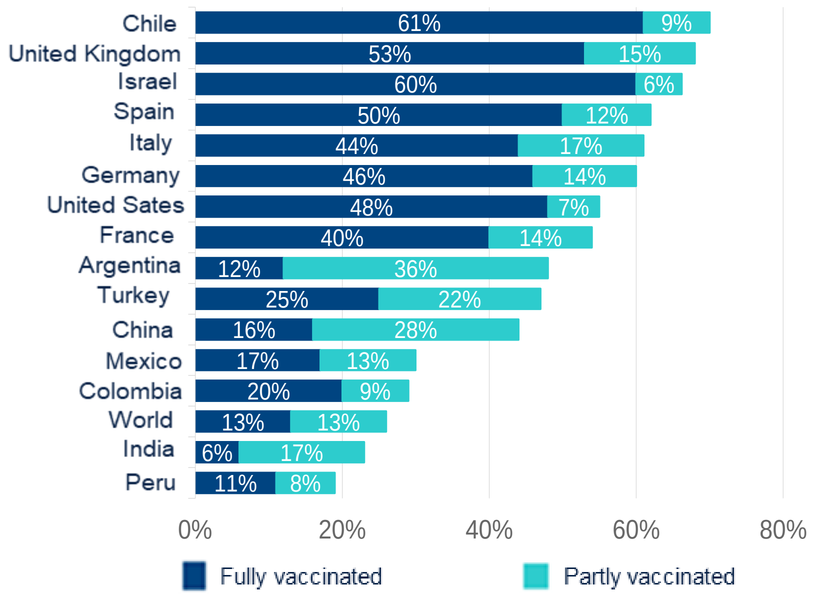
The acceleration of the vaccination process is a positive factor

PROGRESS OF THE VACCINATION PROCESS
(NO. OF PERSONS)



Source: Ministry of Health of Peru. Prepared by BBVA Research

POPULATION WITH AT LEAST ONE DOSE OF THE VACCINE (%, WITH INFORMATION AS OF JULY 20)



Source: BBVA Research, Our World in Data. Prepared by BBVA Research

Research

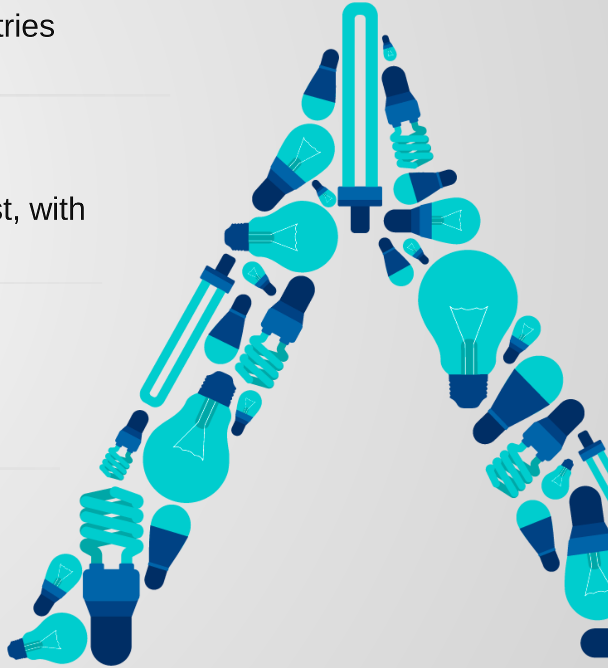
03

Quarterly review of macroeconomic forecasts

3.1 GDP and economic activity

Assumptions on the external side: faster recovery ahead, with higher inflation and growing challenges for central banks

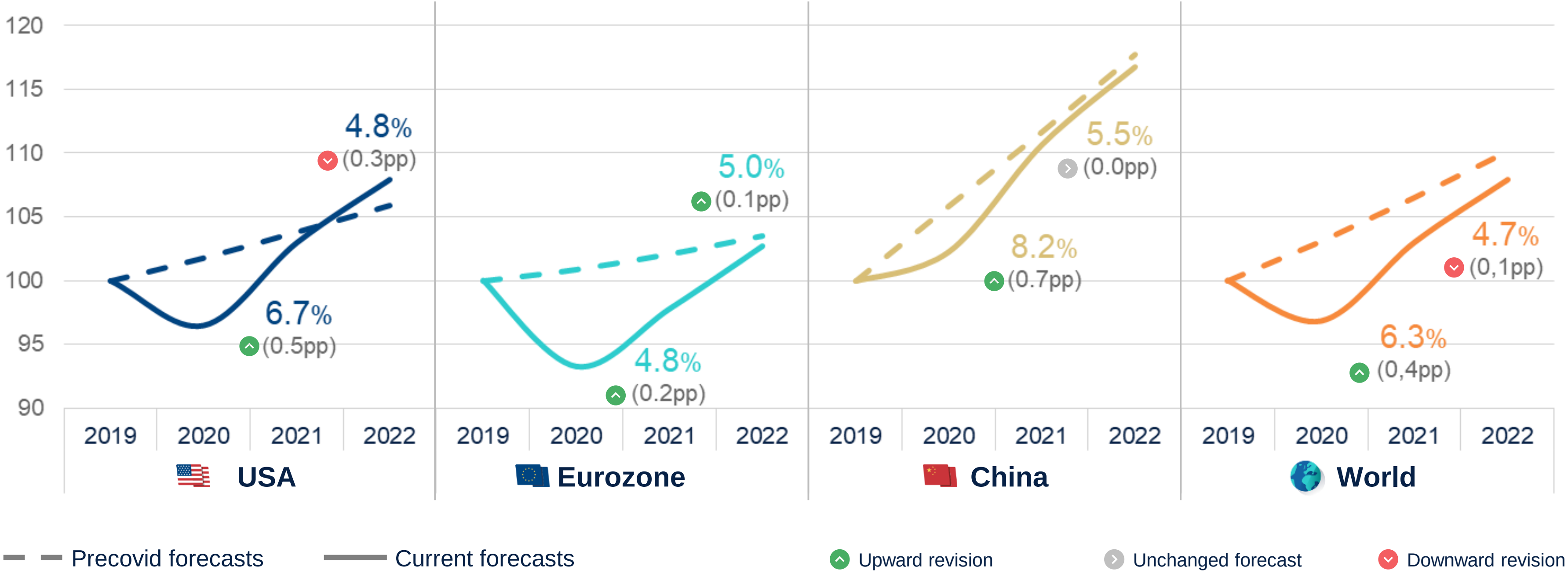
COVID-19	Convergence to "normality," earlier in developed countries than in emerging countries.
Activity and inflation	Stronger growth; higher inflation than in the recent past, with upside risks.
Economic policy	Tapering in 2022, stable interest rates until 1T23 (with the risk that hikes will be brought forward), and expansionary fiscal policy in developed countries.
Financial markets	More pressure on risk assets and emerging markets given the stimulus withdrawal process.



Global growth will be stronger than expected in 2021 and will ease in 2022

REAL GDP

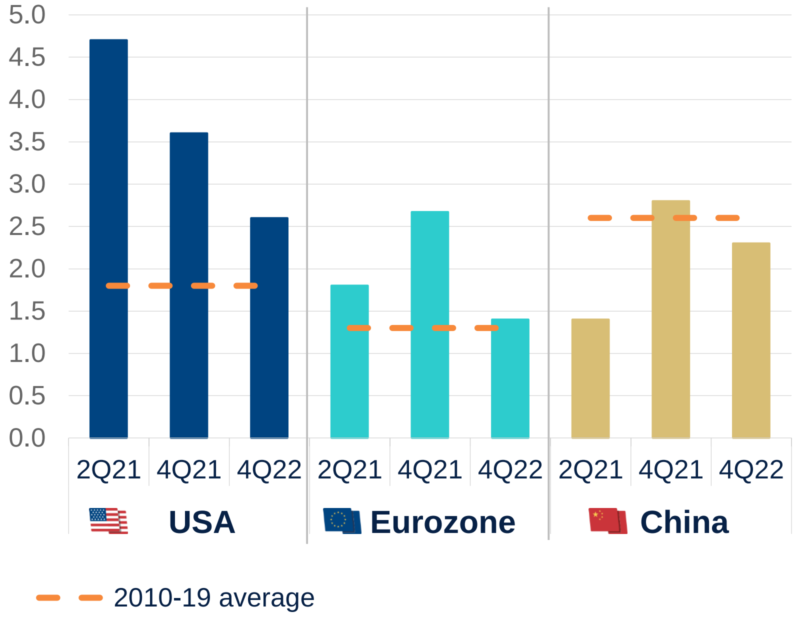
(LINES: GDP LEVEL 2019=100, FIGURES: GROWTH FORECASTS AND, BETWEEN PARENTHESIS, CHANGE WITH RESPECT TO PREVIOUS FORECASTS)



Source: BBVA Research.

Inflation in the US and Europe is expected to slow down, but it will remain above the previous decade's levels, in an environment of increasing risks

INFLATION: CPI
(Y/Y %, PERIOD AVERAGE)



Source: BBVA Research.

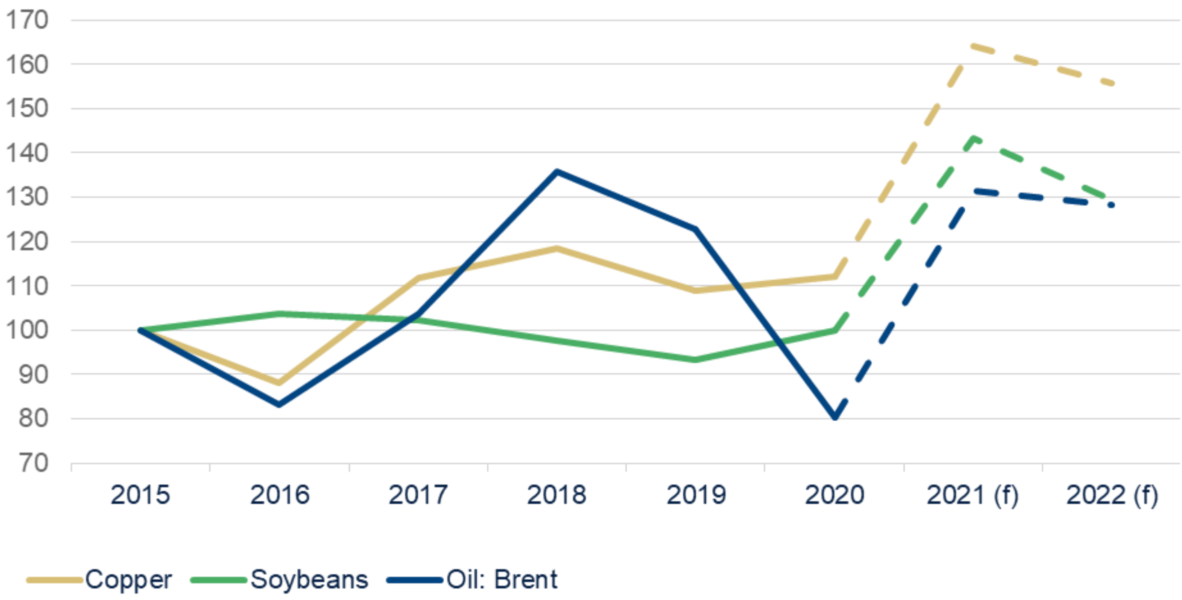
- Expected moderation of inflation
  - more favorable base effects
  - lower commodity prices
  - bottlenecks will ease on greater supply
  - absence of widespread wage pressures
- Inflation "normalization": above 2010-19 levels
  - CBs more tolerant with inflation
  - more supportive fiscal, social and labor policies
  - trade protectionism
  - energy transition and change in relative prices
  - labor market tensions
- In China, inflation will rise moderately on demand recovery and less positive base effects.
- Monetary and fiscal policies will be key for the future inflation dynamics.

Economic policies remain focused on supporting growth, but monetary policy keeps also an eye on inflation, and will gradually shift to exit policies

	PROSPECTS FOR MONETARY POLICY	PROSPECTS FOR FISCAL POLICY
US	Tapering in the beginning of 2022 and stable interest rates until 1Q23 (slightly earlier than expected)	Additional stimulus of around 7% of GDP, more long-term and investment-focused than previous bills
Eurozone	Accommodative stance and scale down of bond purchases (PEPP) from Sep/21 New strategy: "symmetric" inflation target of 2%;	NGEU: minor short-term impact; potentially greater in the long run Fiscal rules: suspended at least in 2021-22
China	Unchanged rates in 2021-22; lower dynamism of credit and regulatory tightening	Gradually less expansionary

Commodities have increased more than expected, mostly due to recovery, but will moderate somewhat as supply reacts

COMMODITY PRICES: ANNUAL AVERAGES
(INDEX: 2015 AVERAGE = 100)

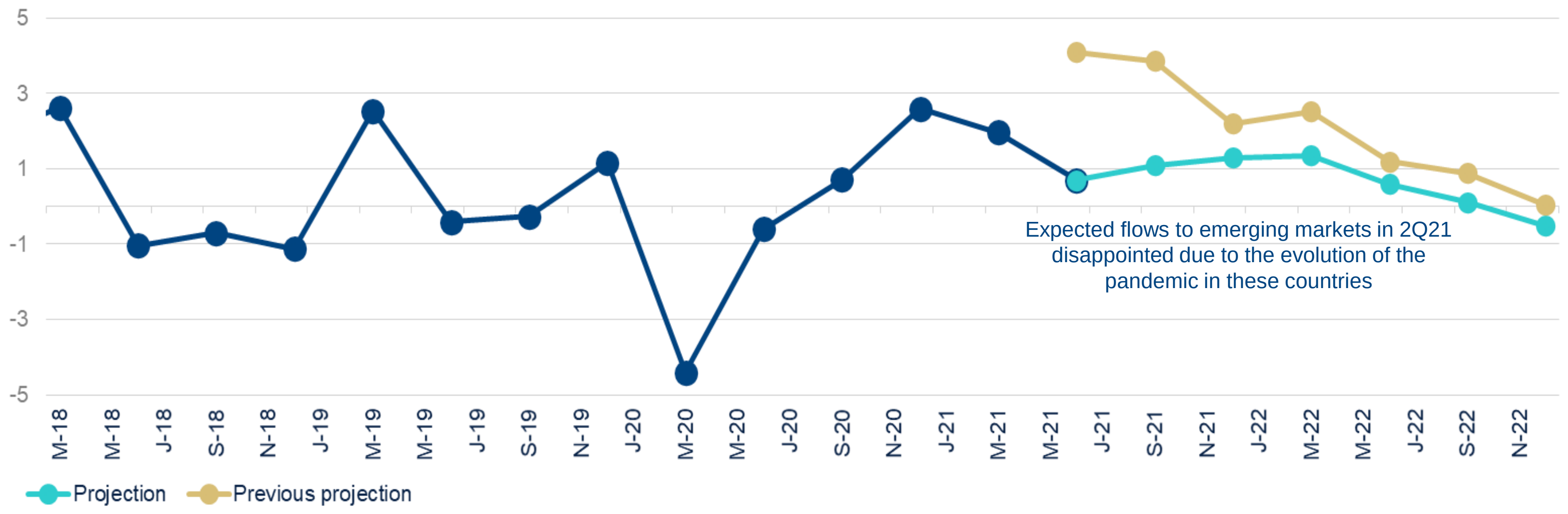


	2021 (f)	2022 (f)
COPPER (USD/pound)	4.1	3.9
SOY (USD per ton)	502	454
BRENT (USD per barrel)	69	67

(f): Forecast.
Source: BBVA Research.

The withdrawal of monetary stimulus will put pressure on capital inflows to emerging economies

CAPITAL FLOWS INTO EMERGING ECONOMIES
(% OF MANAGED ASSETS)



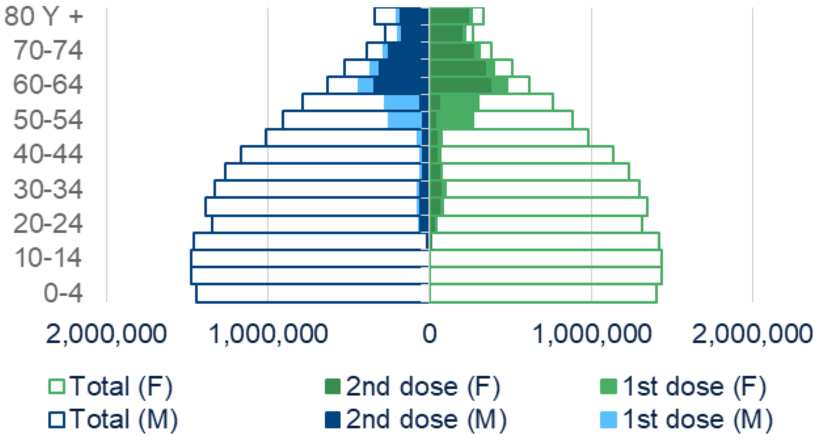
Source: BBVA Research.

Assumptions on the local side: uncertainty due to the evolution of the health crisis and awaiting the definition of the new administration's economic measures

COVID-19	Third wave likely in the coming months, but without significant macroeconomic effects. Vaccination of the most vulnerable population ends at the beginning of 4Q21.
Political context	Moderation of economic proposals from the incoming government administration. However, uncertainty will remain high.
Activity	Caution in private sector spending.
Financial markets	Pressure on Peruvian asset prices in general in the context of local uncertainty and the proximity of monetary tightening in the US.

COVID-19: 3rd wave in the coming months, without significant macroeconomic effects; most vulnerable population concludes vaccination in 4Q21

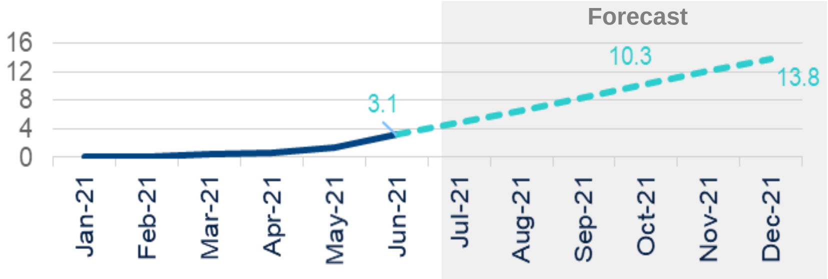
VACCINATED POPULATION BY SEX AND AGE



Source: Ministry of Health of Peru. Prepared by BBVA Research

The baseline scenario considers that the most vulnerable population (close to 9 million) will complete their vaccination at the beginning of 4Q21. This makes it possible to increase the capacity (restaurants, shopping malls) in that quarter, with less risk of this being reversed later on.

NUMBER OF VACCINATED PEOPLE*
(MILLIONS OF PEOPLE)



* Considers two doses per vaccinated person and official announcements of vaccine arrivals.
Source: media reports. Prepared by BBVA Research.

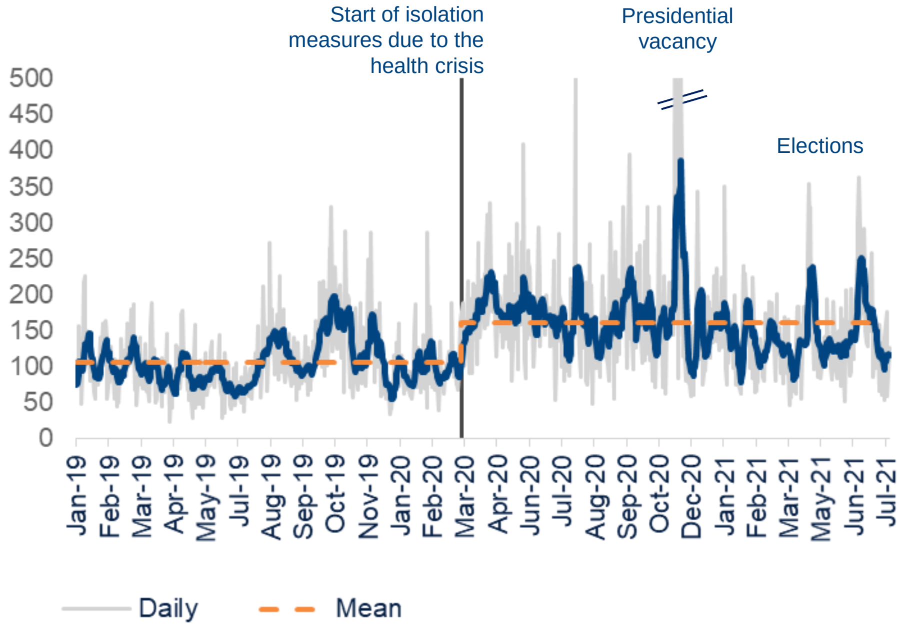
NUMBER OF VACCINES PURCHASED
(MILLIONS OF DOSES)

Laboratory	
Sinopharm	16
Pfizer[1]	33.9
Covax Facility	15
AstraZeneca	13.8
Gamaleya	20
Total purchased	**98.7**
Received as of Jul-19-21	**13.4**

1: Includes 2 million doses donated by the US
Source: MINSA and media based on official announcements. Prepared by BBVA Research

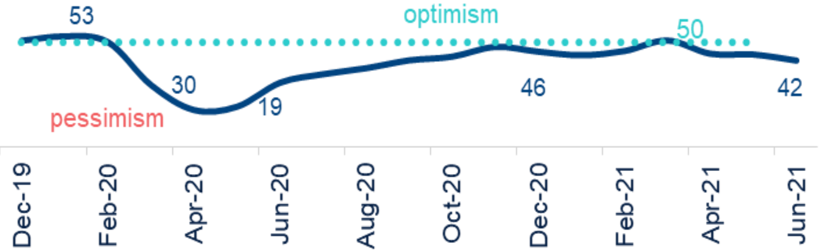
Political context: sustained uncertainty fuels caution on private sector spending, particularly investment

ECONOMIC UNCERTAINTY INDICATOR
(FEB 2020 =100, 7-day average)



* Information as of July 19.
Source: GDELT. Prepared by BBVA Research.

INVESTMENT OUTLOOK FOR THE NEXT 3 MONTHS (POINTS)

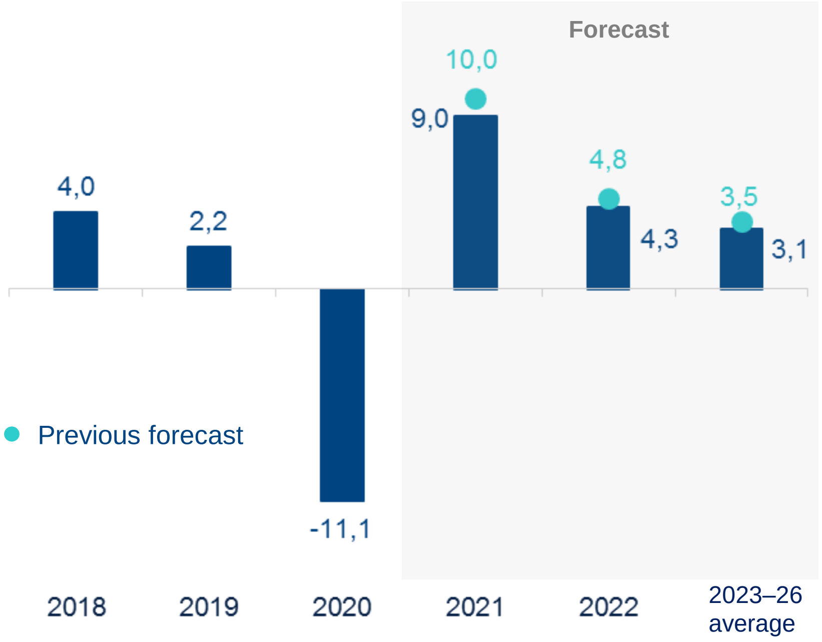


INVESTMENT OUTLOOK FOR THE NEXT 12 MONTHS (POINTS)

Source: BCRP. Prepared by BBVA Research.

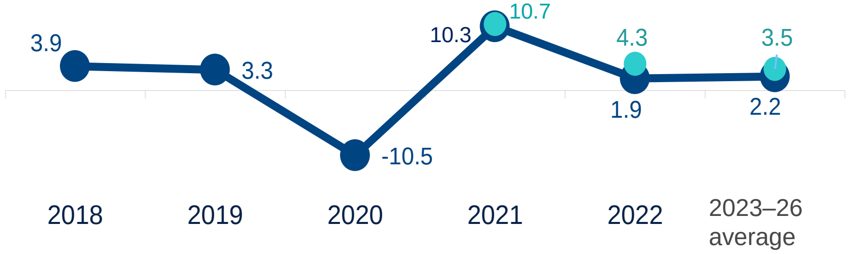
In a still highly uncertain scenario, GDP is projected to expand 9.0% in 2021 and 4.3% next year

GDP
(Y/Y % CHANGE)

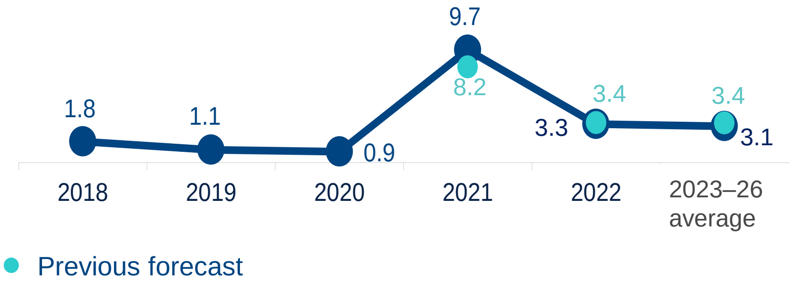


Source: BCRP. Forecast: BBVA Research.

PRIVATE SPENDING
(EXCLUDES INVENTORY ACCUM., Y/Y % CHANGE)



PUBLIC SPENDING
(Y/Y % CHANGE)

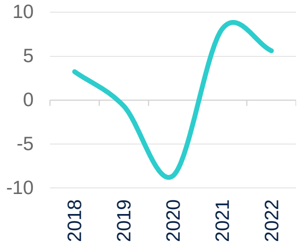


In a still highly uncertain scenario, GDP is projected to expand 9.0% in 2021 and 4.3% next year

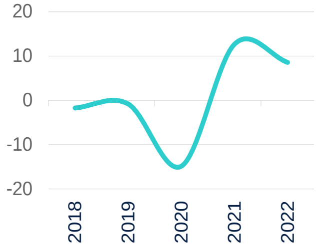
GDP: SELECTED COMPONENTS FOR THE SECTORAL AND EXPENDITURE SIDES
(IN REAL TERMS, Y/Y % CHANGE, 2021–22 FORECASTS)

SECTORAL GDP

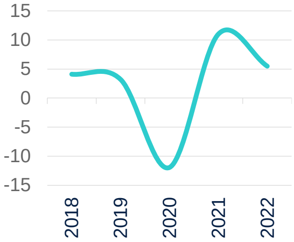
PRIMARY GDP



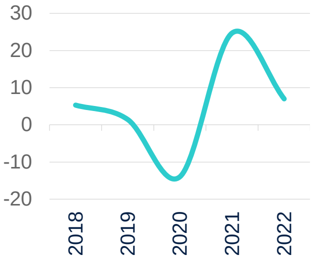
METAL MINING



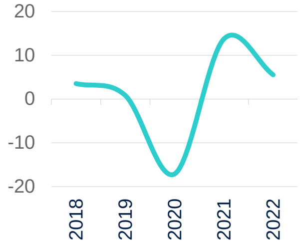
NON-PRIMARY GDP



CONSTRUCTION

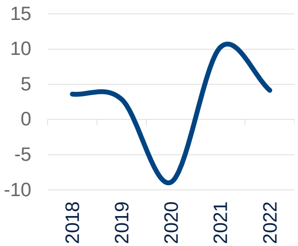


NON-PRIMARY MANUFACTURING

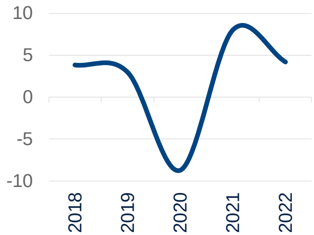


EXPENDITURE-SIDE GDP

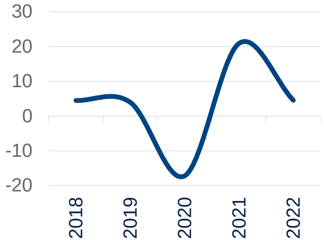
DOMESTIC DEMAND[1]



PRIVATE CONSUMPTION

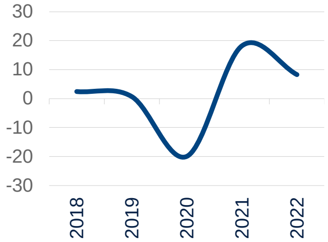


PRIVATE INVESTMENT



PUBLIC INVESTMENT

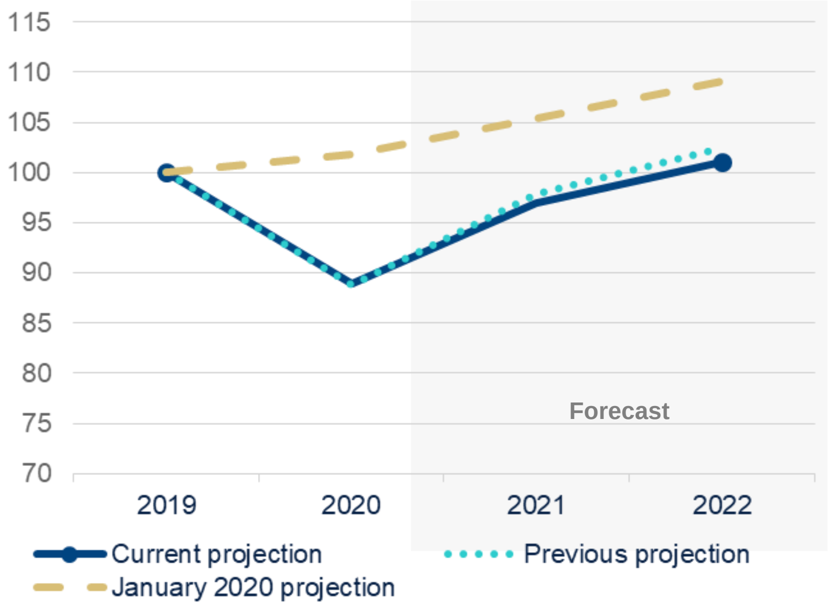
EXPORTS



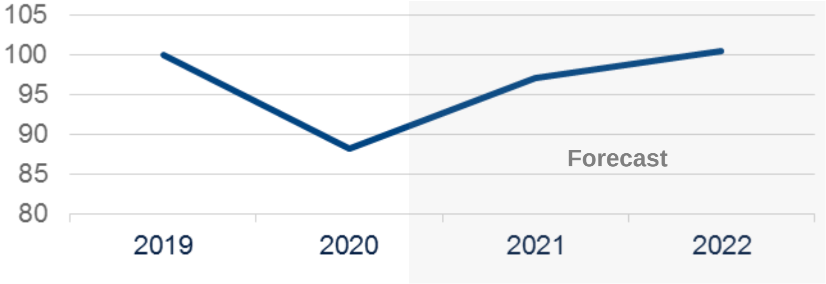
1: Excludes inventory accumulation
Source: BCRP. Forecast: BBVA Research.

As a result, GDP will recover to its pre-health crisis level by the second quarter of 2022

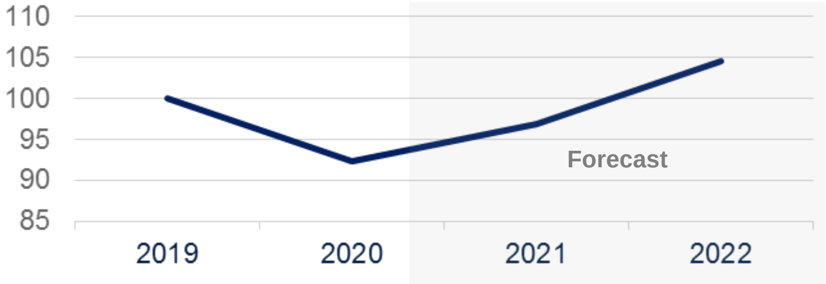
GDP
(LEVEL, 2019 = 100)



NON-PRIMARY GDP
(LEVEL, 2019 = 100)



PRIMARY GDP
(LEVEL, 2019 = 100)



Source: BCRP. Forecast: BBVA Research.

03

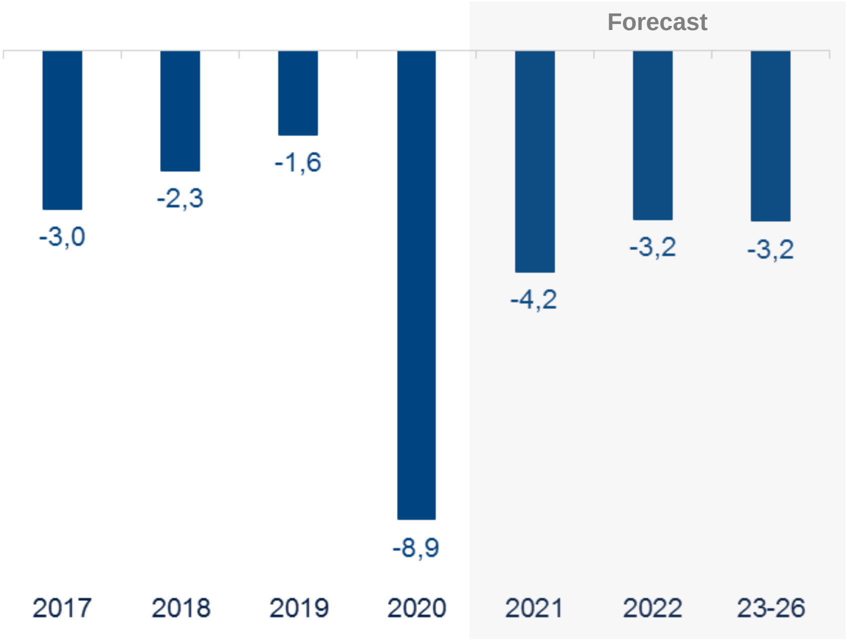
Quarterly review of macroeconomic forecasts

3.2. Fiscal balance and public debt

Creando Oportunidades

A fiscal deficit of 4.2% of GDP is expected this year and there is still a need to cover financing requirements to close 2021

FISCAL BALANCE
(% OF GDP)



Source: BCRP. Forecast: BBVA Research.

2021 FINANCING NEEDS
(MILLIONS OF PEN, % OF GDP)

	2021	
	Millions of PEN	% of GDP
Financing needs	**37,123**	**4.5**
Amortizations	2556	0.3
Fiscal deficit	34,566	4.2
Sources	**37,123**	**4.5**

To date, 70% of the financing needs for 2021 have been covered

Debt issuance:

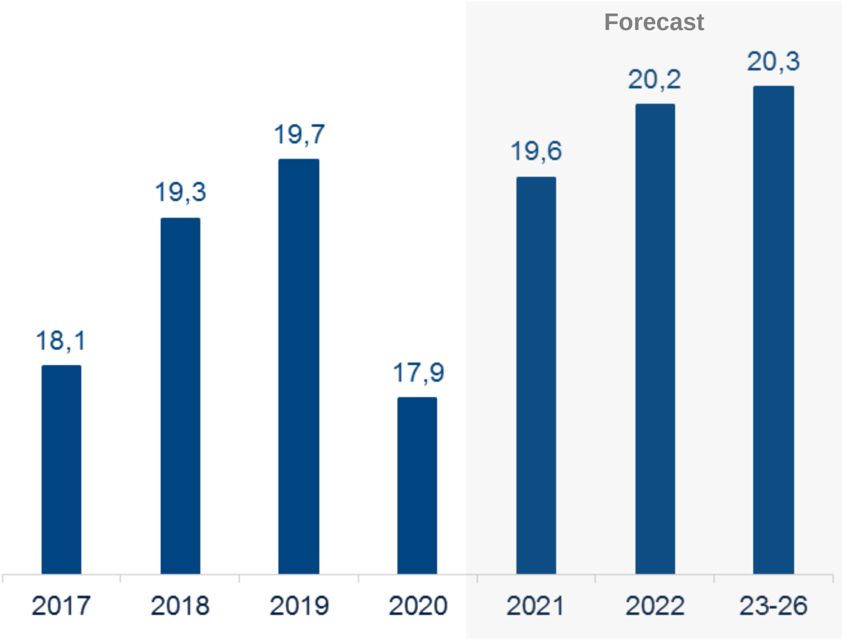
- Global bonds (Q1): PEN 18,300
- Multilateral (Q1): PEN 3849
- Sovereign bonds (May): PEN 4397

PEN 26,508

Source: BCRP and MEF. Prepared by BBVA Research.

Fiscal scenario: deficits remain above 3.0% of GDP, despite the recovery of revenues (mainly from mining), so…

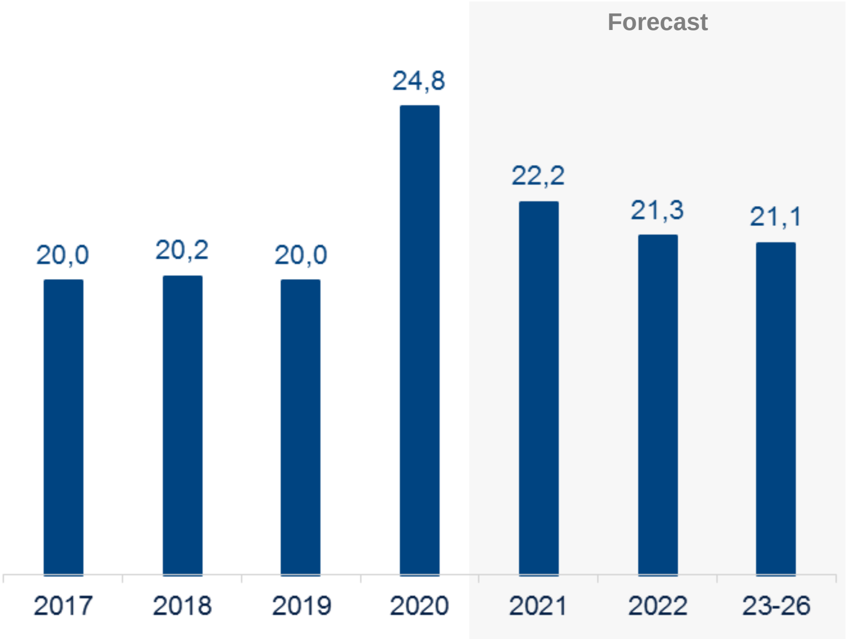
CENTRAL GOVERNMENT REVENUE*
(% OF GDP)



*Tax measures not considered

Source: BCRP. Forecast: BBVA Research.

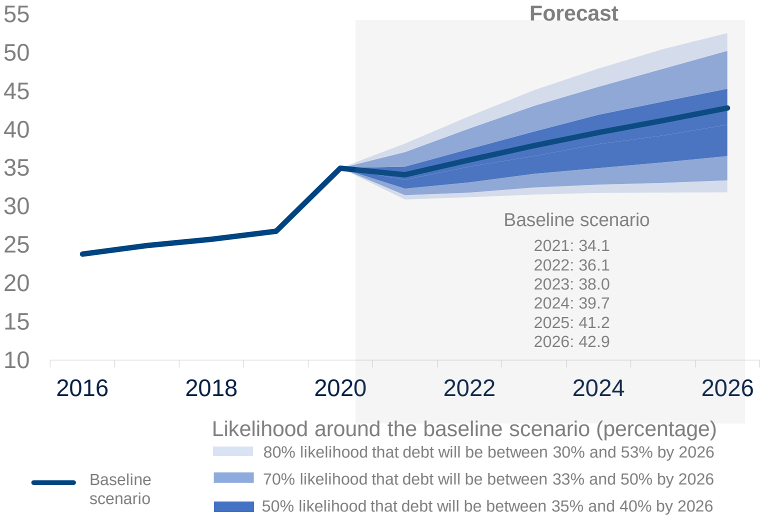
GENERAL GOVERNMENT NON-FINANCIAL EXPENSES
(% OF GDP)



Source: BCRP. Forecast: BBVA Research.

… public debt will trend upward in the coming years, so the probability of a rating downgrade has been elevated

GROSS PUBLIC DEBT FORECAST
(% OF GDP)

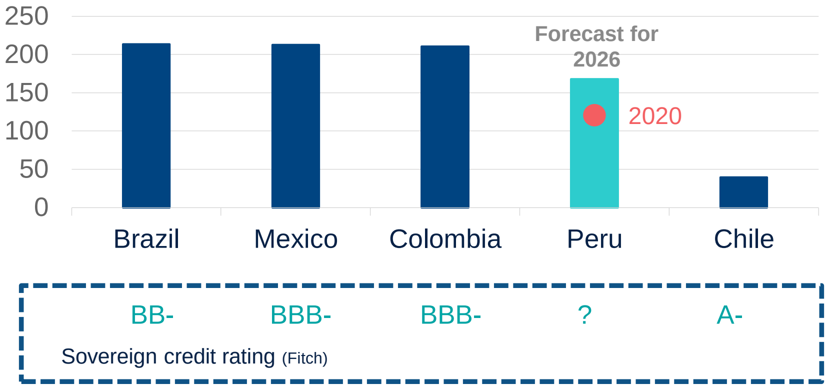


SHARE OF PUBLIC DEBT IN FOREIGN CURRENCY (%)

2019	2020	2021	2022	2023	2024	2025	2026
32	43	46	44	41	40	37	34

Source: BCRP. Forecast: BBVA Research.

LATAM 2020: NET PUBLIC DEBT AS A SHARE OF TAX REVENUES* (%)



*It considers the revenues and net debt of the general government of each country, except in the case of Peru, for which it considers the revenues of the general government and the net public debt of the non-financial public sector.
Source: IMF, BCRP. Prepared by BBVA Research.

Countries with a sovereign credit rating similar to Peru (2020): 99% (average)

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03

Quarterly review of macroeconomic forecasts

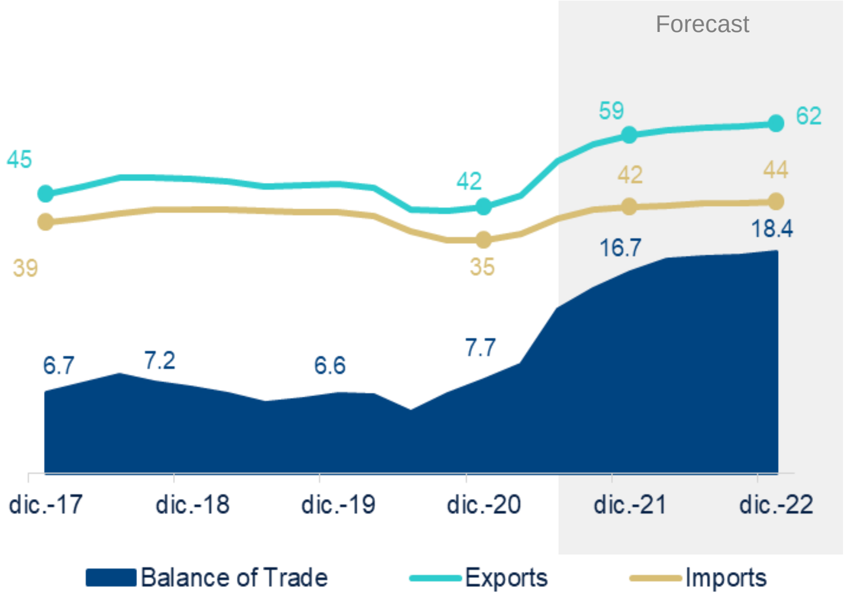
3.3. External sector and exchange rate

Significant trade surplus in 2021 and 2022 mainly due to higher metal prices…

TERMS OF TRADE
(INDEX AND % CHANGE)

Source: BCRP. Prepared by BBVA Research.

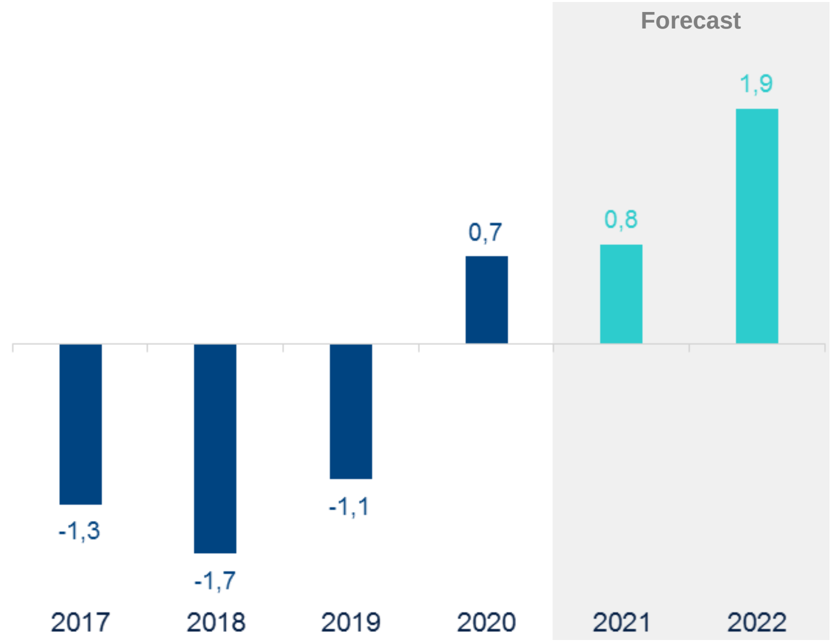
TRADE BALANCE (USD BILLION, ACCUMULATED OVER THE LAST FOUR QUARTERS)



Source: BCRP. Prepared by BBVA Research.

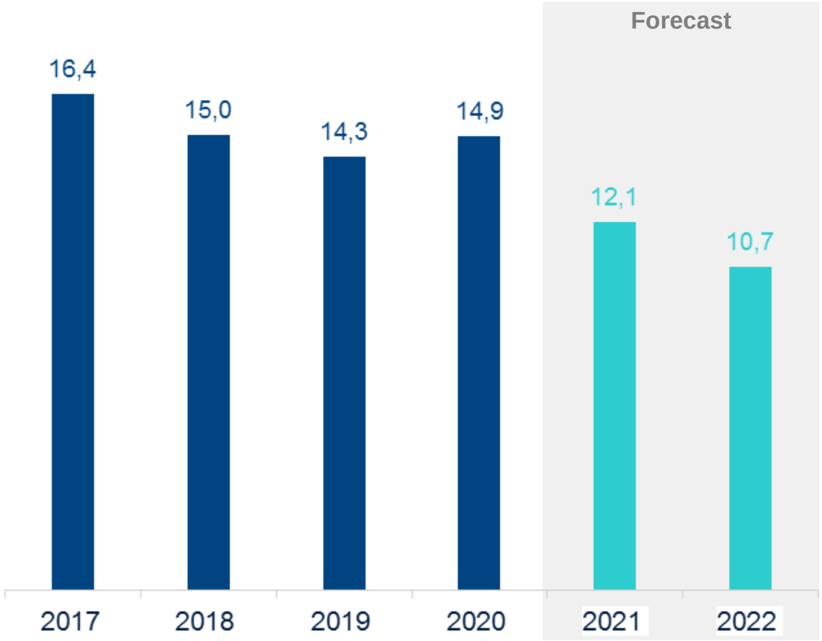
… which reduces dependence on external financing

BALANCE OF PAYMENTS: CURRENT ACCOUNT
(% GDP)



Source: BCRP. BBVA Research forecast.

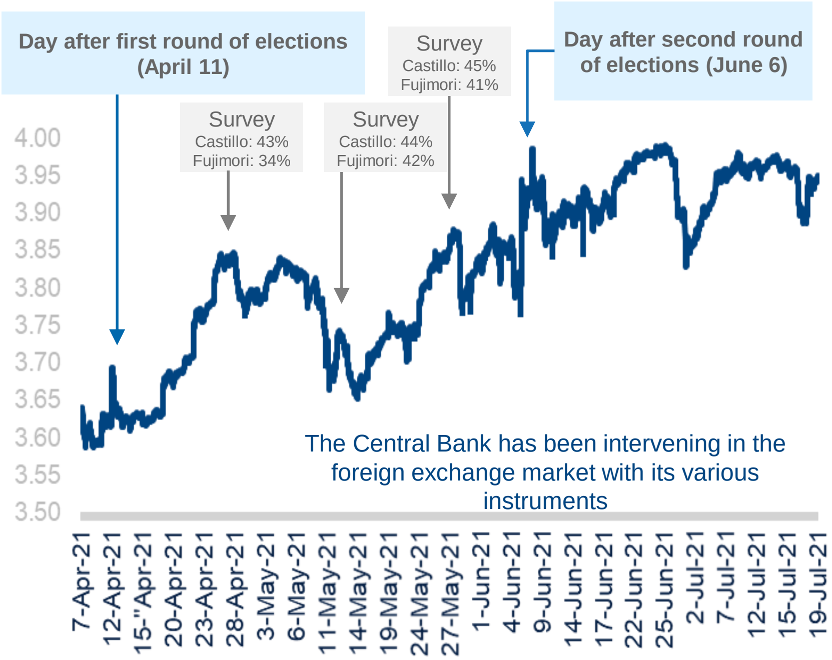
MEDIUM AND LONG-TERM PRIVATE EXTERNAL DEBT (% OF GDP)



Source: BCRP. BBVA Research forecast.

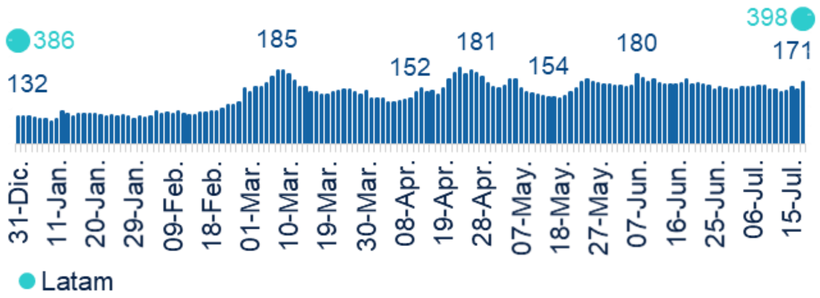
In local financial markets, greater volatility in recent months due to political uncertainty and external factors (probability of Fed tightening)

EXCHANGE RATE
(PEN PER USD)

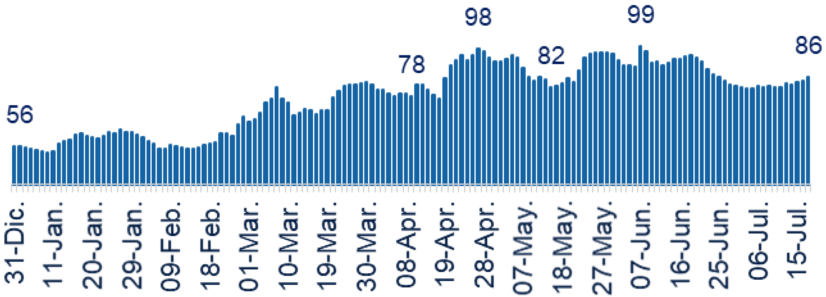


Source: Bloomberg, IPSOS. Prepared by BBVA Research

PERU: EMBI (POINTS)



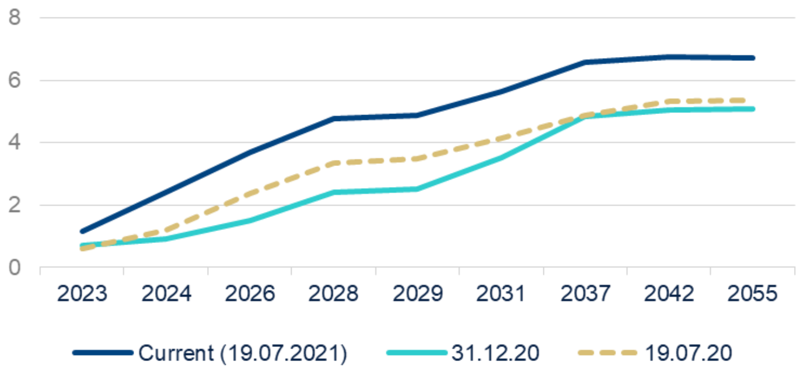
PERU: CDS (POINTS)



Source: Bloomberg. Prepared by BBVA Research

In local financial markets, greater volatility in recent months due to political uncertainty and external factors (probability of Fed tightening)

PERU: SOVEREIGN BOND YIELD CURVE (%)



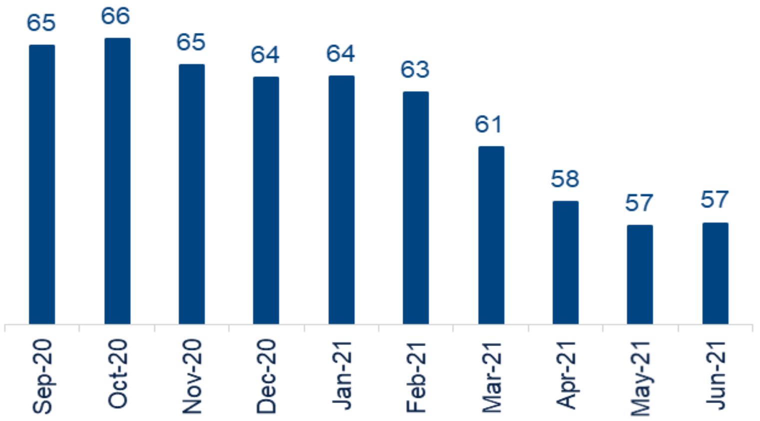
	2023	2024	2026	2028	2029	2031	2037	2042	2055
31.12.20	0.72	0.90	1.49	2.42	2.52	3.51	4.82	5.04	5.10
19.07.20.	0.60	1.20	2.38	3.36	3.48	4.16	4.88	5.33	5.37
19.07.21	1.15	2.40	3.71	4.77	4.86	5.63	6.58	6.76	6.71

PERU: SOVEREIGN BONDS
(CHANGE IN CURRENT VALUE VS. REPORTED DATE, BP)

	2023	2024	2026	2028	2029	2031	2037	2042	2055
31.12.20	43	150	221	235	235	212	176	172	161

Source: Bloomberg. Prepared by BBVA Research

HOLDINGS OF SOVEREIGN BONDS BY NON-RESIDENTS (BILLIONS OF PEN)



HOLDINGS OF SOVEREIGN BONDS BY NON-RESIDENTS (%)

	Oct 20	Jan 21	Mar 21	Jun 21
%	54	52	48	45

Source: Bloomberg. Prepared by BBVA Research

Exchange rate around PEN 4 per USD at the end of 2021, in an environment in which political noise will prevail, in the short term, over commercial support

EXCHANGE RATE 1/
(PEN PER USD)

1/ The dots in light blue are our estimate of the equilibrium exchange rate. This estimate is made with a model that has as its determinants an interest rate differential in PEN versus interest rates in USD, net external liabilities, relative productivity of Peru vs. trading partners, and terms of trade.
Source: Bloomberg. BBVA Research forecast

- Political uncertainty will continue to push the exchange rate upward (depreciation of the local currency), although this will be mitigated by the significant trade surplus.
- In this context, it is estimated that the exchange rate will close the year (daily average for December) around PEN 4 per USD, slightly above its current level.
- With the start of tapering in 2022, and despite the increase in the trade surplus, the exchange rate will continue to climb next year
- The PEN will be undervalued on the forecast horizon. We estimate an equilibrium exchange rate between 3.60 and 3.70 PEN per USD.

03

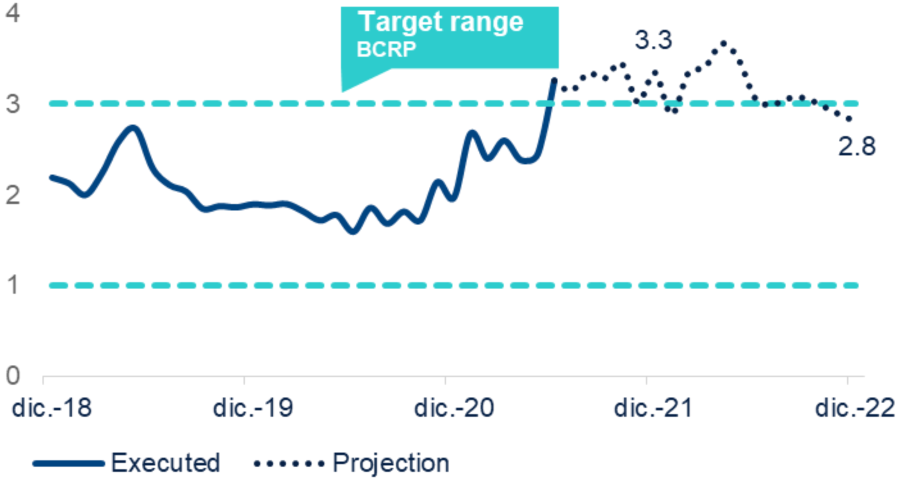
Quarterly review of macroeconomic forecasts

3.4. Inflation and monetary policy

Creando Oportunidades

Inflation temporarily above target range due to higher agricultural commodity and oil prices and depreciation of the PEN

INFLATION
(Y/Y % CHANGE IN CPI)



Source: BCRP. BBVA Research forecast.

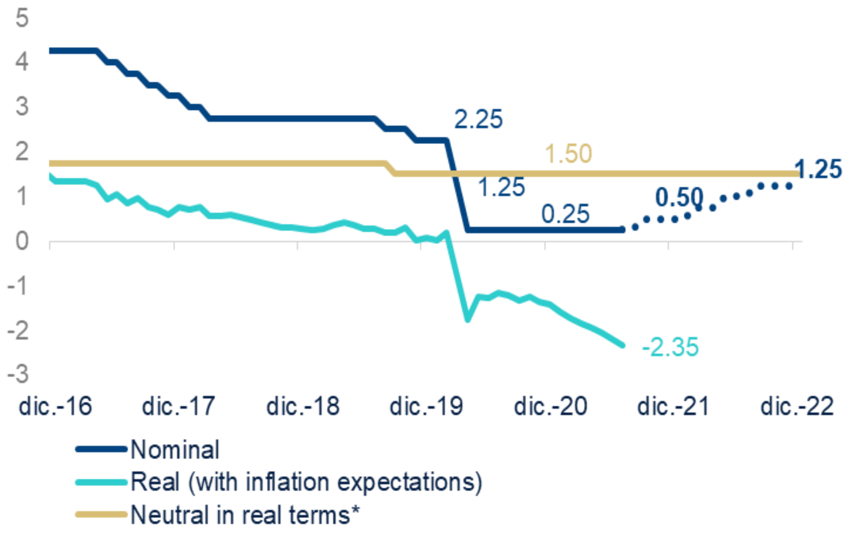
DETERMINING FACTORS IN INFLATION FORECAST

- The PEN's year-on-year depreciation rate will stabilize in the second half of 2021 and ease in 2022.
- International food commodity prices will correct downward going forward. Oil prices will join this trend in 2022.
- Rising inflation outlook
- Negative output gap in 2021 and 2022, but closing.
- Inflation will be between 3.0% and 3.5% during the second half of 2021 and will close 2022 at around 2.8%.

The upward-trending inflation surprised in the first months of the year due to the sharp depreciation of the local currency and the continuous increase in international food and fuel prices.

Monetary policy: the Central Bank moderated its dovish tone, leaving open the possibility of starting to adjust the reference rate as of 2021

REFERENCE INTEREST RATE
(%)



* 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. BBVA Research forecast

- The Central Bank (BCRP) faces a dilemma: on the one hand, to maintain stimulus to support economic recovery, and on the other, to adjust monetary conditions in an environment of rising inflation and exchange rate pressures.
- In this context, the BCRP moderated its dovish tone in its June and July announcements.
- The pledge to keep the reference rate at its current level "for an extended period" was withdrawn. Moreover, monetary policy will remain expansionary, but not "strongly" expansionary. Extending monetary stimulus was ruled out.
- Overall, the Central Bank seems to be inclined to start normalizing its monetary stance earlier.

Research

04

Risks

Main risks to the baseline scenario for 2021–2022 forecasts

Risk		Bias placed on activity
Political	Increased uncertainty related to the political environment	✗
Health	Faster progress in the vaccination process	✓
	New variants of the virus	✗
External	FED moves adjustment of monetary position forward	✗

The balance of risks to the GDP forecast is on the downside, mainly due to political uncertainty. Credible signals and announcements from the new government administration that reinforce confidence can significantly mitigate this risk

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05

Summary of forecasts

Macroeconomic forecasts: summary

	2018	2019	2020	2021 (f)	2022 (f)
GDP (% change)	**4.0**	**2.2**	**-11.1**	**9.0**	**4.3**
Domestic demand (excluding inventories, % change)	**3.6**	**3.0**	**-8.7**	**10.2**	**2.2**
Private spending (% change)	**3.9**	**3.3**	**-10.5**	**10.3**	**1.9**
Private consumption (% change)	3.8	3.0	-8.7	7.4	3.1
Private investment (% change)	4.1	4.5	-16.6	21.5	-2.1
Public spending (% change)	**1.8**	**1.1**	**0.9**	**9.7**	**3.3**
Public consumption (% change)	0.4	2.2	7.4	5.8	3.0
Public investment (% change)	5.4	-1.5	-15.5	22.2	4.0
Exchange rate (vs. USD, eop)	**3.37**	**3.36**	**3.60**	**4.00**	**4.10**
Inflation (% Y/Y, eop)	**2.2**	**1.9**	**2.0**	**3.3**	**2.8**
Monetary policy interest rate (%, eop)	**2.75**	**2.25**	**0.25**	**0.50**	**1.25**
Fiscal balance (% GDP)	**-2.3**	**-1.6**	**-8.9**	**-4.2**	**-3.2**
Balance of payments: checking account (% GDP)	**-1.7**	**-1.1**	**0.7**	**0.8**	**1.9**
Exports (USD billion)	49.1	47.7	42.4	59.1	61.9
Imports (USD billion)	41.9	41.1	34.7	42.4	43.6

(f) Forecast. Forecast closing date: July 19, 2021.
Source: BCRP. Prepared by BBVA Research Peru.

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Peru Economic Outlook

3Q21

Closing date: July 19

Creando Oportunidades