Peru

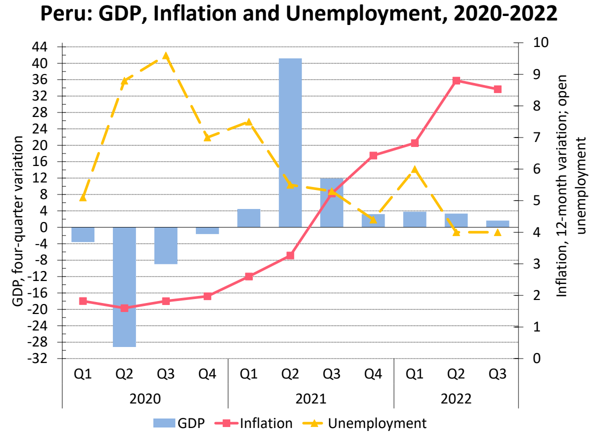
The Peruvian economy grew by 2.9% between January and September 2022, though on an uneven basis, with year-on-year growth reaching 3.5% in the first half of 2022 before falling sharply to 1.7% in the third quarter. Growth recorded in the nine months to September 2022 was significantly lower than in the year-earlier period, when the economy grew by 19.1%. This difference in growth between 2021 and 2022 is explained by the boom which followed the resumption of productive activities in 2021 after the steep downturn in GDP in 2020. By the third quarter of 2021, activity had returned to pre-pandemic levels and the boom effect disappeared in 2022.

Inflation rose from the end of 2020 onward, owing mainly to higher international prices of food (including wheat, corn and soybeans) and fuels, and the delayed effects on prices of the depreciation of the sol in 2021. All this drove a sharp increase in year-on-year inflation, which hit 8.53% in September 2022, compared to 1.97% in 2020 and 6.43% in 2021. High inflation in Peru, primarily the result of higher costs and, to a lesser extent, demand pressure, forced the Central Reserve Bank of Peru (BCRP) to raise the interest rate from a record low of 0.25% in July 2021 to 6.75% in September 2022. This trend may well continue amid unbridled inflation expectations.

Challenges posed by the health crisis in 2020 pushed the annualized fiscal deficit to a high of 8.9% of GDP that year. By December 2021, however, that deficit had fallen to 2.5% of GDP as a result of an improvement in current revenues, a drop in non-financial government spending and the lower primary deficit of State-owned companies. The decrease in spending to address the coronavirus disease (COVID-19) pandemic was considerable. In August 2022, amid higher revenues and lower non-financial expenses, the fiscal deficit was equivalent to 1.6% of GDP. In terms of tax revenues, the income tax take increased because of stronger export prices and revenue generated by the general sales tax. By the end of 2022 and in the following years, the deficit is expected to amount to around 2.0% of GDP, owing to weaker tax revenue on the back of lower metal prices and less spending to address the health crisis. Deficit and economic growth projections suggest a stable outlook for non-financial public sector debt, which, according to BCRP estimates, will decrease slightly to represent 21.3% of GDP in 2022 (down from 21.8% in 2021) before reaching 21.5% of GDP in 2023. Gross debt is expected to fall from 35.9% to 33.8% of GDP between 2021 and 2022, and then to 32.8% in 2023.

The trade balance reflected a surplus of US$ 6.139 billion in the first half of 2022, US$ 783 million more than in the prior-year period (US$ 5.356 billion). This outcome is explained by significant increases in both exports, which rose from US$ 28.213 billion in the first half of 2021 to US$ 33.381 billion in the period under review, and imports, which increased from US$ 22.857 billion to US$ 27.243 billion. However, following the increase in the first half of 2022 compared with 2021, the trade surplus amounted to US$ 955 million in the third quarter of 2022, below the level recorded in the year-earlier period. This shift was driven by two main factors: a year-on-year

Peru: GDP, Inflation and Unemployment, 2020-2022



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

increase in imports of slightly more than US$ 2.5 billion compared to the same quarter the year before, led by higher imports of consumer and intermediate goods, and a decrease in exports of slightly more than US$ 500 million compared to the third quarter of 2021. The increase in imports stemmed largely from growth in domestic demand, which reflected a year-on-year acceleration in the third quarter. The decline in exports is the result of weaker terms of trade and a decrease in export volumes of traditional products such as zinc, gold, crude oil and derivatives.

Peru: main economic indicators, 2020-2022

	2020	2021	2022 [a]
	Annual growth rate		
Gross domestic product	-10.9	13.4	2.7
Per capita gross domestic product	-12.1	12.1	1.5
Consumer prices	2.0	6.4	8.3 [b]
Real average wage [c]	-5.1	-0.6	...
Money (M1)	34.5	16.4	-5.5 [d]
Real effective exchange rate [e]	1.7	11.9	-3.5 [b]
Terms of trade	9.2	11.8	-3.6
	Annual average percentage		
Open urban unemployment rate	7.7	5.9	4.0 [d]
Central government			
Overall balance / GDP [f]	-8.3	-2.6	...
Nominal deposit rate [g]	1.5	0.9	2.0 [b]
Nominal lending rate [h]	12.9	11.0	12.3 [b]
	Millions of dollars		
Exports of goods and services	88 529	129 249	157 998
Imports of goods and services	76 802	106 929	127 163
Current account balance	960	311	-856
Capital and financial balance [i]	846	10	...
Overall balance	1 805	321	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of October.
c/ Average income in the formal sector.
d/ Figures as of September.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
f/ General government.
g/ Market deposit rate, average of credit operations that have a current balance to date.
h/ Market lending rate, average of credit operations that have a current balance to date.
i/ Includes errors and omissions.

The current account deficit expanded in the first three quarters of 2022. Rising international freight rates and serious logistics chain issues continued to weigh heavily on the services account, along with the transformation into remittances of the stronger earnings from foreign direct investment in the country. New factors in the third quarter of 2022 were a faster rate of growth in imports and weaker terms of trade compared to 2021. Improvements are expected in 2023 as freight costs stabilize and mining activities ramp up with the opening of the Quellaveco mine.

In the first half of 2022, the financial account recorded a net capital inflow of US$ 2.49 billion (2.1% of GDP). Net inflows accelerated sharply in the third quarter of 2022, when external financing amounted to US$ 6.291 billion, equivalent to 10.3% of GDP. In the third quarter of 2022, a net inflow in short-term capital was recorded after nine consecutive quarters of net outflows, owing to the sale of non-financial sector assets, and thus reversing a trend of short-term foreign capital outflows.

Throughout the year, the exchange rate was affected by the unfavourable external environment and resulting appreciation of the dollar. This had repercussions for the domestic market and was compounded by internal factors. The exchange rate stood at 3.6 soles to the dollar in December 2020 and averaged 3.5 that year. This rate increased to 4.0 soles to the dollar in December 2021, and averaged 3.9 over the course of the year. The value of the sol began to rise in December 2021, bringing the exchange rate down to 3.9 soles to the dollar in January 2022. The downward trend continued until June 2022, when the rate stood at 3.7 soles to the dollar. From July onward, the trend was reversed as the exchange rate varied between 3.9 and 4.0 soles to the dollar until November.

Growth in domestic demand rose to 1.8% in the second quarter and to 3.3% in the third quarter, led by a rebound in public investment, which increased by 11.6% compared to the third quarter of 2021. This was partly offset by a slowdown in private and public consumption and in private investment. High inflation slowed the momentum of private sector consumption, while the decrease in public consumption was linked to the lower spending associated with management of the health crisis. In the third quarter of 2022, public consumption decreased by 6.3% in real terms, owing mainly to a contraction in medical supply purchases and staff payments related to the COVID-19 pandemic.

On average, from January to September 2022, the national unemployment rate stood at 4.7% of the economically active population (compared to 6.3% in the prior-year period), while the employment rate stood at 69.0% (slightly below the 69.1% recorded in the same period in 2019, prior to the pandemic). The labour informality rate decreased slightly to 70.8%, down from 71.6% in the year-earlier period. In the first three quarters of the year, the minimum wage rose by 1.6% in real terms.

The Economic Commission for Latin America and the Caribbean (ECLAC) expects the Peruvian economy to grow by 2.7% in 2022 and by 2,2% in 2023. The slowdown observed in the second half of 2022 will likely continue in 2023 in a global environment shaped by increasingly sluggish economic growth in both the United States and the European Union, and with continued weak growth in China. This global economic slowdown will lower demand for —and subsequently drive down the prices of— copper. However, the increase in copper production owing to the Quellaveco project coming on stream will have a significant positive economic impact and help to offset weaker economic momentum. The services sector is expected to record the sharpest slowdown and the construction sector is projected to record a decline, owing to losses in real household income and to a deterioration in financing conditions, respectively.