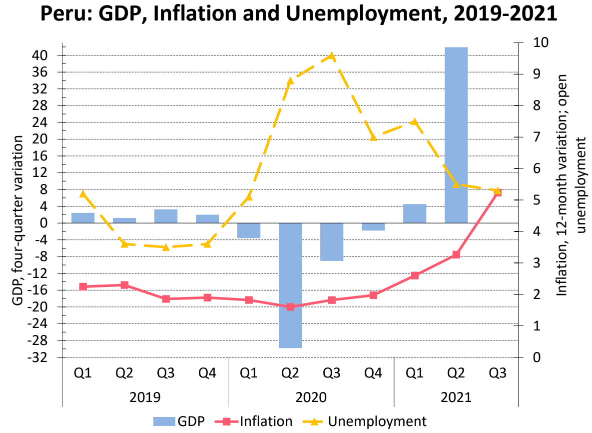
Peru

The Peruvian economy grew by 13.5% in 2021, in contrast to a sharp contraction of 11.1% during 2020. During 2021 there was a notable increase in domestic output, with significant rates of growth in different productive sectors; this was fuelled by the resumption of productive activities, the acceleration of aggregate demand —both domestic and external— and the statistical effect associated with the baseline. Particularly noteworthy in that context was the recovery observed in household consumption and investment, especially in the construction sector, as well as the significant improvement in the terms of trade, which reached 11-year highs on the back of record copper prices and the accelerated growth of the country's trading partners, particularly the United States and China. By the third quarter of 2021, according to the Central Reserve Bank of Peru (BCRP), the country's GDP had outstripped its pre-pandemic levels. Higher prices of import-intensive foodstuffs, fuel and the depreciation of the sol were behind an increase in year-on-year inflation, which rose to 5.7% in November, 3.7 percentage points above the level recorded in December 2020.

The annualized fiscal deficit decreased from 8.9% to 3.3% of GDP between December 2020 and November 2021. This situation was largely on account of a recovery in current revenues, a drop in non-financial spending and a fall in the primary deficit of State-owned companies. The increase in revenues was mainly because of higher mineral prices, the economic recovery and the collection of taxes owed by mining companies. The largest increase in fiscal revenue was from taxation, especially the general sales tax (IGV) and income tax, mostly from domiciled corporations and from the regularization of income tax. Part of the increase was made possible by the accommodations offered for paying taxes by instalment, and the special mining tax (IEM) also contributed. Non-tax revenues also increased, mainly because of higher royalties in the mining and oil sectors. At the same time, general government non-financial spending in the 12 months to November 2021 decreased as a percentage of GDP, although it increased in nominal terms. The central bank estimates that at the end of 2021 the gross debt of the non-financial public sector was equal to 36.8% of GDP, 2.1 and 10.0 percentage points higher, respectively, than the figures recorded in 2020 and 2019. The higher indebtedness has also meant a shift in the composition of debt, with a rise in the share of foreign currency debt, which increased from 31.8% to 54.1% of the total between 2019 and 2021, and, at the same time, a rise in variable-rate debt from 6.2% to 11.0% of the total.

After keeping the benchmark policy rate at its historical low of 0.25% between March 2020 and July 2021, in August 2021 the monetary authorities decided to reduce their monetary stimulus and increased the policy rate five times. The cumulative increase is 225 basis points, with which it stood at 2.5% at the end of 2021. Despite the nominal increase, the policy thrust remains expansionary, as the real-term interest rate remains in negative territory. In addition, since January 2021, the BCRP has been reducing its injection operations, which is linked to the decrease in repurchasing operations of loans guaranteed by the

Peru: GDP, Inflation and Unemployment, 2019-2021



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

government. The central bank continued to place variable rate certificates (CDV BCRP) in order to provide financial institutions with hedging against the risk of interest rate hikes.

In the third quarter of 2021, the country's external sector accounts reported a cumulative current account deficit of 1.2% of GDP for the previous four quarters. This result reflects the sharp increase in imports, which was in turn brought on by the recovery of domestic demand. The higher deficit in the factor income account has also contributed, given the higher profits obtained by companies involved with foreign direct investment (FDI). At the same time, the increase in international freight rates —due to the maritime transport crisis and serious problems in the logistics chain— led to a deterioration in the services account.

Peru: main economic indicators, 2019-2021

	2019	2020	2021 [a]
	Annual growth rate		
Gross domestic product	2.2	-11.0	13.5
Per capita gross domestic product	0.6	-12.2	12.2
Consumer prices	1.9	2.0	5.2 [b]
Real average wage [c]	-0.6	-1.0	-1.6 [b]
Money (M1)	10.1	34.4	24.3 [d]
Real effective exchange rate [d]	-2.2	2.4	14.1 [b]
Terms of trade	-1.7	9.2	10.7
	Annual average percentage		
Open urban unemployment rate	3.9	7.7	6.1 [b]
Central government			
Overall balance / GDP [e]	-1.4	-8.4	...
Nominal deposit rate [f]	2.4	1.5	0.9 [b]
Nominal lending rate [g]	14.4	12.9	11.1 [b]
	Millions of dollars		
Exports of goods and services	55 746	46 209	63 937
Imports of goods and services	51 780	42 151	58 751
Current account balance	-2 154	1 583	-1 928
Capital and financial balance [i]	9 062	3 718	...
Overall balance	6 909	5 301	...

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

a/ Estimates.
b/ Figures as of September.
c/ Average income in the formal sector.
d/ Figures as of August.
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 financial account recorded a surplus equal to 6.8% of GDP (US$ 11.182 billion) over January to September 2021, reflecting the sale of external portfolio assets, the recovery of FDI in the country, higher net long-term loans and external public sector financing. There was a large outflow of short-term capital during this period, totalling US$ 4.68 billion in the third quarter. For the year, the BCRP calculates an outflow of short-term foreign capital equal to 7.4% of GDP, the highest level ever since annual record keeping began in 1950.

In turn, the balance of trade posted a surplus of US$ 10.021 billion in the first three quarters of 2021, US$ 5,702 million more than during the corresponding months of 2020 (US$ 4.319). This result reflects the increase in exports from US$ 28.747 billion between January and September 2020 to US$ 45.050 billion in the period under review, largely on account of rising industrial metal prices and the upswing in external demand following the recovery of global economic activity. Imports recovered in 2021, mainly on account of the increased volumes demanded by rising domestic demand, especially for capital goods and inputs, and the higher prices commanded by oil, industrial inputs and foodstuffs.

The sol continues to depreciate against the dollar and, as of 15 December 2021, the exchange rate had fallen by 12% compared to the close of 2020. In a context of high local and external volatility, the BCRP actively participated in the foreign exchange market through auctions of forex swaps, the placement of readjustable deposit certificates (CDR BCRP) and trading-desk sales. Despite the market intervention policy, on 14 December 2021, net international reserves had increased by US$ 3.818 billion since the close of 2020 to stand at US$ 78.525 billion.

Economic activity between January and October 2021 was slightly higher than in the same period of 2019 (0.6%), with year-on-year growth of 16.0%. This was on account of a statistical effect associated with the low baseline, but also owed something to the reopening of many activities as the vaccination programme progressed. The most dynamic sectors were construction, manufacturing, commerce and some areas of the services sector, including telecommunications and finance. Recovery in some sectors, however, such as transportation and hospitality, is still lagging behind.

GDP is expected to grow by 13.5% in 2021, the result of the normalization of productive activities following widespread immunization, favourable external conditions —such as healthy terms of trade— and increased levels of domestic confidence.

In contrast to the situation with economic activity, the recovery of employment remains sluggish. While the gap with respect to 2019 levels has narrowed as productive activities have returned to normal and inoculation has progressed, in November 2021 more than 149,000 jobs remained lost from total employment numbers in the same period of 2019. The recovery of the labour market will require continued progress with the vaccination programme and with the control of the health emergency. Inoculations sped up in recent months and, as of 30 November, 66% of the target population had received both doses. As this process advances, the health control measures adopted to address the pandemic can be made more flexible and, as a result, visitor numbers can be raised and opening hours extended.

The Economic Commission for Latin America and the Caribbean (ECLAC) expects the Peruvian economy to grow by 3.0% in 2022. With this, like the rest of South America, Peru would experience a significant decrease in the growth rate compared to 2021, the result of both the gradual normalization of spending habits and the lifting of the health restrictions that remain in place, and, at the same time, the effects of structural problems that inhibit growth. Despite the projected growth, certain activities that provide large numbers of jobs, such as tourism and hospitality, are not expected to return to their pre-crisis levels in 2022.