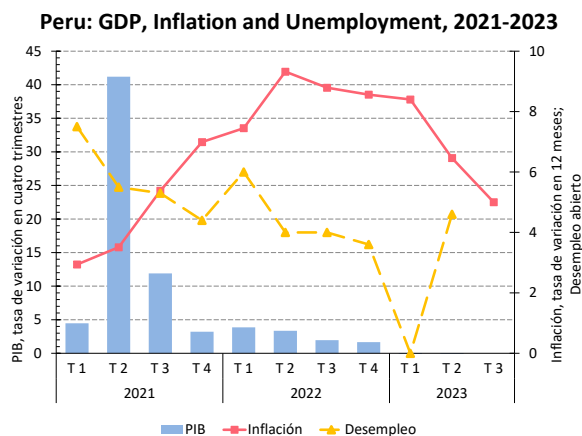


Peru

The Peruvian economy contracted by 0.6% between January and September 2023. The downturn steepened in the third quarter, when negative year-on-year growth reached 1.0%, more than doubling the decline in the previous quarters. The significantly lower-than-expected growth in the nine months to September 2023 led to repeated downward revision of projections for 2023, attributable to the adverse effects of El Niño in northern and southern Peru, which hampered productive activity in the agriculture and fisheries sectors, dragging down part of the manufacturing sector as well. The construction sector and part of the services sector also contracted, and protests further exacerbated the economic slowdown.

Inflation had been rising since the end of 2020, owing mainly to higher international prices for food (including wheat, maize and soybeans) and fuels, and the lagged effects on prices of the Peruvian sol's depreciation in 2021. All this drove a sharp increase in year-on-year inflation, which hit 6.4% in September 2021 and 8.5% in September 2022. In September 2023, however, the year-on-year rate was down to 5.0%, with the lower —albeit still high— figure reflecting the high basis for the year-on-year comparison, falling global input prices, and weak consumption and investment. As inflation eased, the Central Reserve Bank of Peru (BCRP) reduced interest rates from 7.8% to 7.5% in September 2023, in what could be the first in a series of cuts.

In 2020, challenges posed by the health crisis pushed the annualized fiscal deficit to a high of 8.9% of GDP. However, that deficit had fallen to 2.5% of GDP by December 2021 and to 1.7% in the year-later period. Nevertheless, it rose again, to 2.6% of GDP in August 2023, owing to weaker tax revenue reflecting lower income tax generated by the mining sector—which had to contend with weaker prices—and a fall in the general sales tax take amid weak domestic demand and an only modest decrease in spending. The deficit is expected to remain steady through year-end and into 2024 as tax revenue continues to fall owing to slacker economic activity and increased spending in response to El Niño. Beyond 2024, the deficit is projected to settle at around 2.0% of GDP. Deficit and economic growth projections suggest a stable outlook for non-financial public sector debt, which is expected to increase from 21.0% of GDP in 2022 to 22.3% in 2023 before reaching 24.0% of GDP in 2024. Gross debt fell from 35.9% of GDP to 33.8% between 2021 and 2022 but is expected to increase in 2023, to 34.0% of GDP.



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

Peru recorded a trade surplus of US\$ 12.095 billion in the third quarter of 2023, US\$ 4.749 billion more than in the prior-year period (US\$ 7.346 billion). This reflects a modest year-on-year decline in exports, from US\$ 49.682 billion in the third quarter of 2022 to US\$ 49.002 billion in 2023. Imports, meanwhile, fell by 12.8% in the same period, from US\$ 42.336 billion to US\$ 36.907 billion. The dip in exports was attributable to lower prices and a smaller anchoveta catch. Both traditional and non-traditional exports fell, by 1.0% and 2.3%,

respectively. The value of imports dropped considerably amid decreased demand due to weaker economic activity and a correction in prices. By component, inputs fell the most (-21.5%), followed by capital goods (-5.0%).

The current account deficit decreased steadily in the first three quarters of 2023. It had expanded in 2022 owing to rising international freight costs, serious logistics chain issues and the rise in outward remittances owing to stronger earnings from foreign direct investment in Peru. The improvement in the deficit in 2023 was attributable to the increased trade surplus, a decrease in profit remittances by foreign firms, and stabilizing freight costs.

In the first half of 2023, the financial account recorded a net capital inflow of US\$ 10.175 billion (4.0% of GDP). The US\$ 929 million increase relative to 2022 was the result of greater short-term inflows in the non-financial sector and banking companies. It was partially offset by a decrease in reinvested earnings, the resumption of foreign investments by pension fund and mutual fund administrators and a decrease in inflows from investment portfolio liabilities. Net inflows ebbed in the third quarter of 2023 owing to decreased investment, with US\$ 3.087 billion recorded in external financing. The short-term capital account notably registered a net inflow in the first quarter of 2023 following a stretch of net outflows.

In 2023, the central bank continued its policy of active intervention in the foreign-exchange markets to limit the depreciation of the sol and reduce nominal exchange-rate fluctuations. Following an approximately 10% depreciation relative to the dollar since the beginning of the coronavirus disease (COVID-19) pandemic, the sol began to appreciate in 2022 and continues to rise, despite fluctuations. In the third quarter of 2023, the exchange rate was affected by changes in demand for riskier assets, an increase in net demand for dollars on the part of the non-financial sector, and the strengthening of the dollar worldwide. The sol-to-dollar exchange rate increased from 3.6:1 in June 2023 to 3.7:1 in September, producing a 2.5% local currency depreciation for the period. Nevertheless, this represented an 11.0% appreciation in the currency relative to its peak in late 2021.

Domestic demand contracted by 3.8% in the second quarter of 2023 and by 2.0% in the third quarter, dampened by falling gross fixed capital formation, which decreased by 21.0% and 9.5% year-on-year in the second and third quarters, respectively. This was partially offset by an easing of the slowdown in private and public consumption. Social conflicts and low business and consumer confidence contributed to the slowdown in private consumption.

On average, in the first two quarters of 2023, the national unemployment rate stood at 4.8% of the economically active population (compared to 5.0% in the prior-year period), while the employment rate was 66.5% (well below the 69.0% recorded in the prior-year period). The labour informality rate

Peru: main economic indicators, 2021-2023

| | 2021 | 2022 | 2023 ^a |
|--|----------------------------------|-------|-------------------|
| | Annual growth rate | | |
| Gross domestic product | -2.4 | 2.4 | 2.0 |
| Per capita gross domestic product | -3.4 | 1.6 | ... |
| Consumer prices | 60.7 | 54.6 | 50.8 ^b |
| Money (M1) | 29.3 | 31.5 | 16.1 ^c |
| | Annual average percentage | | |
| Central government | | | |
| Overall balance / GDP ^d | 1.7 | -0.9 | ... |
| Nominal deposit rate ^e | 6.9 | 7.3 | 8.2 ^f |
| Nominal lending rate ^g | 14.8 | 14.7 | 13.9 ^b |
| | Millions of dollars | | |
| Exports of goods and services | 2 299 | 2 600 | 624 |
| Imports of goods and services | 1 876 | 2 342 | 534 |
| Current account balance | 176 | 76 | 32 |
| Capital and financial balance ^h | 307 | 214 | -36 |
| Overall balance | 483 | 291 | -3 |

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

a/ Estimates.

b/ Figures as of September.

c/ Figures as of July.

d/ Cash basis. Includes statistical discrepancy.

e/ Average deposit rates.

f/ Figures as of August.

g/ Average bank lending rate in local currency.

h/ Includes errors and omissions.

increased to 73.1%, up from 70.8% in the year-earlier period. In the first three quarters of 2023, the minimum wage fell by 2.7% in real terms.

The Economic Commission for Latin America and the Caribbean (ECLAC) expects the Peruvian economy to grow by 0.3% in 2023. The significant deceleration in the first quarter of 2023 and continued sluggishness in the second and third quarters are expected to turn around in the fourth quarter, and the economy is projected to pick up in 2024. Economic growth of 2.3% is expected to be buoyed by a partial recovery from supply shocks, together with an upturn in domestic demand and the non-primary sectors, thanks to a stable sociopolitical and macroeconomic climate with low inflation underpinning improved business and consumer confidence.