

Credit dynamics during Covid-19

Central Bank of Peru

March 2021



BANCO CENTRAL DE RESERVA DEL PERÚ

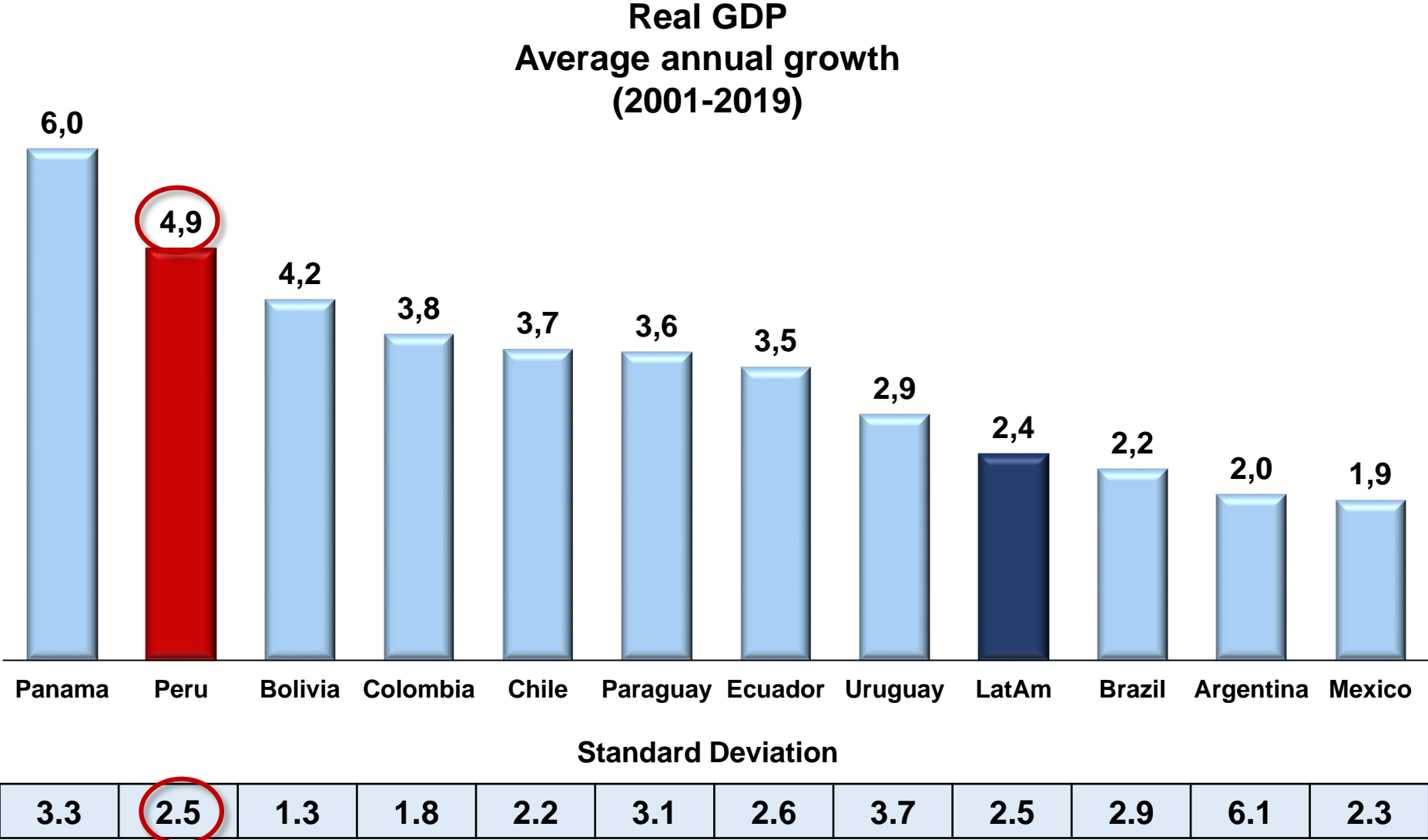
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Macroeconomic Fundamentals

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Support measures policies

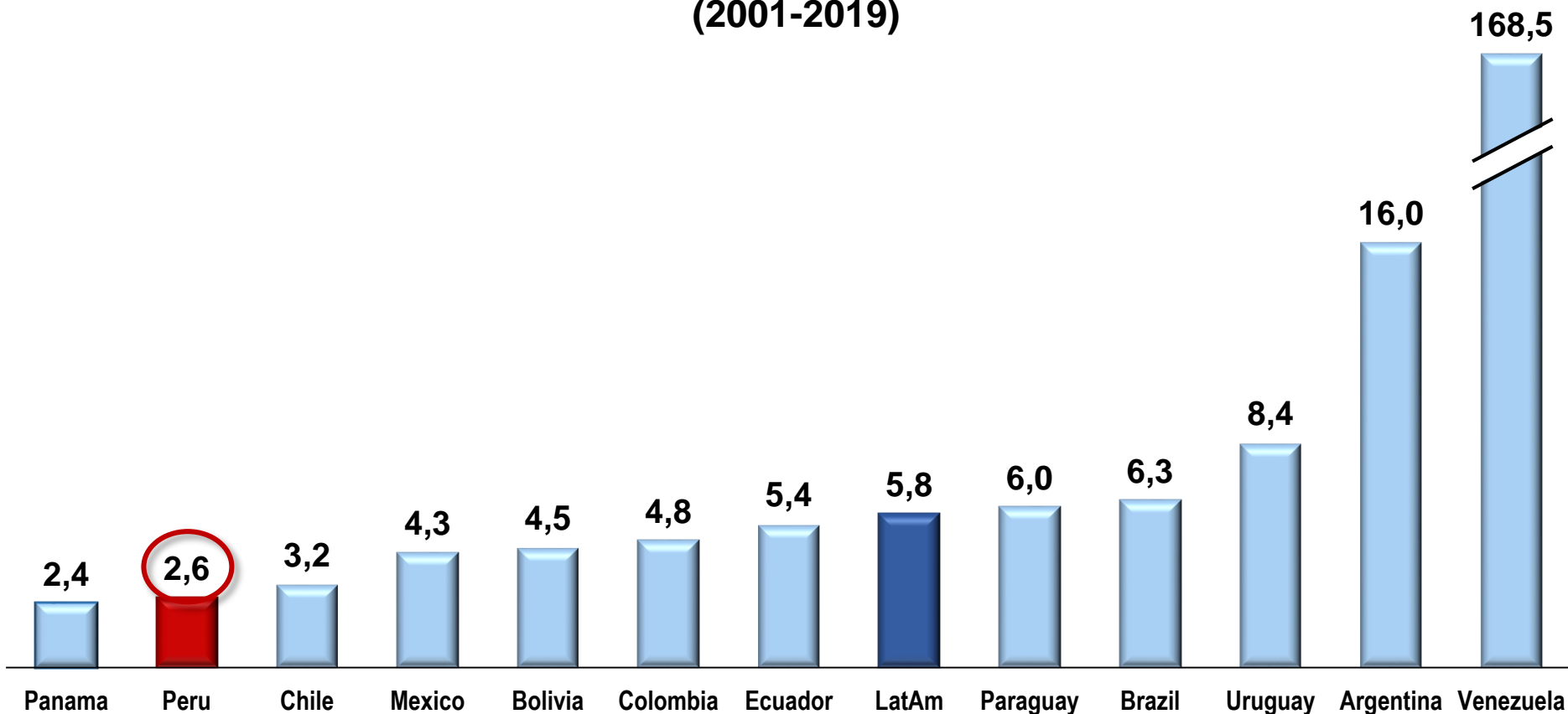
Peru grew 4.9 percent on average in the last two decades, twice the average LatAm growth.



Source: IMF (World Economic Outlook Database, October 2020).

Peru has one of the lowest and less volatile inflation rates in LatAm since 2001.

**Average Annual Inflation Rate
(2001-2019)**



Standard Deviation

2.4	1.2	1.7	1.0	3.1	1.8	8.3	1.3	3.3	2.7	3.3	13.6	15 414
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Note: Calculated with annual average CPI.

Source: IMF (World Economic Outlook Database, October 2020).

Peru's external position is strong due to a considerable FX reserve buffer; and has been reinforced by a precautionary US \$ 11-billion Flexible Credit Line (FCL) approved by the IMF.

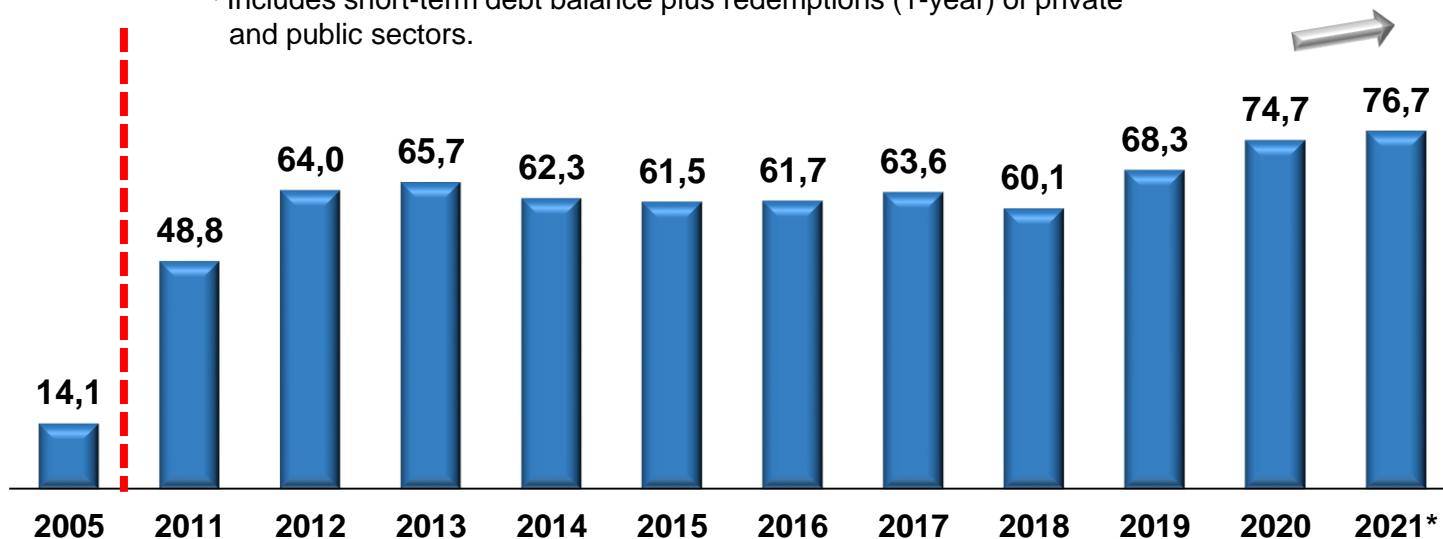
**Net International Reserves (NIR)
(US\$ Billions)**

NIR (As % of:)	2018	2019	2020
a) GDP	26,7	29,6	36,7
b) Short-term external debt ^{1/}	347	501	545
c) Short-term external debt plus current account deficit	285	398	587

^{1/} Includes short-term debt balance plus redemptions (1-year) of private and public sectors.

NIR / GDP (% , 2020)	
Peru	36.7
Brazil	26.1
Colombia	22.3
Mexico	19.1
Chile	16.0

Source: Trading Economics (NIR), IMF WEO Oct 2020 (GDP 2020), BCRP (Peru).



NIR, flows (US\$ million)	
Year	Flows 1/
2019	8 195
2020	6 391
2021*	1 995

1/ Flow with respect to December.

* As of March 4.

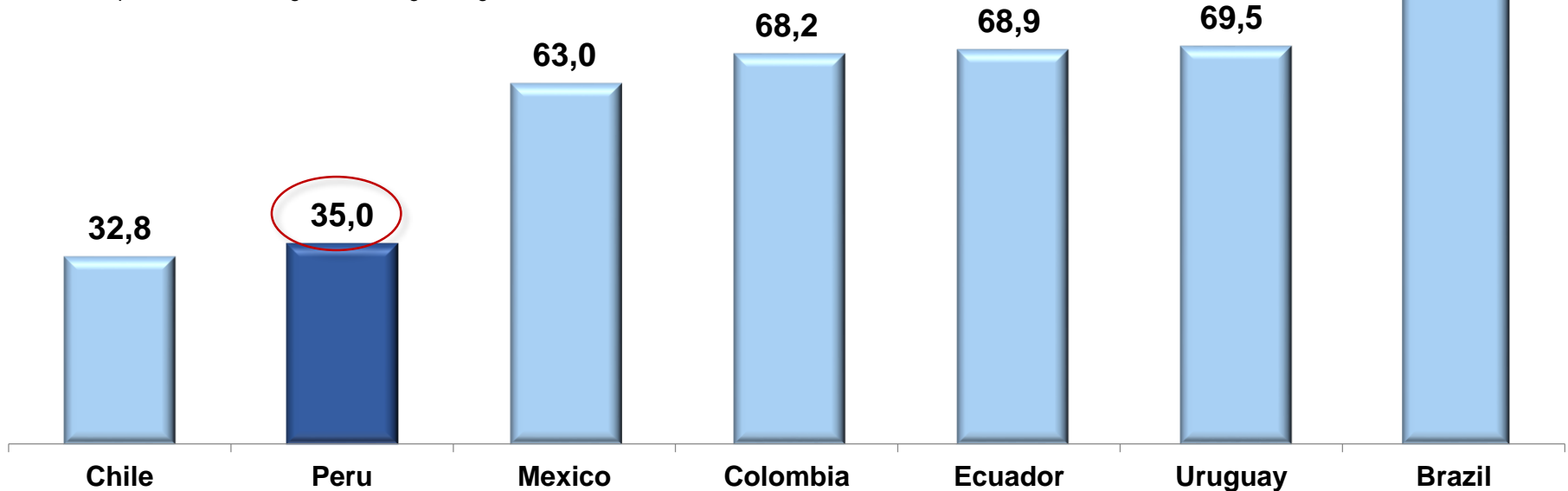
* As of March 4, 2021.
Source: BCRP.

Public debt remains as one of the lowest in the region due to sound public finance management.

NON FINANCIAL PUBLIC SECTOR DEBT 2020* (% GDP)

	Dec. 2010	Dec. 2020
% GDP	23.8	35.0
Local currency share of the debt (%)	46.1	57.1

¹ Corresponds to the average of sovereign and global bonds.



* Forecast for all countries except Peru.

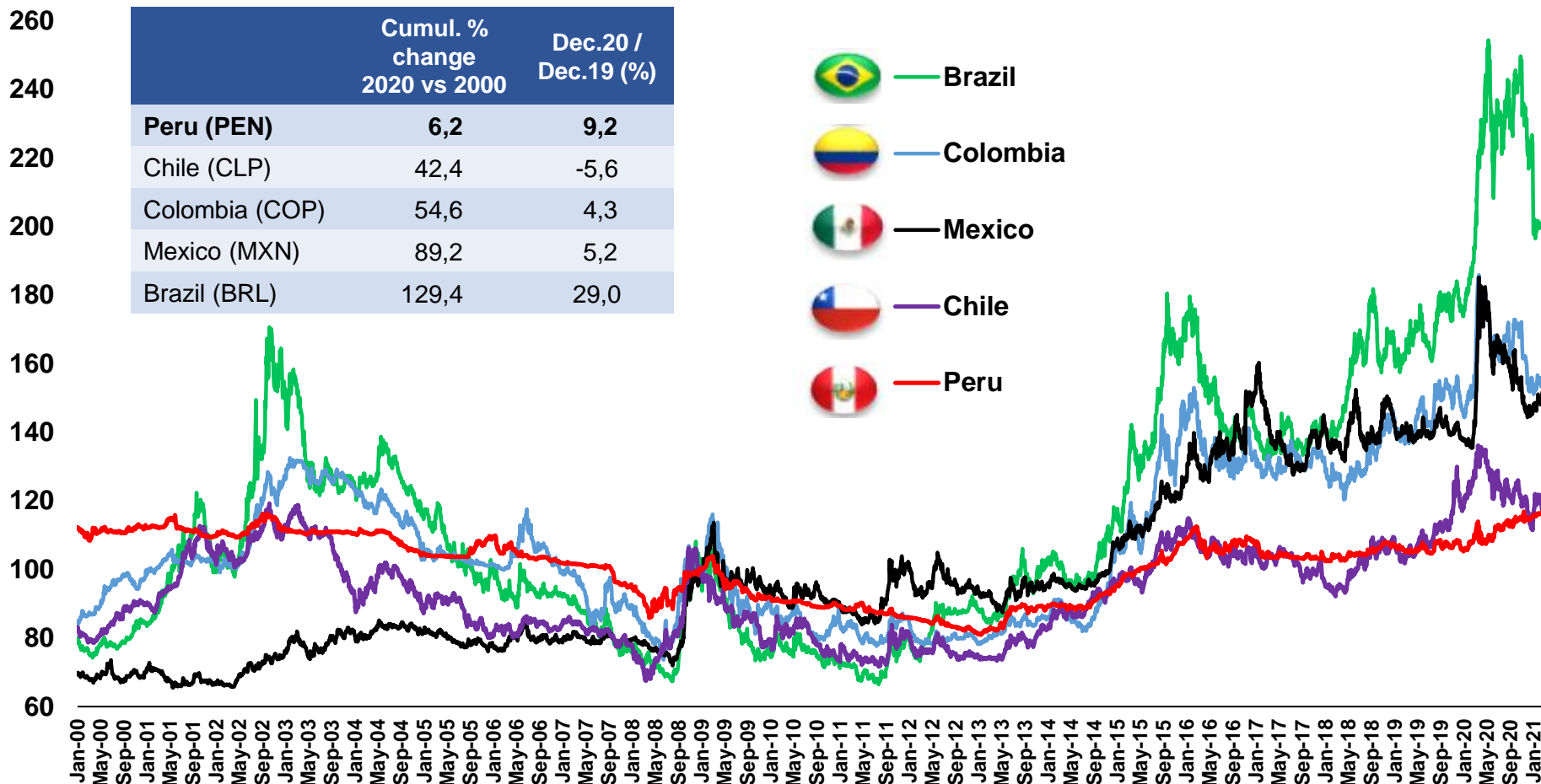
Source: IMF Fiscal Monitor (October 2020 and January 2021) and BCRP.

Even during periods of increased risk aversion and capital outflows from emerging economies (EMEs), Peru's exchange rate maintained a low volatility compared to other countries in Latin America.

LATAM: Exchange rate

Unit per dollar

(Index = 100 Dec. 2008)



Source: Reuters.

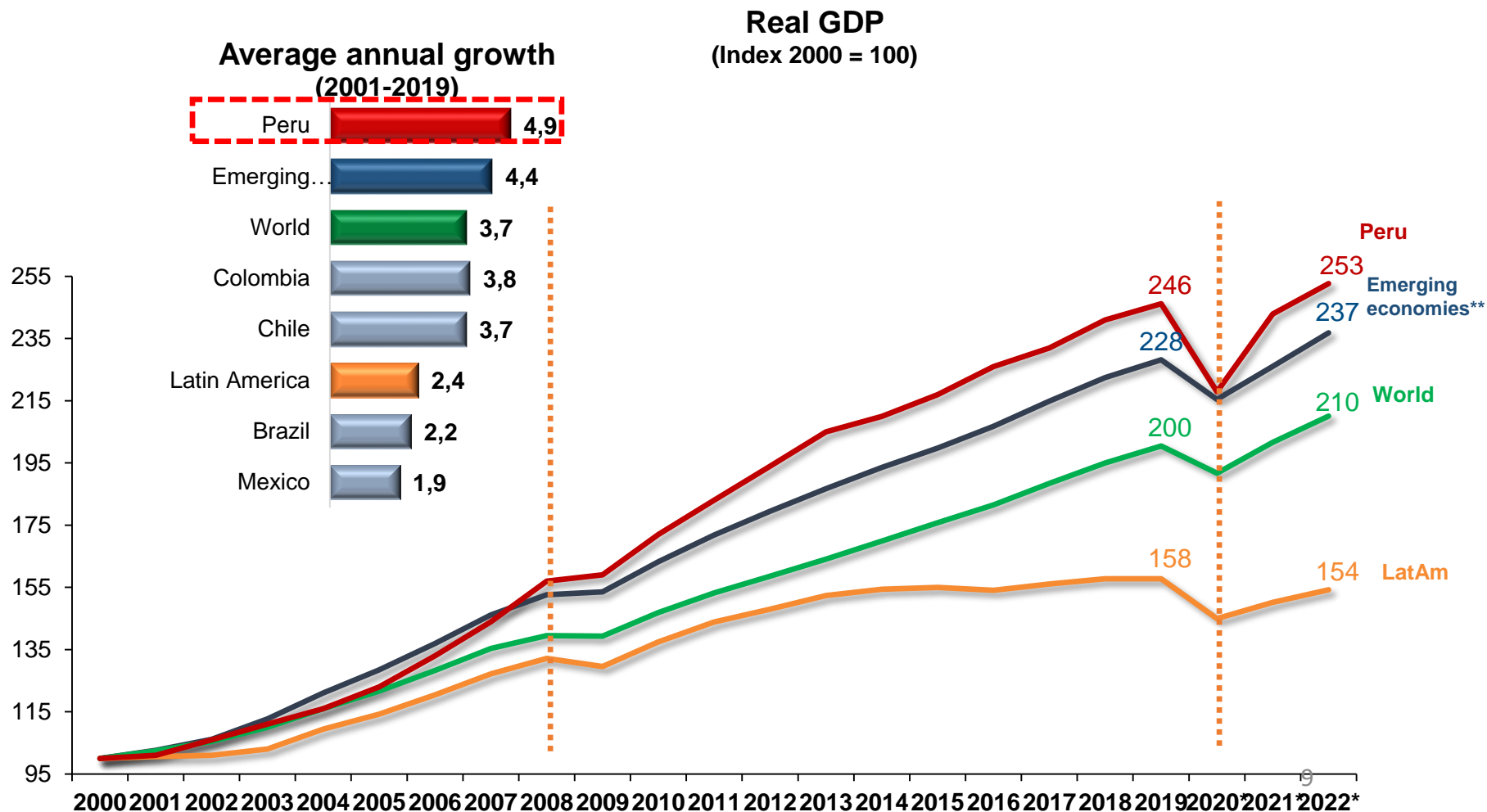
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Support measures policies

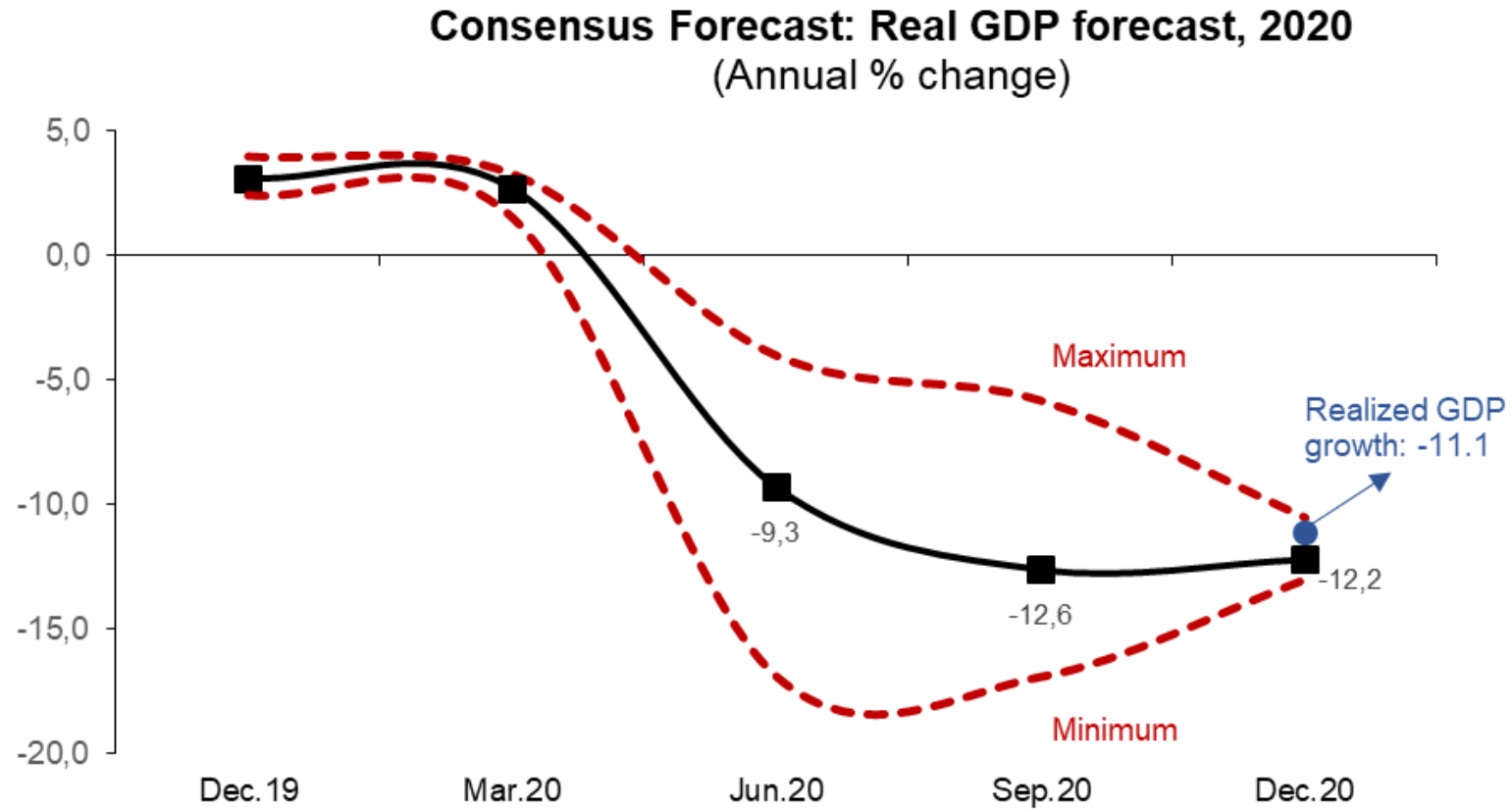
GDP is expected to recover to pre-crisis levels by 2022, with a good performance relative to other EMEs.



**Excludes China.

Source: IMF (World Economic Outlook Database, October 2020) and BCRP (Peru).

Economic analysts gradually corrected their GDP forecasts at the end of the year, in line with the rapid recovery of economic activity.



As of the fourth quarter of 2020, Peru's economic activity is one of the closest to pre-pandemic levels.

Seasonally-adjusted Real Gross Domestic Product
Annual % change

	2019		2020		
	Q4	Q1	Q2	Q3	Q4
Germany	0.4	-2.2	-11.3	-4.0	-3.9
France	0.8	-5.7	-18.8	-3.9	-5.0
Italy	0.1	-5.6	-18.1	-5.1	-6.6
Spain	1.7	-4.2	-21.6	-9.0	-9.1
United Kingdom	1.2	-2.2	-21.0	-8.7	-7.8
USA	2.3	0.3	-9.0	-2.8	-2.5
Argentina ^{1/}	-0.3	-4.6	-19.6	-10.1	-4.8
Brazil	1.6	-1.4	-10.9	-3.9	-1.2
Chile	-2.4	0.4	-14.0	-10.3	-0.5
Colombia	3.3	0.3	-15.9	-8.4	-3.6
Mexico ^{1/}	-0.7	-2.2	0.0	-8.6	-4.6
Peru	1.7	-4,8	-29,7	-9.0	-1.7

^{1/} Fourth quarter's annual % change is estimated using monthly series of economic activity (Argentina) and Estimador Oportuno (Mexico)..

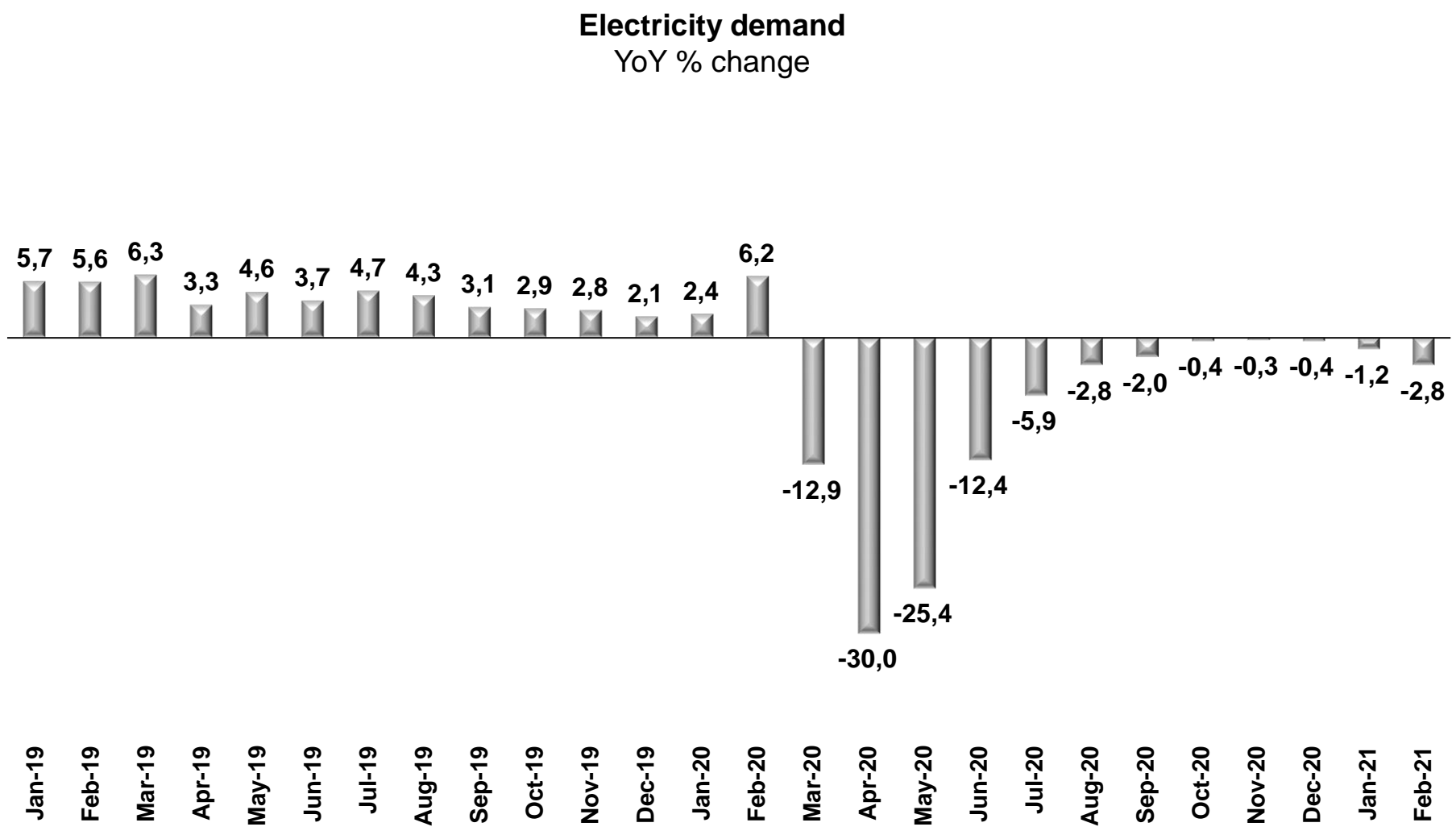
Source: Federal Reserve of St. Louis, Eurostat, Office for National Statistics of UK, central banks and statistic institutes.

Business confidence hit record lows in April. However, it has recovered since then. The 12-month ahead expectations indicator returned to a positive outlook path in July. However, in the last months the expectations turned back due to the second COVID-19 wave and the new restrictions imposed by the government.



Source: BCRP.

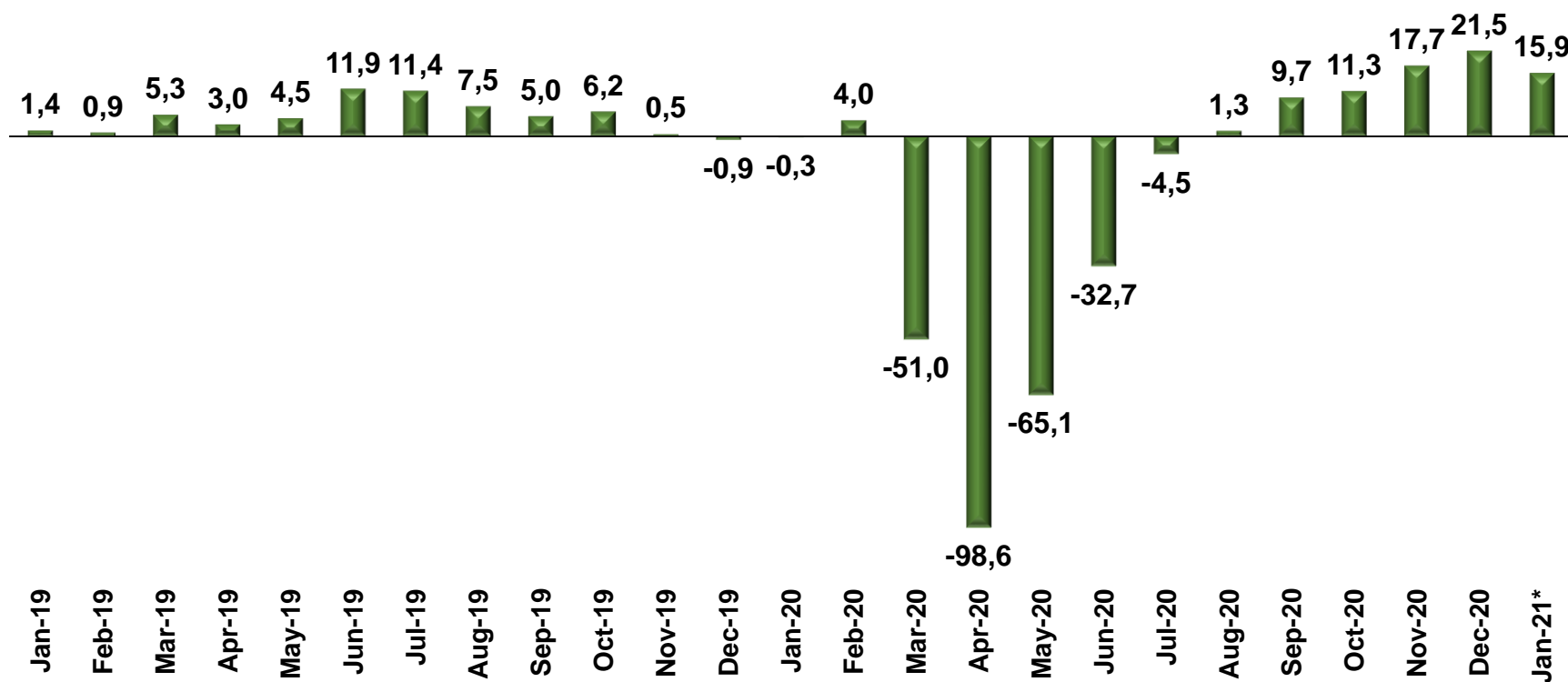
Leading economic indicators show a reversal since May, following the easing of confinement measures and the reopening of activities.



Source: COES.

Leading indicators show a reversal since May, with a steady recovery of cement demand.

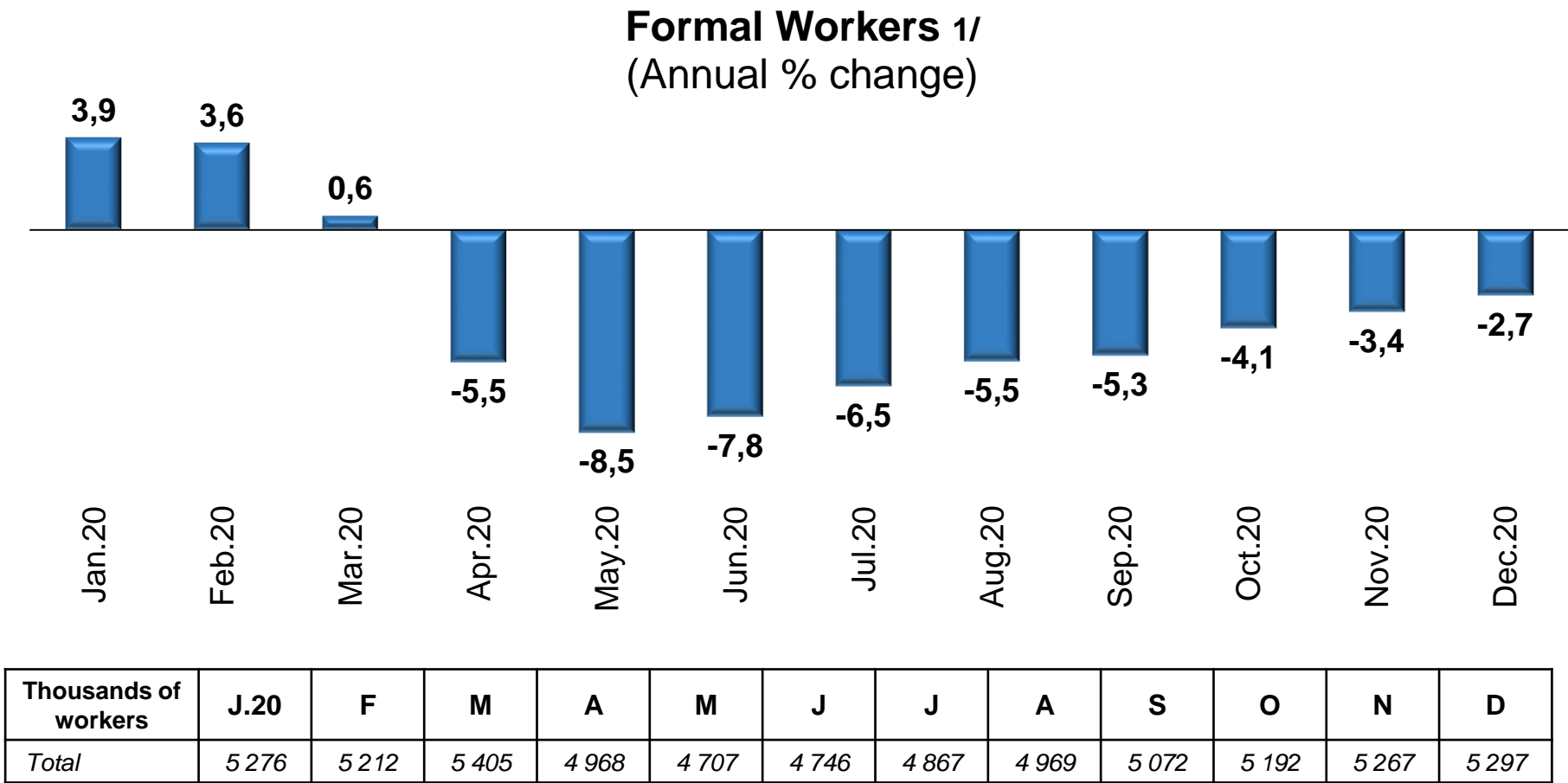
Cement demand
YoY % change



* Preliminary.

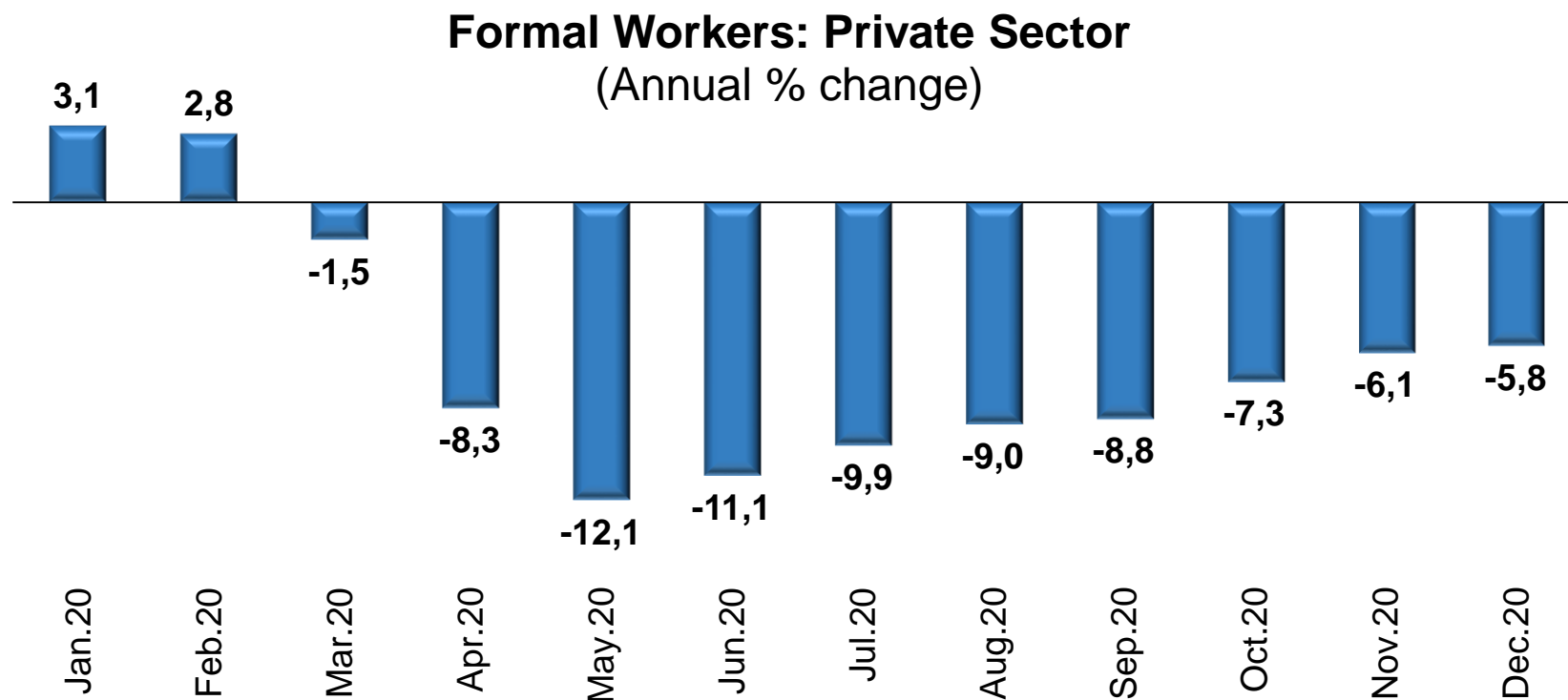
Source: INEI, cement companies.

Formal employment decreased 2.7% yoy in December (compared with an 8.5% fall in May). Up to December around 590 thousand jobs have been restored with respect to April, and we expect employment to reach its pre-pandemic levels in the last quarter of 2021.



1/ Private and public sectors.
Source: SUNAT.

Formal employment in the private sector decreased 5.8% yoy in December (compared with a -12.1% fall in May). Up to December around 444 thousand jobs have been restored with respect to May, and we expect private employment to reach its pre-pandemic levels in the last quarter of 2021.

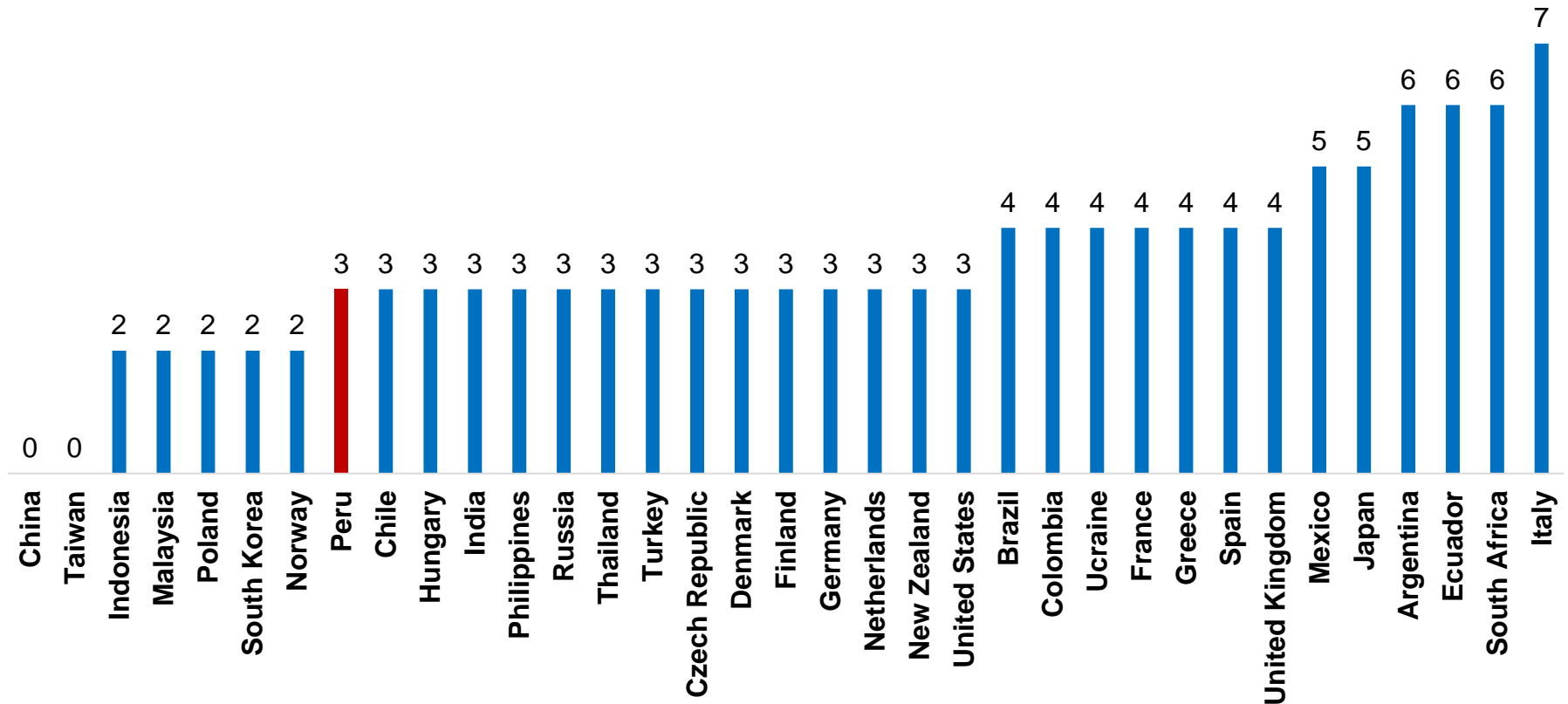


Thousands of workers	J.20	F	M	A	M	J	J	A	S	O	N	D
Private sector	3 807	3 723	3 923	3 514	3 246	3 270	3 354	3 431	3 519	3 618	3 688	3 691

Source: SUNAT.

We expect to reach the pre-crisis activity level in 2022, placing Peru among the countries with the fastest recovery pace.

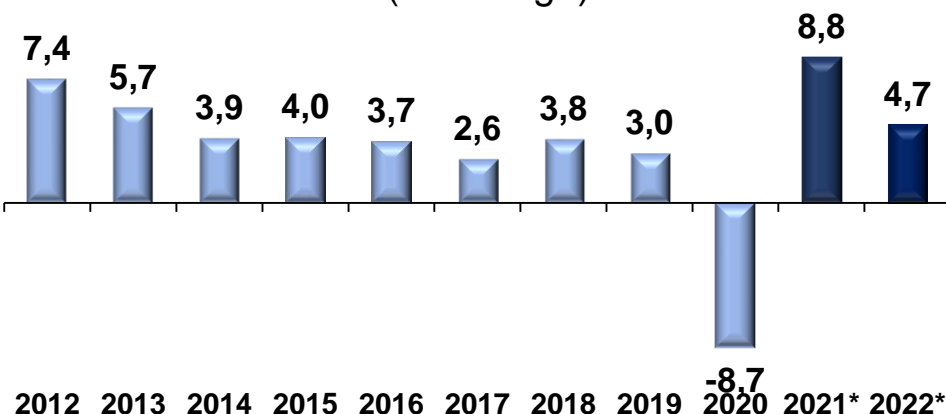
Estimated number of years for real GDP to reach 2019 levels
Selected sample of countries



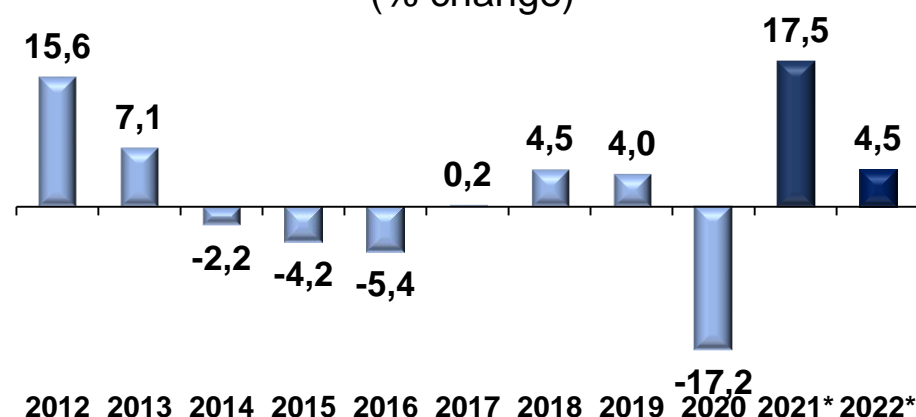
Source: IMF (WEO October 2020) and BCRP.

A rebound of economic activity in 2021 will be driven by restored confidence, better labor market conditions, and a recovery in global demand.

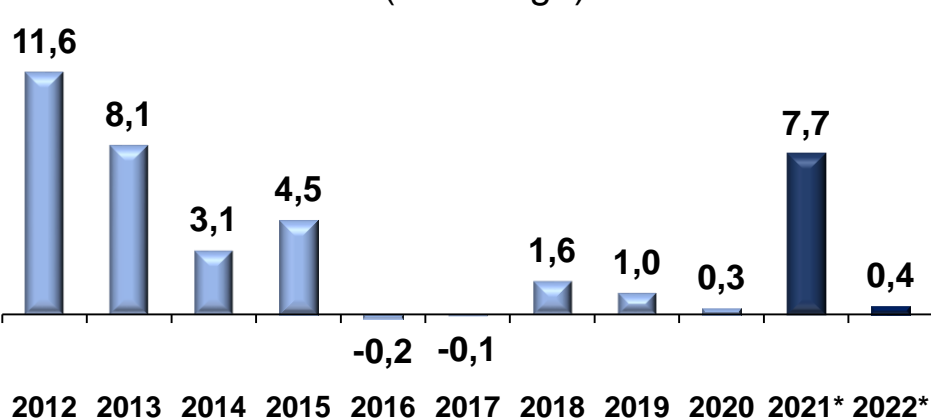
Private Consumption, 2012-2022
(% change)



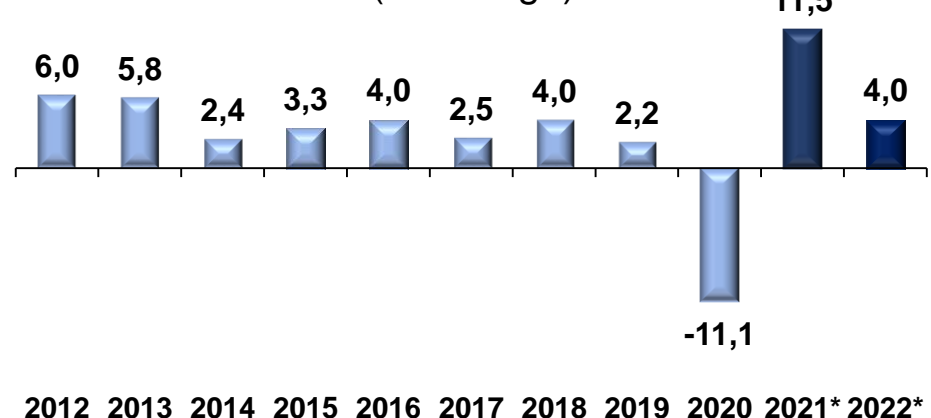
Private Investment, 2012-2022
(% change)



Public Spending, 2012-2022
(% change)



Real GDP, 2012-2022
(% change)



* Forecast.
Source: BCRP.

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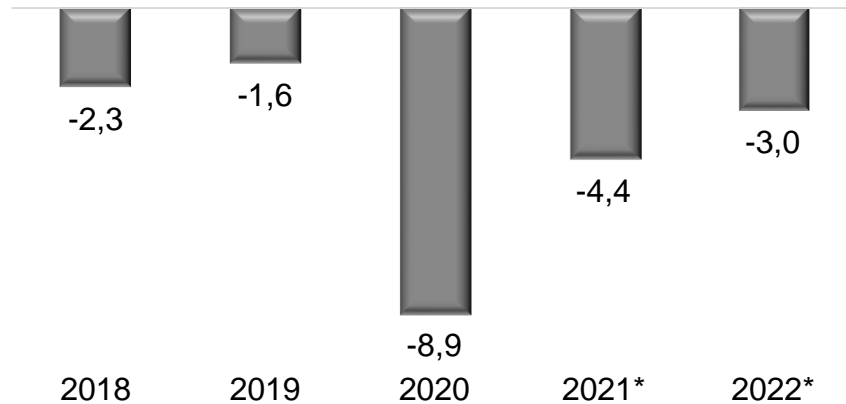
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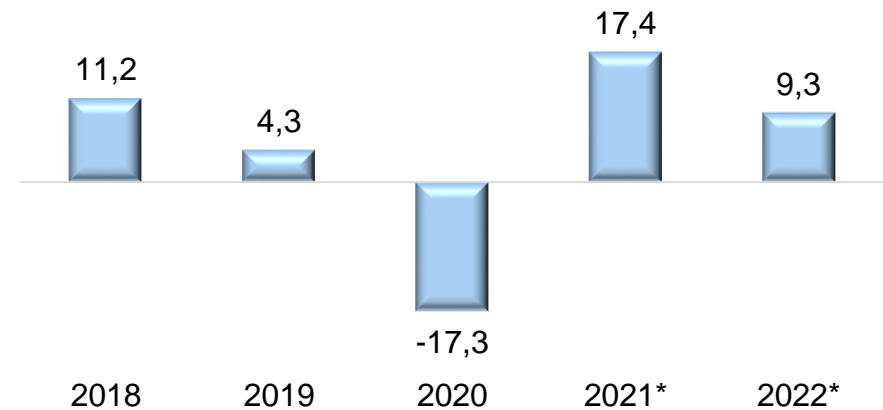
Support policy measures

The fiscal deficit was 8.9% of GDP in 2020 due to higher current spending and lower tax revenues (amplified by GDP contraction). For 2021 we estimate a recovery in tax revenues, which would expand the fiscal space to increase public investment.

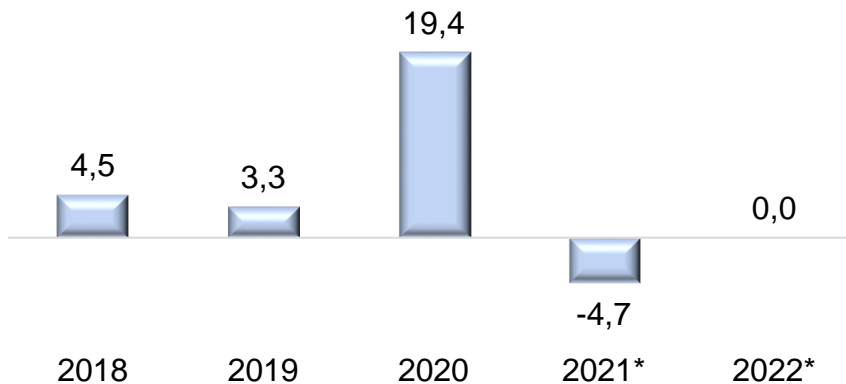
NON FINANCIAL PUBLIC SECTOR BUDGET BALANCE
(Percentage of GDP)



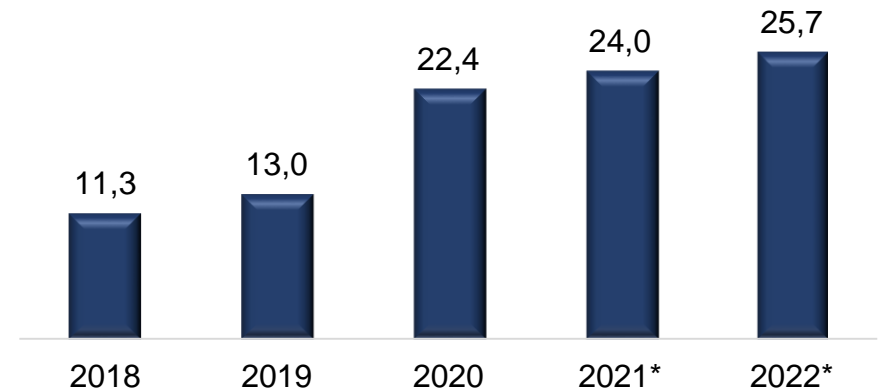
GENERAL GOVERNMENT CURRENT REVENUES
(real % change)



GENERAL GOVERNMENT CURRENT EXPENDITURE
(Real % change)



NON FINANCIAL PUBLIC SECTOR NET DEBT
(Percentage of GDP)



*Forecast.

Source: BCRP.

Long run interest rates remain low and consistent with monetary policy stance.

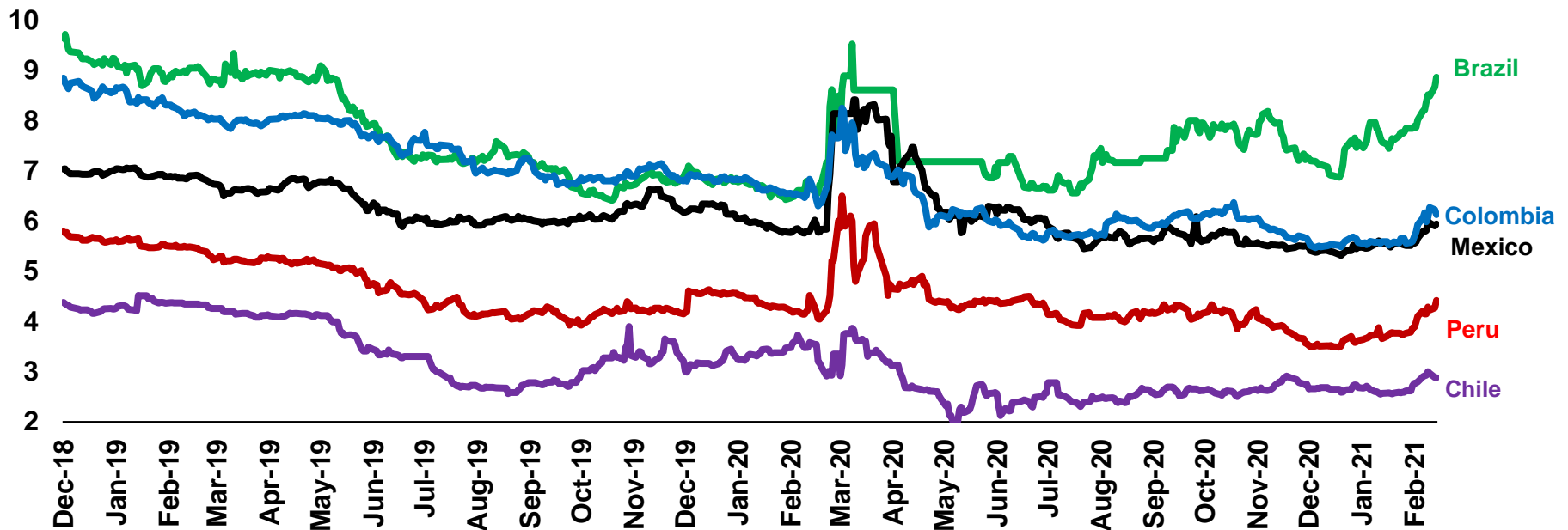
YIELD SOVEREIGN BONDS 10Y (%, end of period)

	Mar. 21 *
Share of government bonds held by non-residents	51 %

*As of March 2, 2021.

	Dec. 19	Dec.20	Mar. 21*
Peru	4,6	3,5	4,4
Colombia	6,3	5,4	6,0
Mexico	6,8	5,5	6,1
Brazil	6,8	6,9	8,9
Chile	3,2	2,7	2,9

*2nd March.



Source: Reuters and MEF.

Monetary policy has focused on four aspects:

01

Reduction of the monetary policy interest rate

Reduction of the reference interest rate between March and April, from 2.25 to 0.25 percent, its historical minimum. Forward Guidance: The BCRP Board of Directors has emphasized that it considers it appropriate to maintain a strongly expansive monetary stance for a prolonged period and that it is careful to expand the monetary stimulus under different modalities.

02

Flexibility of reserve requirements

Reduction of the reserve requirement in soles from 5% to 4% and of the reserve requirement for obligations in dollars with terms of less than 2 years with foreign financial entities from 50% to 9%.
Reduction of the minimum current account requirement in soles of banks in the BCRP from 1.0% to 0.75%.
Suspension of the additional reserve requirement associated with the dollar credit.

03

Liquidity provision to the financial system

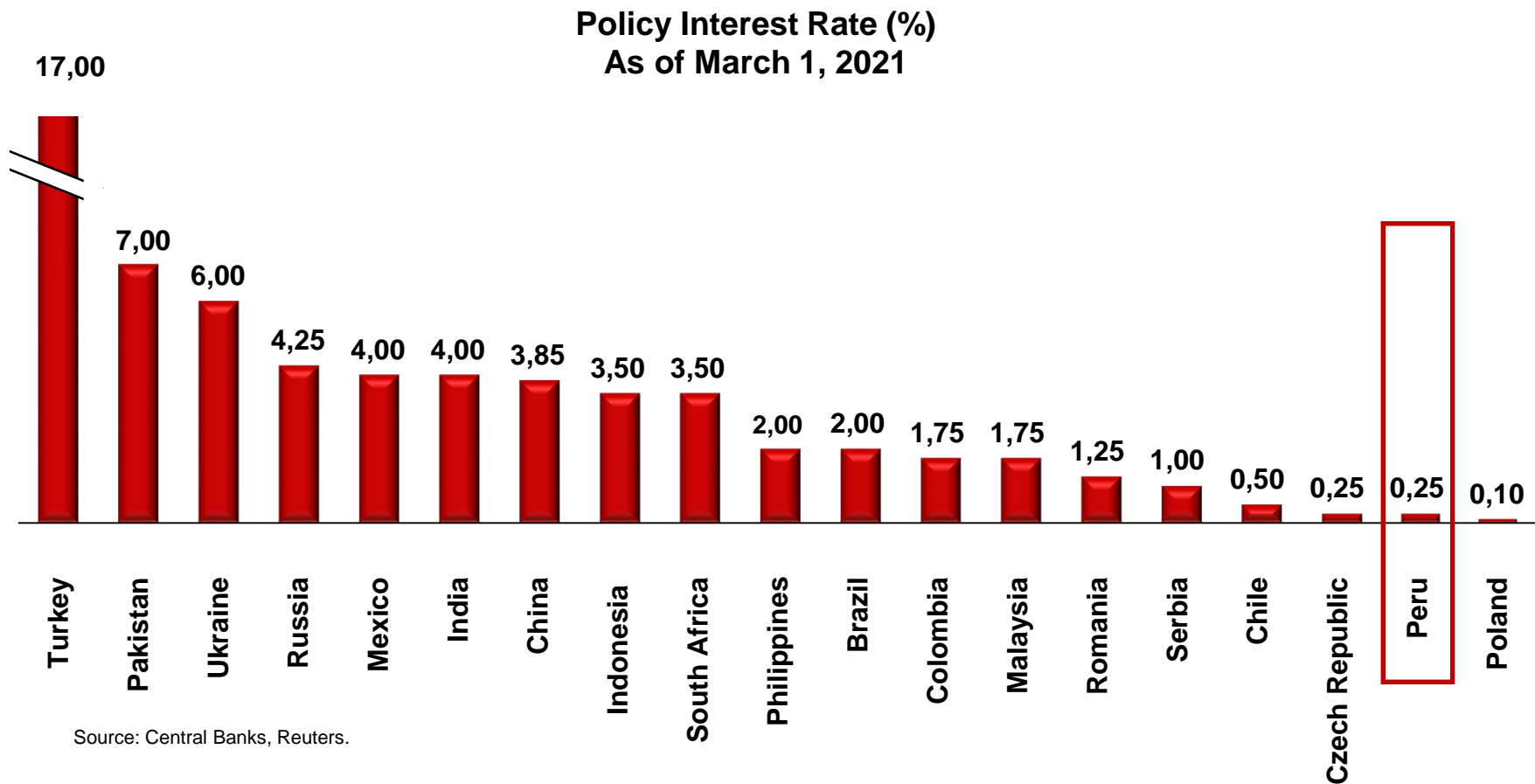
Terms of 6 months to 3 years for repos of securities and currencies.
Flexibility of the alternative portfolio repo operation (includes factoring, entities rated up to B+, reduction to S/ 300,000 of the minimum guarantee amount).
One-stop facility flexibility (elimination of operations limit).
New liquidity facilities: (i) credit reporting operations with National Government Guarantee (Reactiva Peru); (ii) reporting operations conditioned on the refinancing of the loan portfolio; and (iii) the National Government Guarantee Program for the loan portfolio of companies in the financial system.

04

Reduced volatility in long-term interest rates and the exchange rate

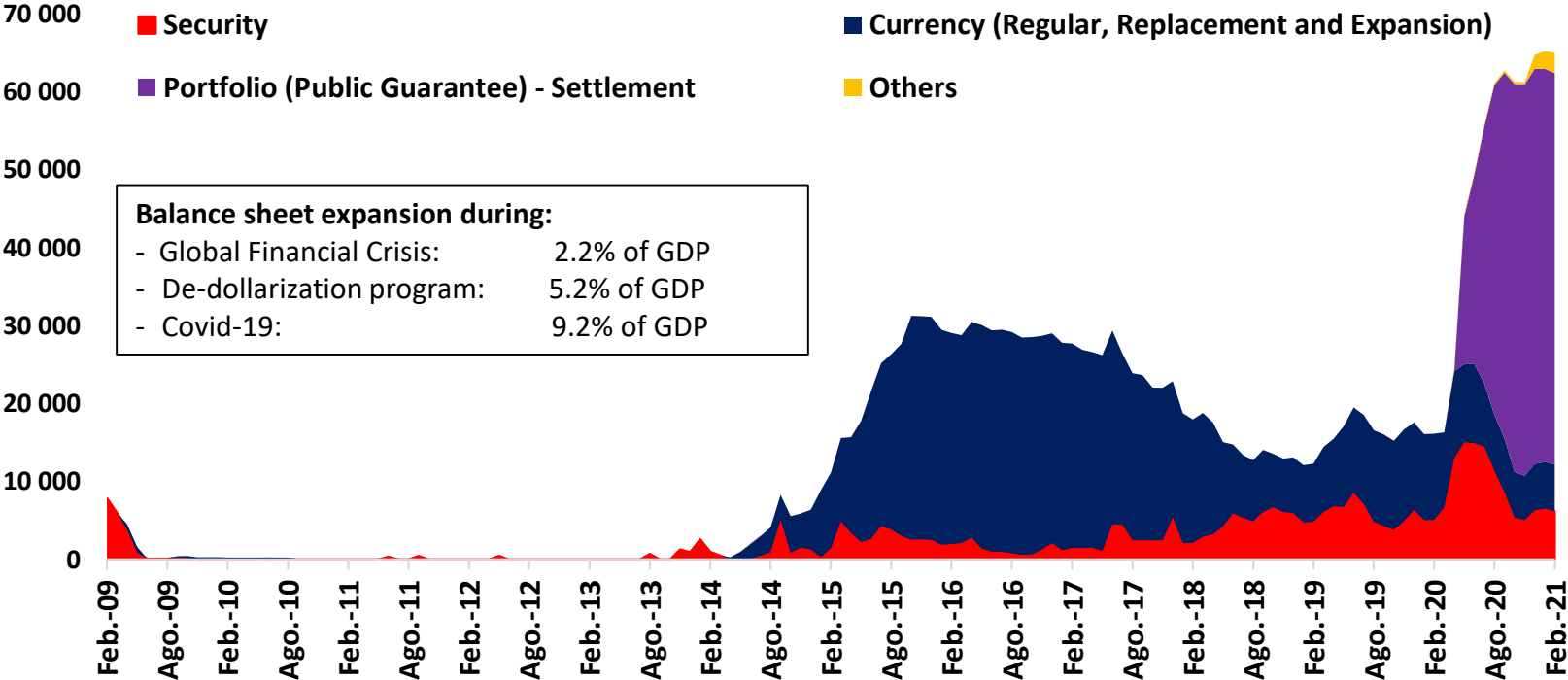
Foreign exchange intervention mainly through derivatives (maximum balance reached in exchange swaps in sale mode since the beginning of the state of emergency: US \$ 1,004 million on July 3).
Extension of the limits for the additional reserve requirement in soles associated with the sales of foreign exchange derivatives of banks.
BCRP can make with AFP repos of securities with sovereign bonds and direct purchase of foreign currency.

Peru was the first EME to lower its policy rate between March and April 2020, to a historical minimum of 0.25% to date.



Given the magnitude of the COVID-19 shock, the liquidity injection balance is almost 8 times the highest during the Global Financial Crisis (GFC) and twice that under the de-dollarization program.

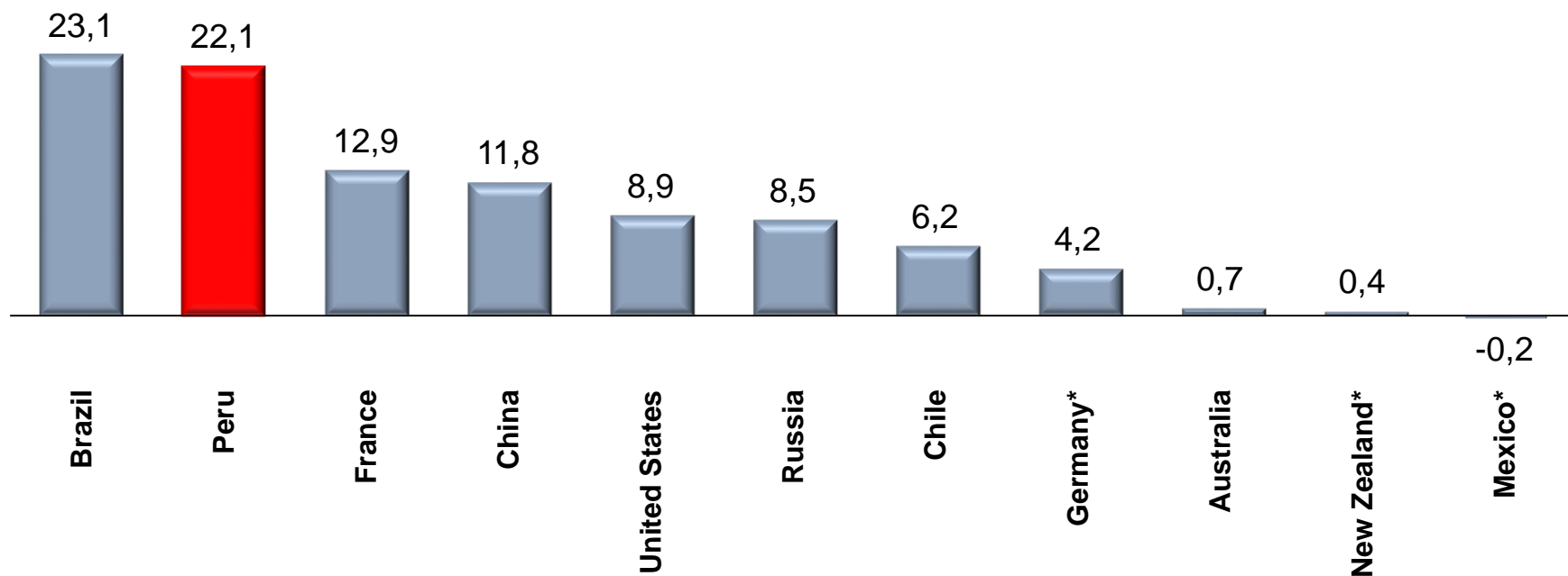
BALANCE OF INJECTION OPERATIONS*
(Million of S/)



* As of February 26, 2021.

In response to containment measures, the Central Reserve Bank of Peru has reacted countercyclically by significantly increasing credit to the private sector. This expansionary stance is sustained by high monetary credibility.

Credit to non-financial firms: as of January 2020
(Annual growth rate)



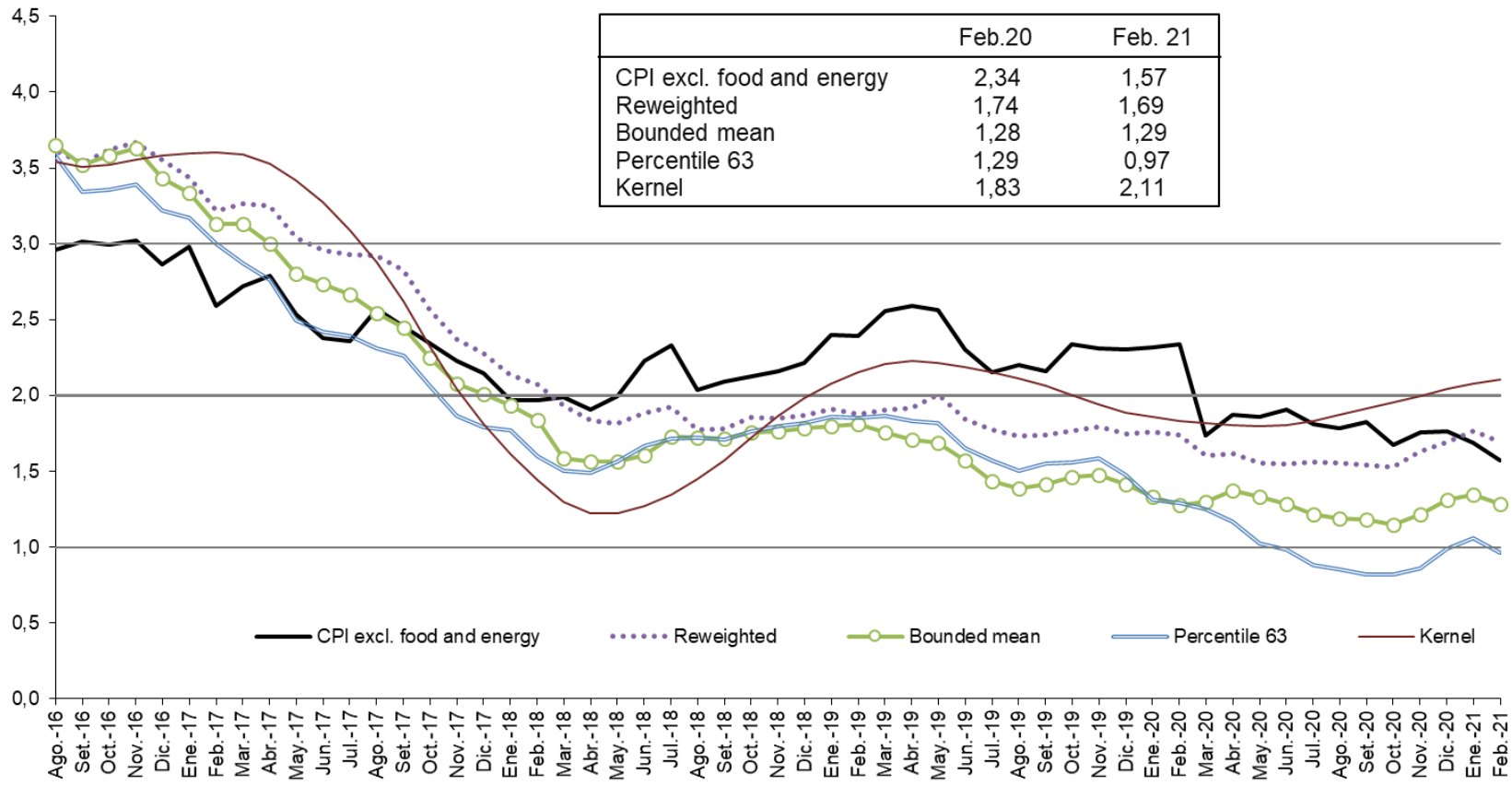
Note: for China, includes credit to the public and private sector.

* As of December 2020.

Source: Central Banks

Trend inflation remains in the lower part of the target range.

Indicators of trend inflation
(Annual % change)

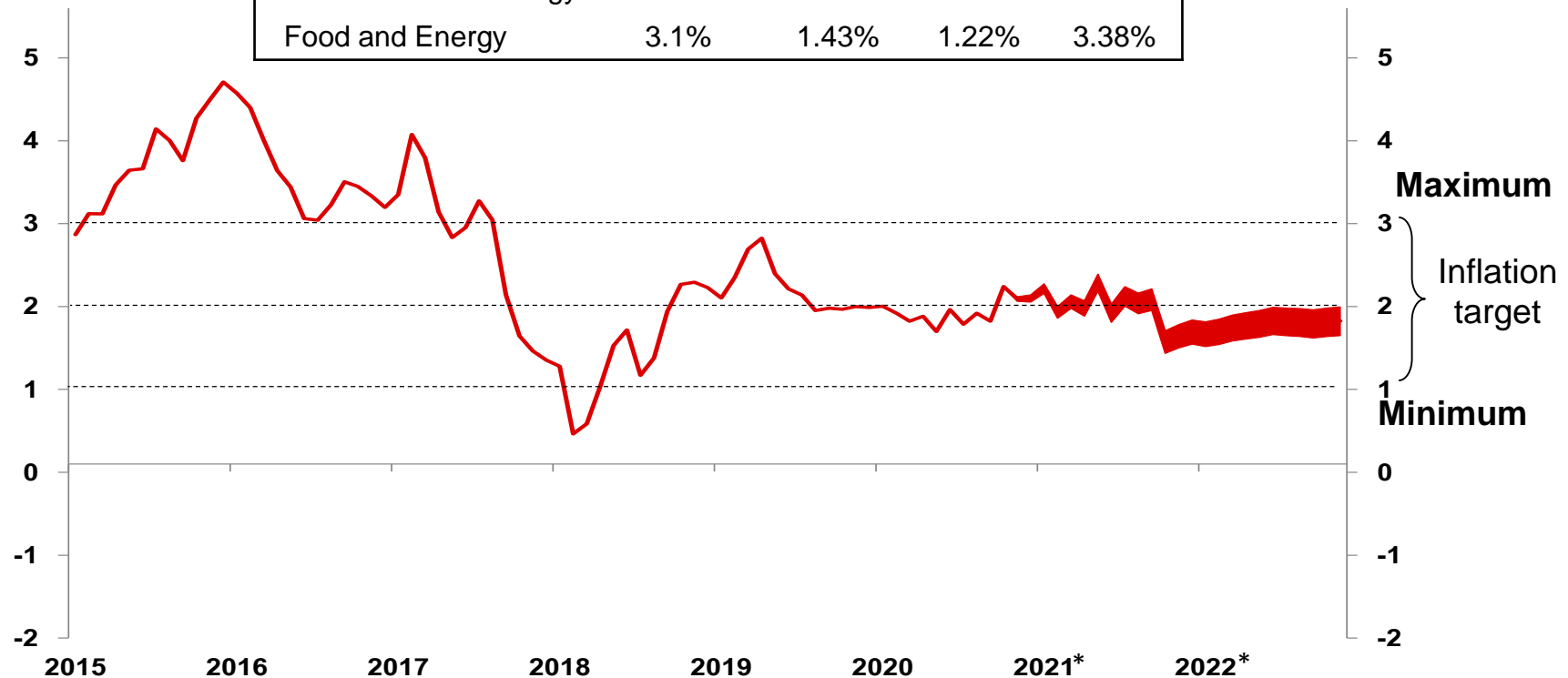


Inflation is expected to fall temporarily below 2% in the forecast horizon due to lower domestic demand and imported inflation, along with inflation expectations near the lower bound of the target range.

Inflation forecast, 2021 - 2022

(Annual % change)

	Avg. 01-19	Dec.19	Dec.20	Feb.21
Total Inflation	2.6%	1.90%	1.97%	2.40%
Excl. Food and Energy	2.2%	2.30%	1.76%	1.57%
Food and Energy	3.1%	1.43%	1.22%	3.38%



Concluding Remarks

1. Rolling out a large policy package has been possible due to Peru's considerable fiscal space, monetary policy credibility, and solid macroeconomic fundamentals.
2. Peru's economy is expected to shrink more than regional counterparts in 2020, but grow more strongly in 2021. We expect to recover pre-crisis level of economic activity in 2022.
3. A reversal of economic contraction requires maintaining expansionary fiscal and monetary policies. It is necessary to streamline public investment procedures and restart PPPs.
4. It is crucial to preserve a stable and predictable economic and legal framework.

Macroeconomic Outlook 2021 - 2022

Central Bank of Peru

March 2021



BANCO CENTRAL DE RESERVA DEL PERÚ