



BANCO CENTRAL DE RESERVA DEL PERÚ



# Monetary Policy and macroeconomic Stability

**Julio Velarde**  
**Governor**  
**Central Reserve Bank of Peru**

**February 2019**



# Contents

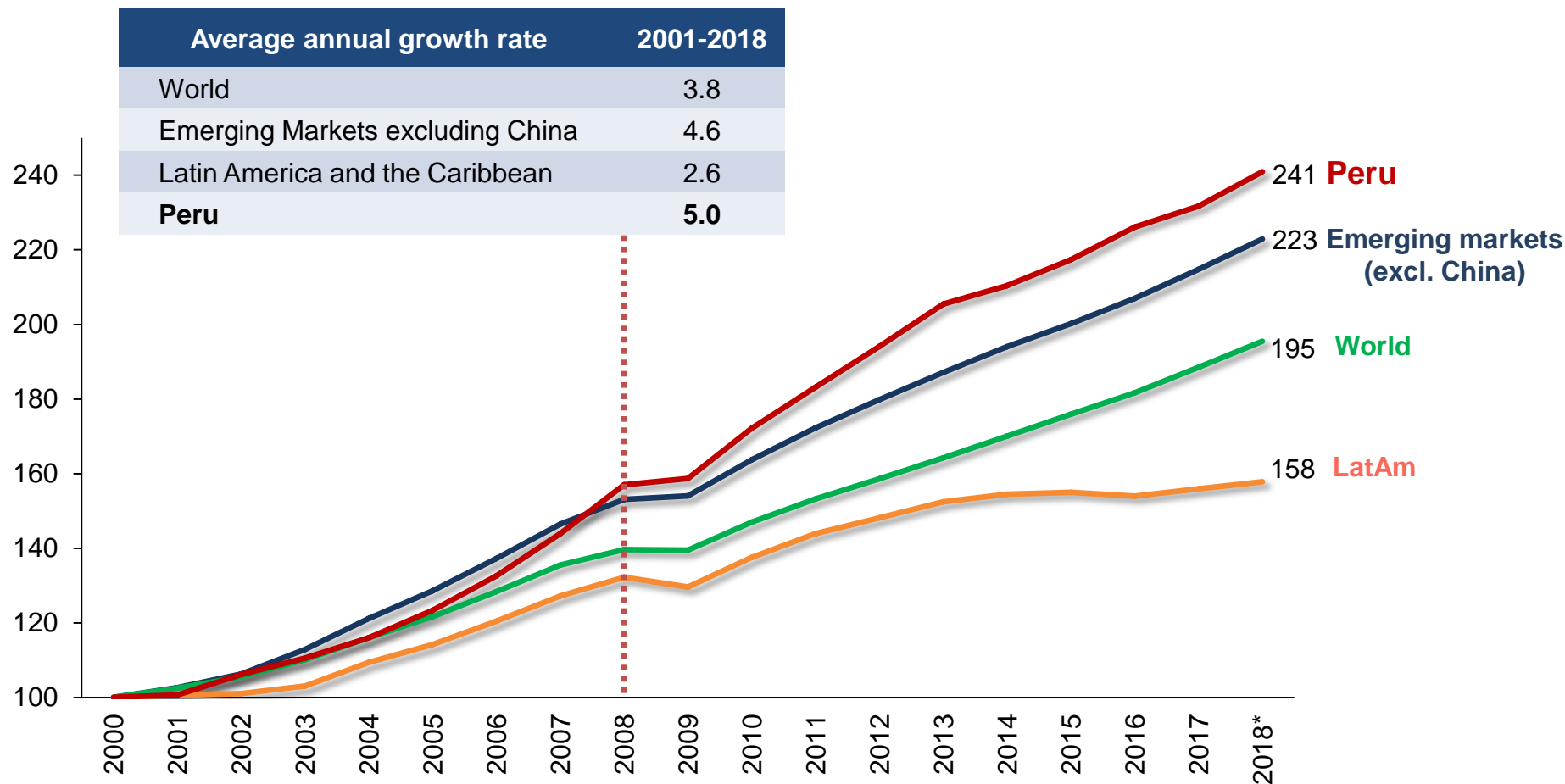
**Sound Macroeconomic Fundamentals**

**Economic Activity Performance**

**Monetary Policy Stance**

# Peruvian economy has been one of the top growth performers in the world during the current century.

**Real GDP**  
(Index 2000=100)

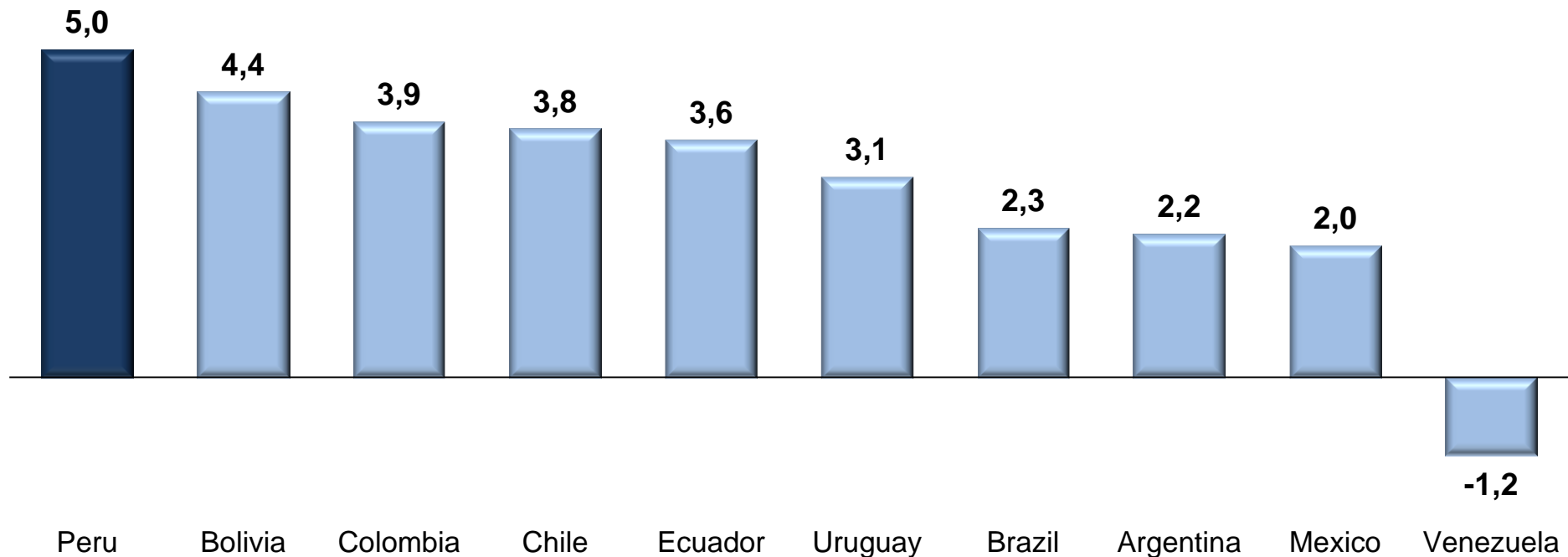


\* Forecast

Source: IMF – World Economic Outlook (October 2018) and BCRP (Peru)

**Latin America had a 2.6% annual average growth in the last 18 years.  
Peru's growth leads the region.**

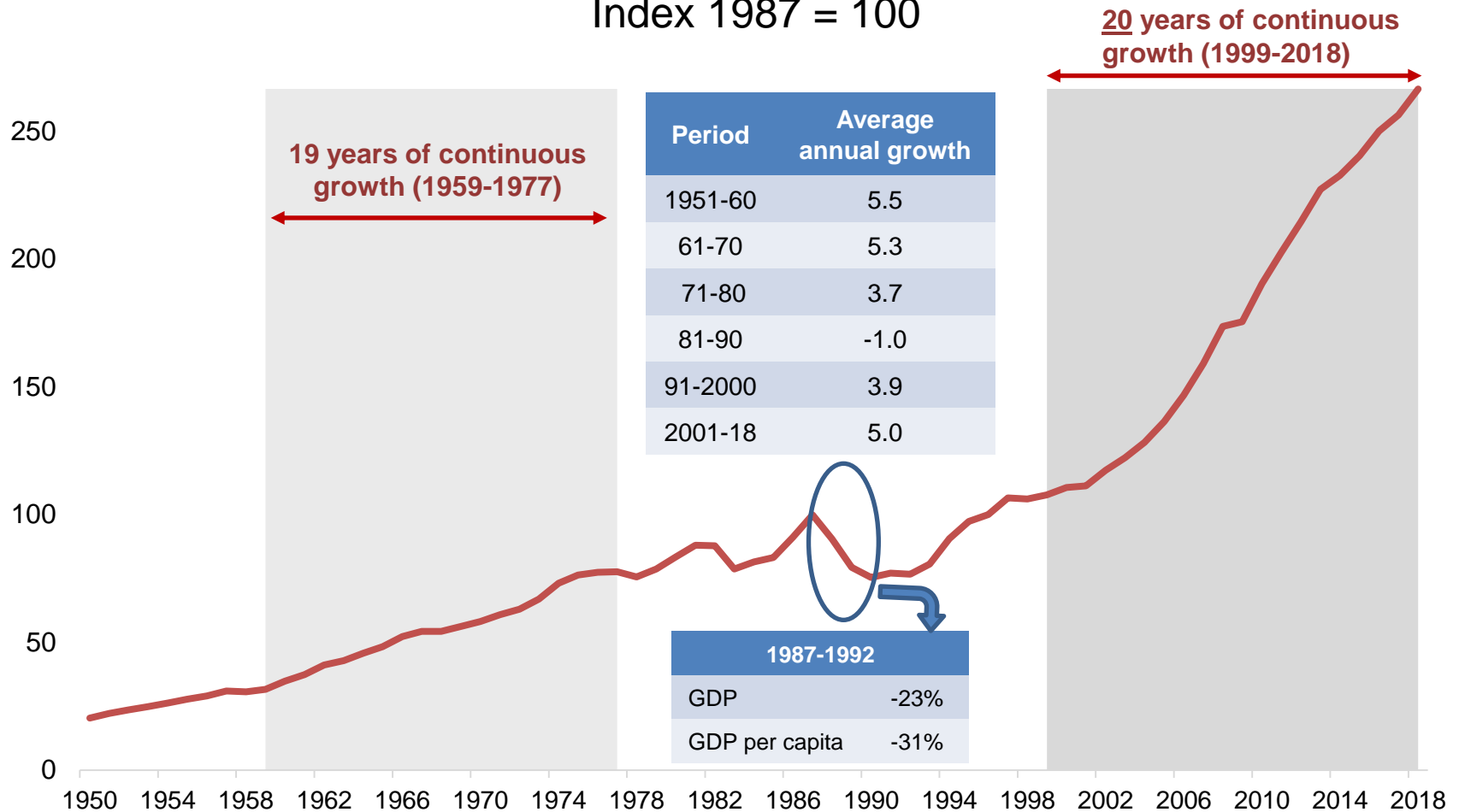
**Latin America\*: average annual growth rate 2001-2018**



\*South America and Mexico.  
Source: IMF-WEO and BCRP (Peru).

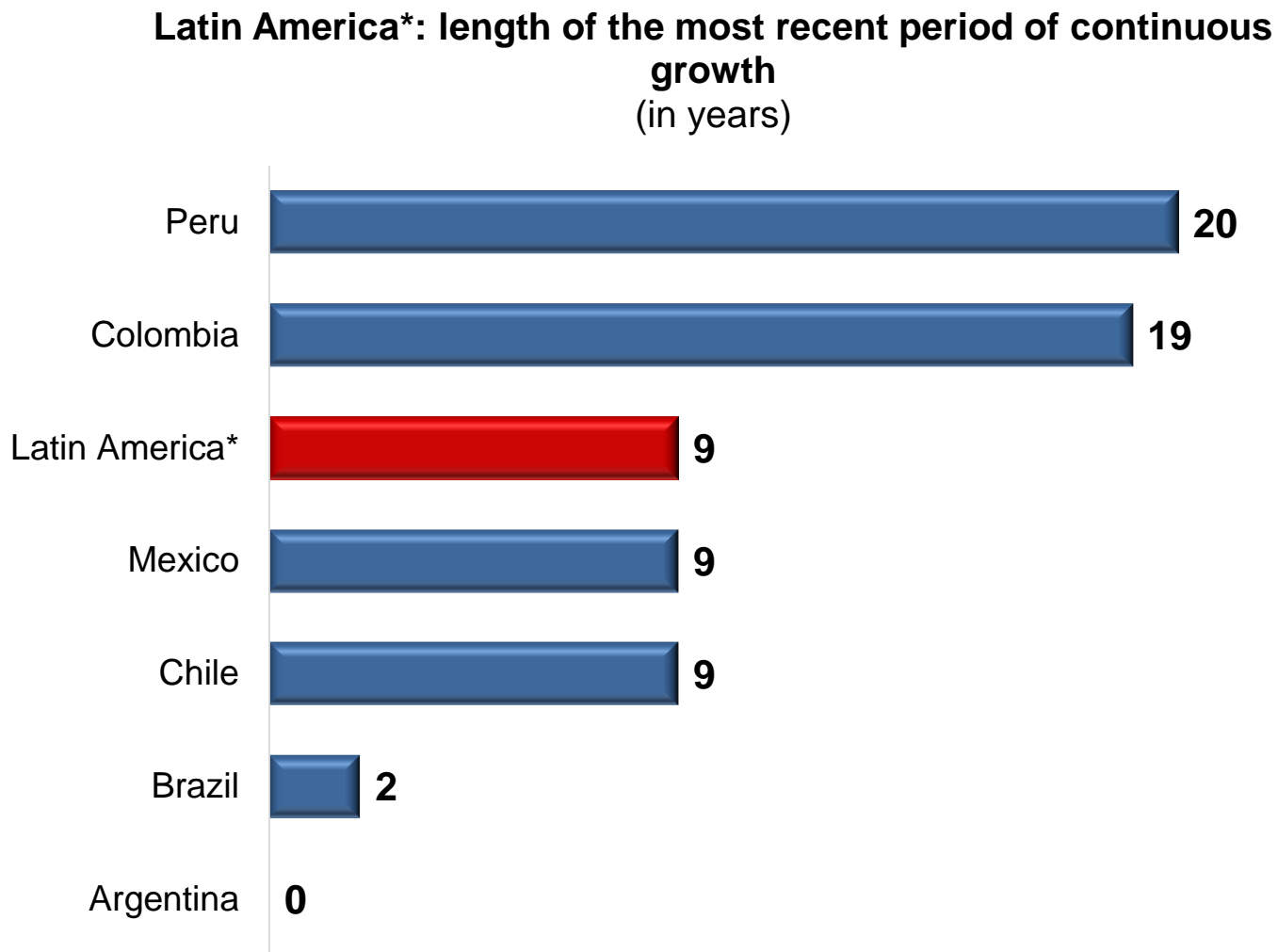
## 20 years of continuous growth: the longest since 1921.

### Peru: real GDP, 1950-2018 Index 1987 = 100



Source: *El Desarrollo de la Economía Peruana en la Era Moderna*, Bruno Seminario. Annual Report 2017, BCRP.

## In Latin America, Peru and Colombia hold the record of the longest period of continuous growth.

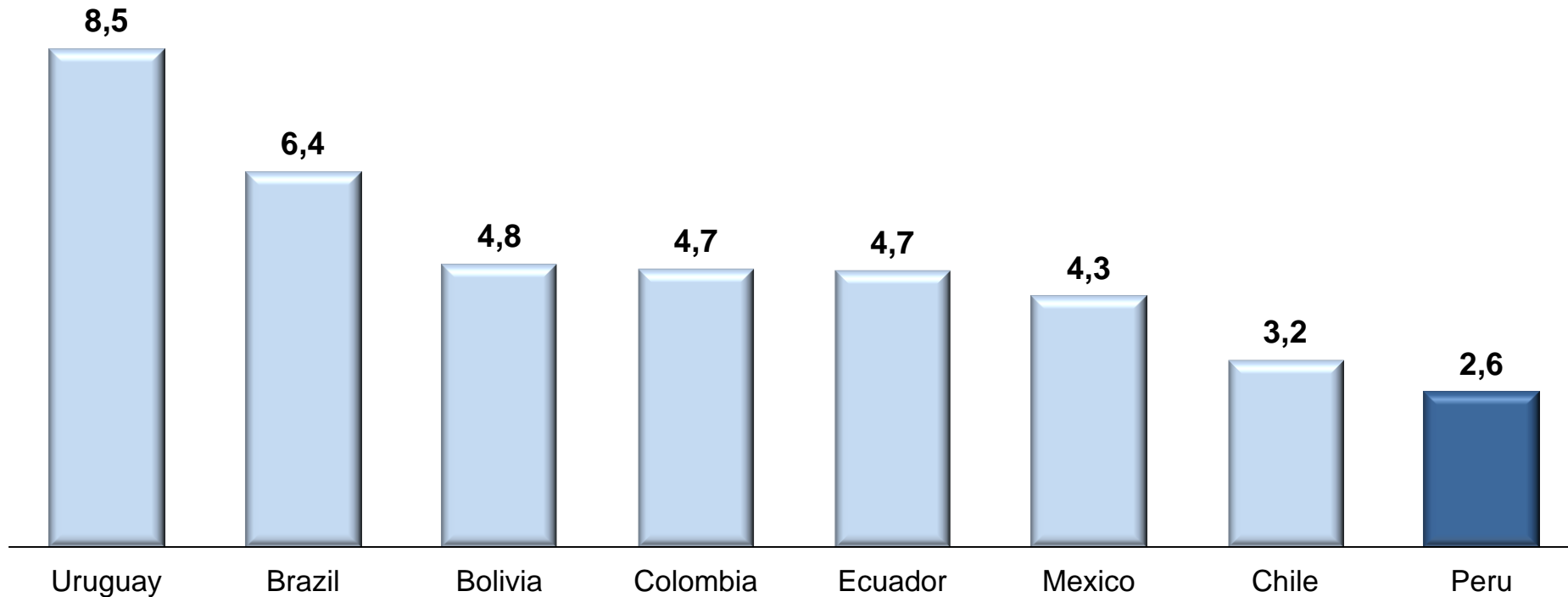


\*South America and Mexico.

Source: IMF-WEO and BCRP-Inflation Report (Peru).

**Latin America's average annual inflation (2001-2018) was 7.3%, while Peru's average annual inflation was 2.6%.**

**Latin America\*: average annual inflation<sup>1/</sup>, 2001-2018**



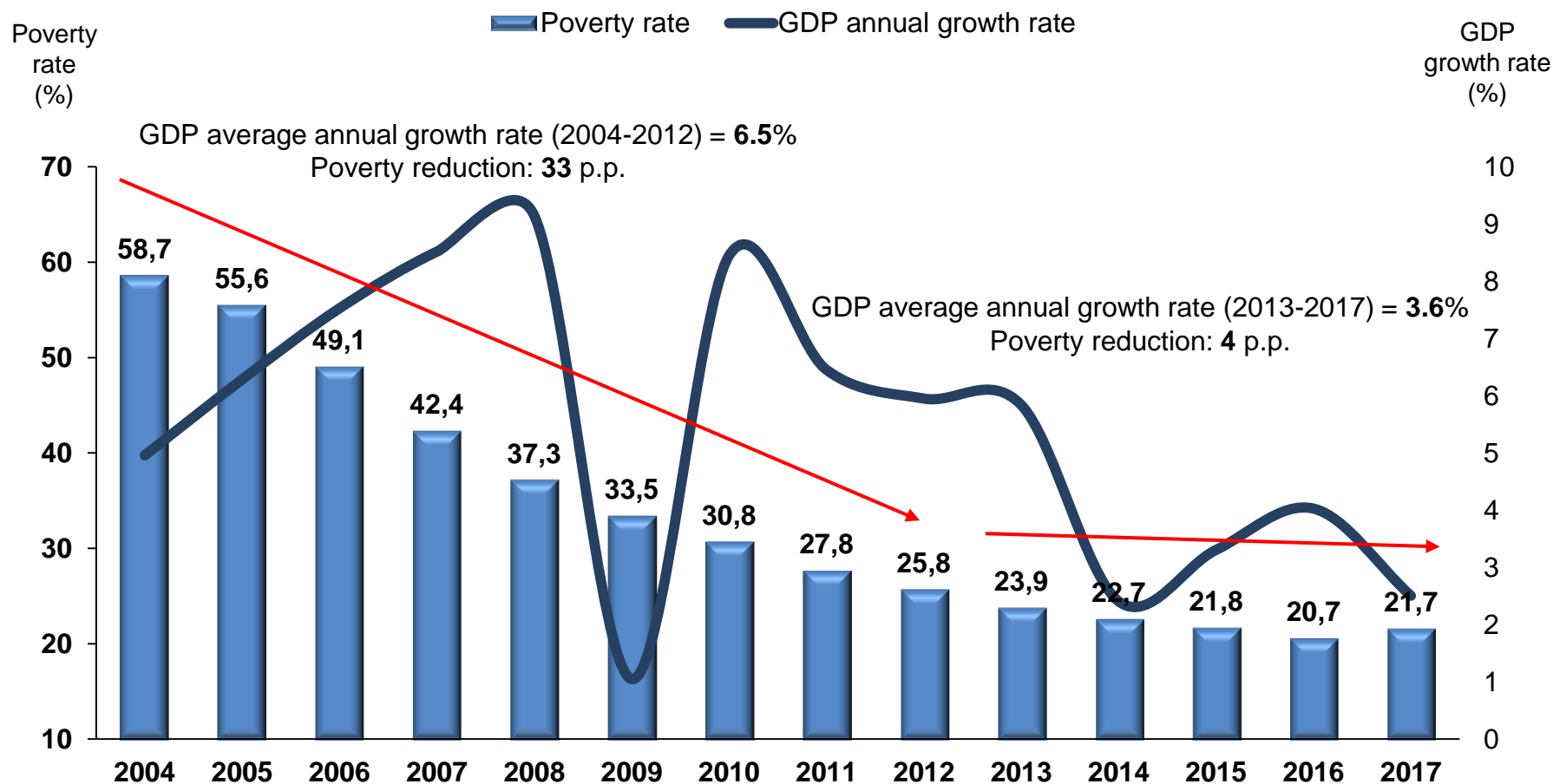
<sup>1/</sup> End-of-period inflation.

\*South America and Mexico, excluding Venezuela.

Source: IMF-WEO and BCRP (Peru).

# Robust growth and low inflation has helped to reduce poverty significantly.

## Poverty has been reduced in more than half in 7 years



Source: INEI y BCRP.



## Peru leads the poverty reduction in Latin America.

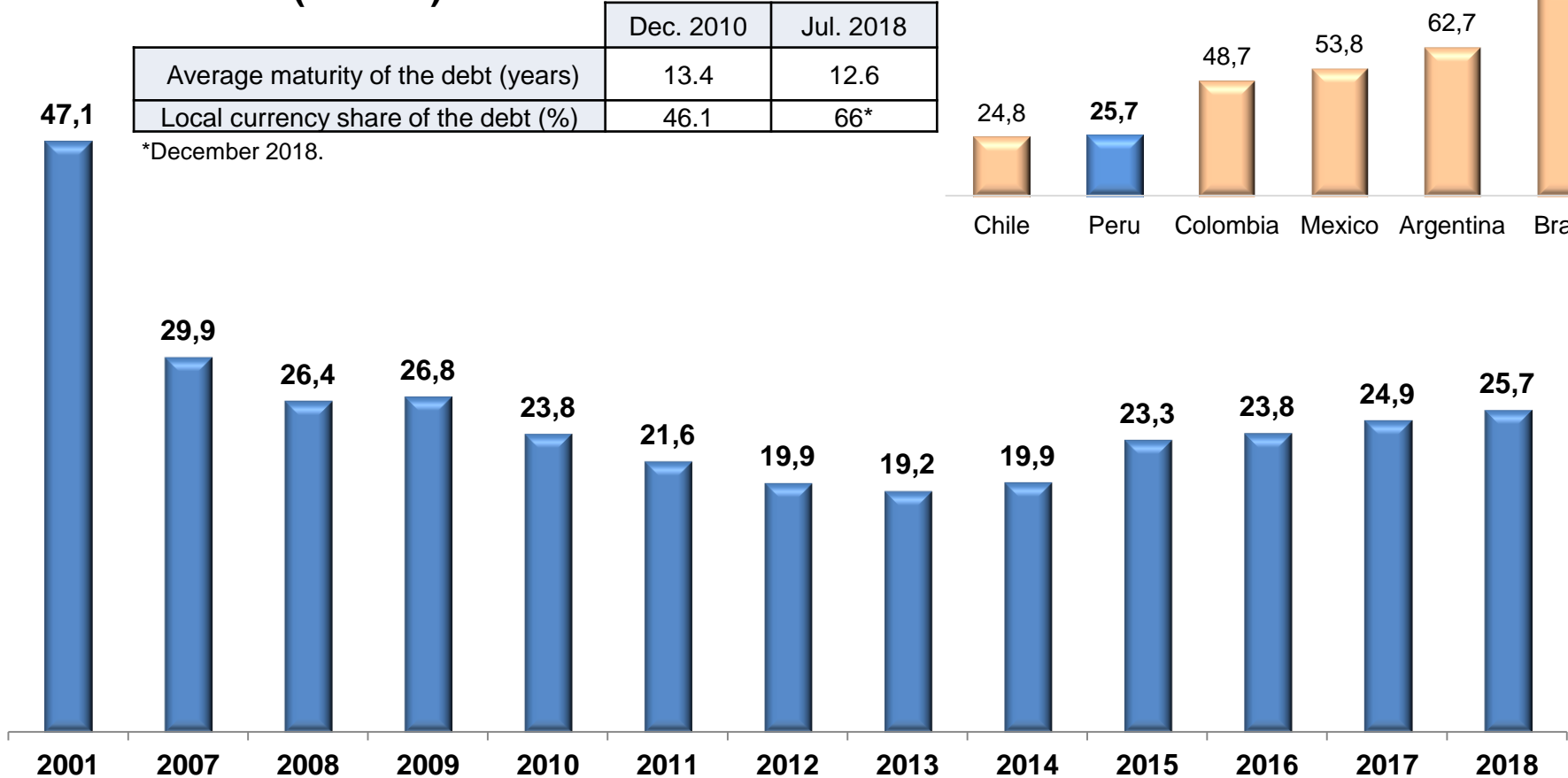
### Latin America poverty rate reduction (2002-2017)

Country	Change in percentage points	Average annual GDP growth (%)
Peru	-37	5,4
Chile	-32	3,8
Bolivia	-32	4,5
Ecuador	-30	3,8
Argentina	-27	2,9
Paraguay	-26	4,2
Colombia	-23	4,1
Uruguay	-20	3,6
Brazil	-20	4,5
Panama	-18	6,7
Dominican Republic	-13	5,4
Honduras	-11	4,0
El Salvador	-9	2,1
Mexico	-3	2,2

Source: CEPAL, IMF.

Public debt has been reduced from 47.1% of GDP in 2001 to 25.7% of GDP in 2018.

NON FINANCIAL PUBLIC SECTOR DEBT  
(% GDP)

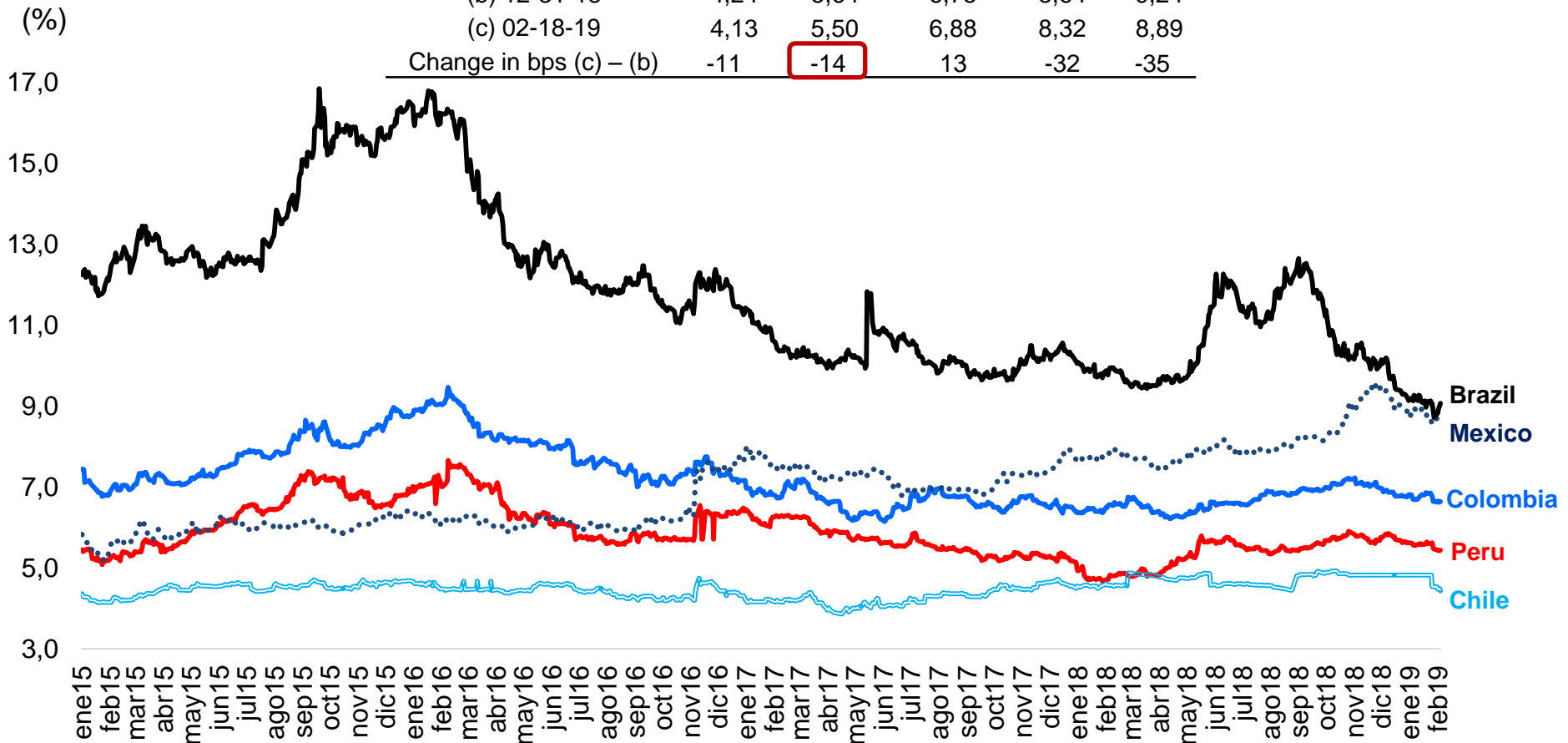


Source: BCRP.  
\*Estimates. IMF (WEO – October 2018) and BCRP.

# Sovereign yields reflect a positive investor sentiment towards Peru's financial position.

## 10-Year Treasury Bond Yields in Domestic Currency

	Chile	Peru	Colombia	Mexico	Brazil
(a) 12-31-17	4,55	5,17	6,48	7,65	10,26
(b) 12-31-18	4,24	5,64	6,75	8,64	9,24
(c) 02-18-19	4,13	5,50	6,88	8,32	8,89
Change in bps (c) – (b)	-11	-14	13	-32	-35



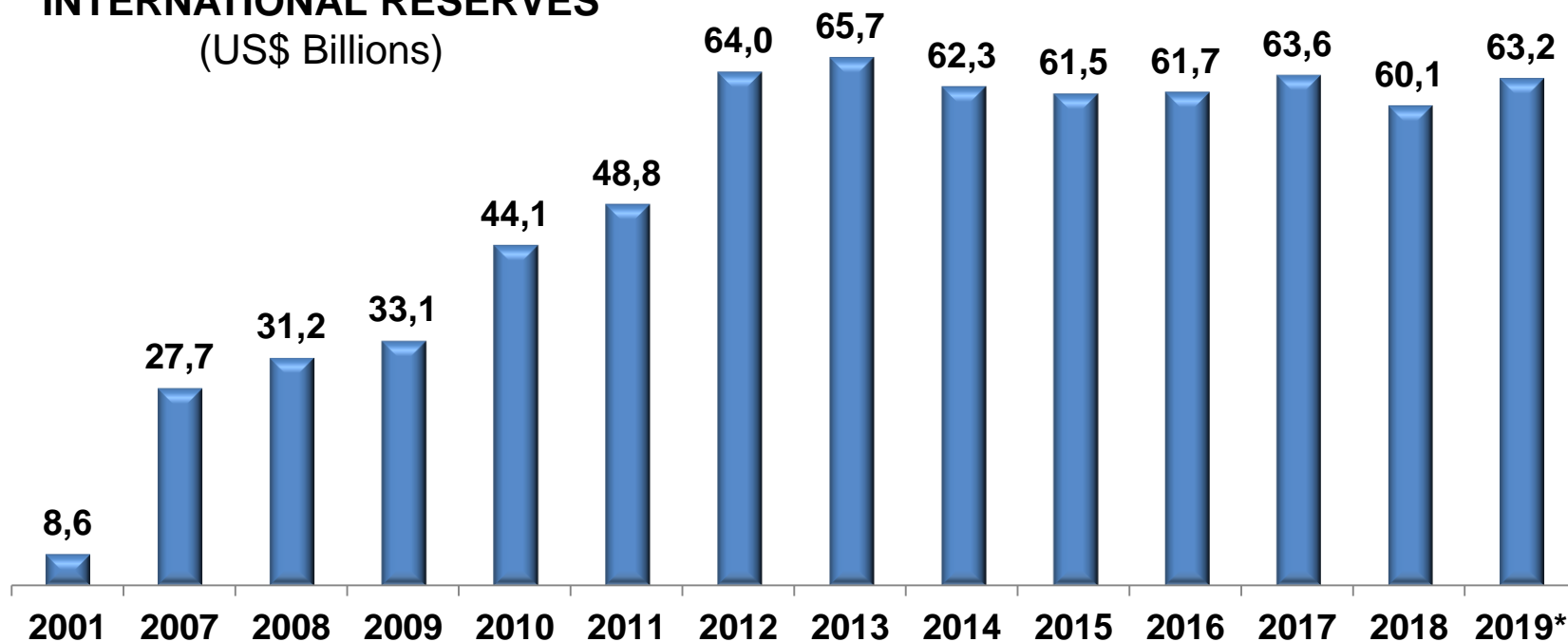
**The BCRP has carried out a precautionary accumulation of international reserves aimed to increase its ability to implement counter-cyclical monetary policy.**

#### NIR INDICATORS

<b>As a % of:</b>	<b>2018*</b>
GDP	28,1
Short-term external debt 1/	434
Short-term external debt plus current account deficit	353

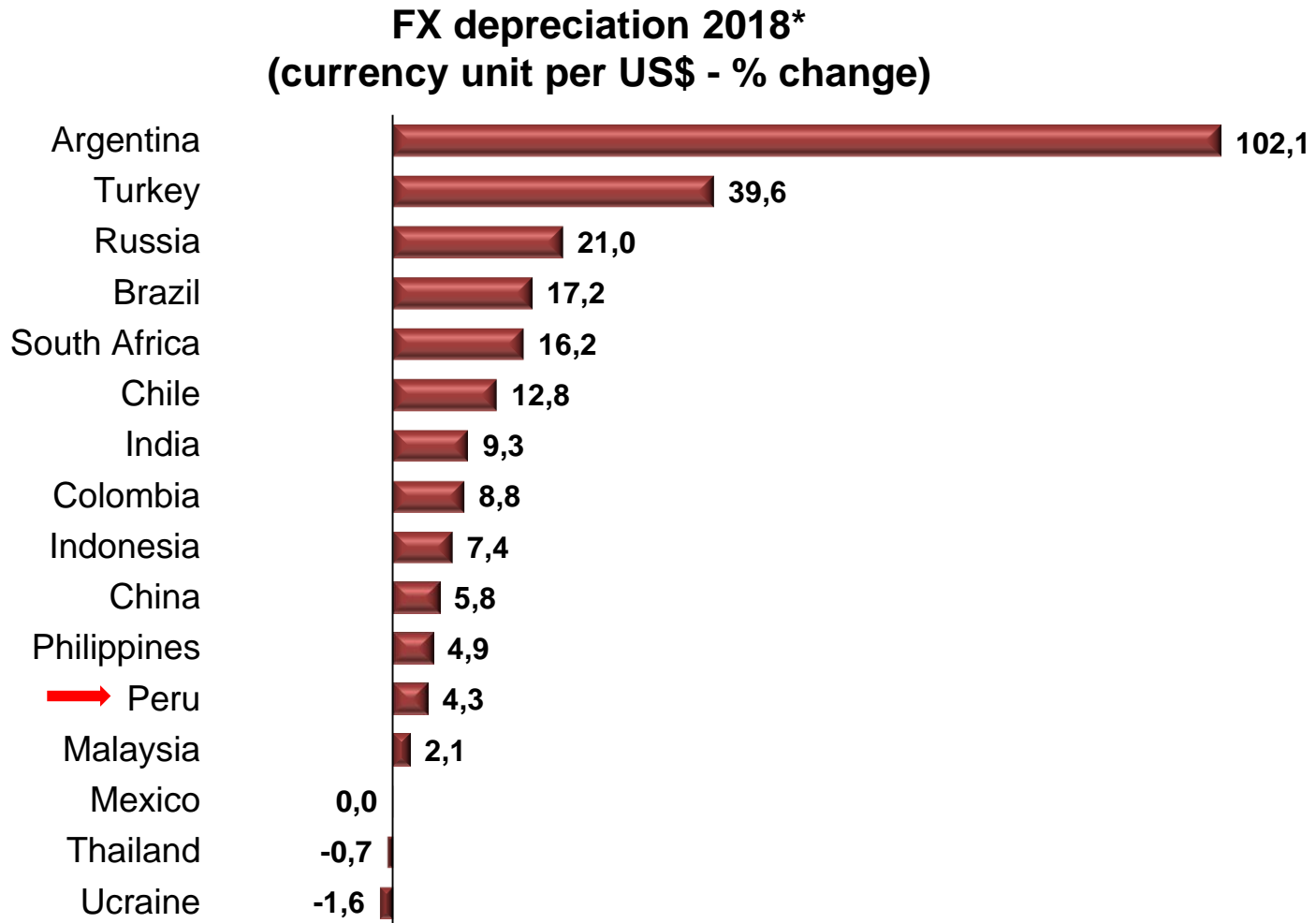
1/ Includes short-term debt balance plus redemption (1-year) of private and public sector.

#### INTERNATIONAL RESERVES (US\$ Billions)



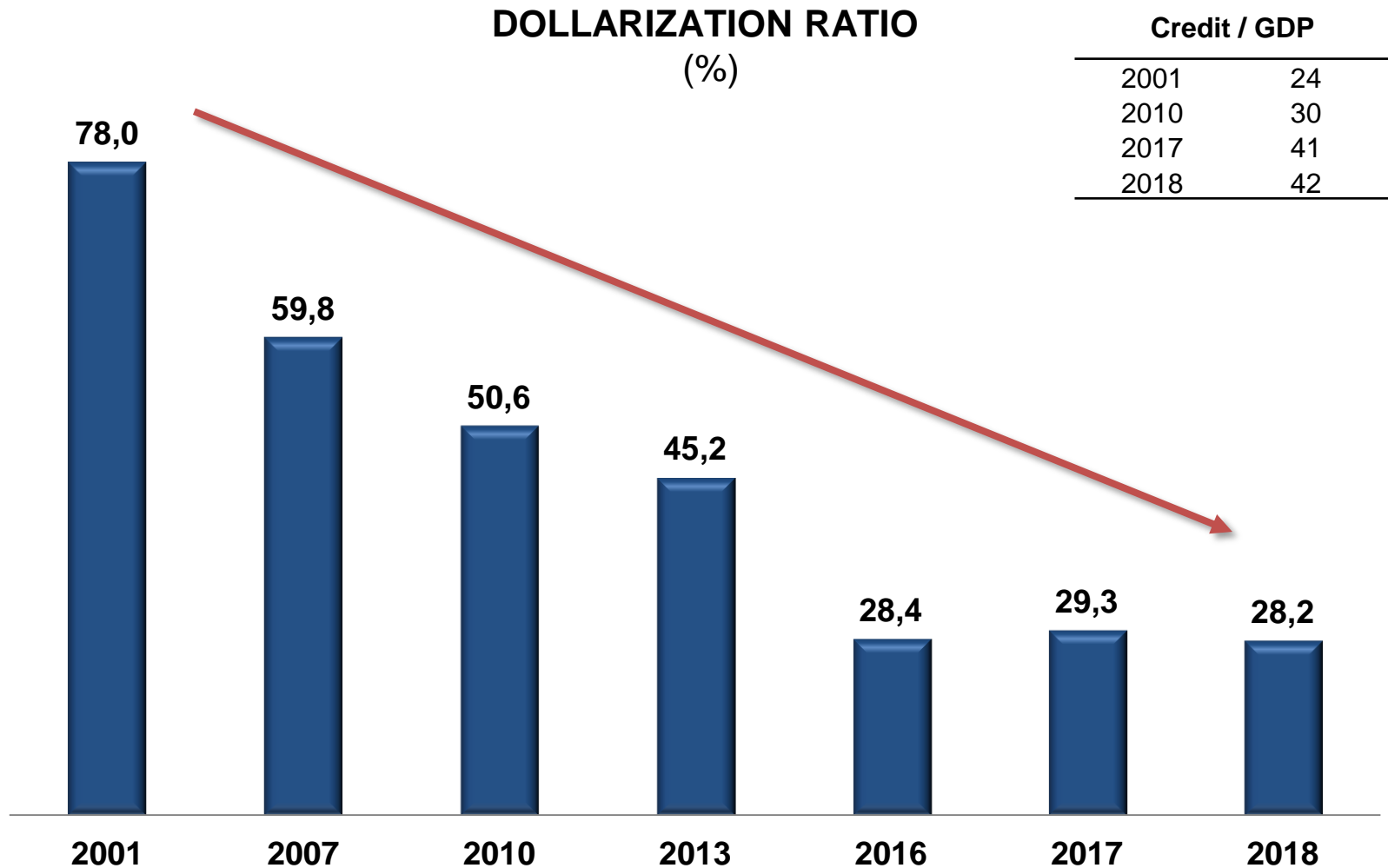
\*As of 18<sup>th</sup> February 2019.  
Source: BCRP.

## Low external vulnerability softens the impact of external financial shocks.



\* Percentage change as of December 31 of 2018 with respect to December 31 of 2017.  
Source: Bloomberg and Reuters.

Since 2001 credit dollarization has dropped by more than half.



Source: BCRP.

# Contents

**Sound Macroeconomic Fundamentals**

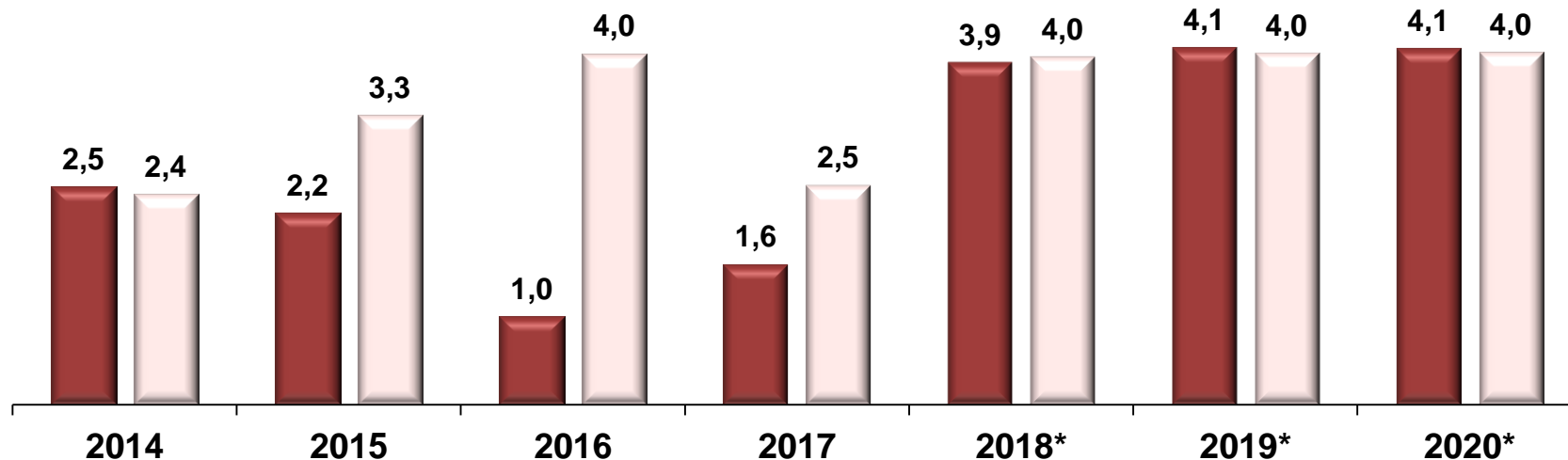
**Economic Activity Performance**

**Monetary Policy Stance**

**Economy was affected transitionally by supply shocks during 2017. Since 2018, GDP growth has continued converging to its potential.**

**DOMESTIC DEMAND<sup>1/</sup>**  
(YoY real % change)

■ Domestic demand    ■ GDP



<sup>1/</sup> Excluding inventories

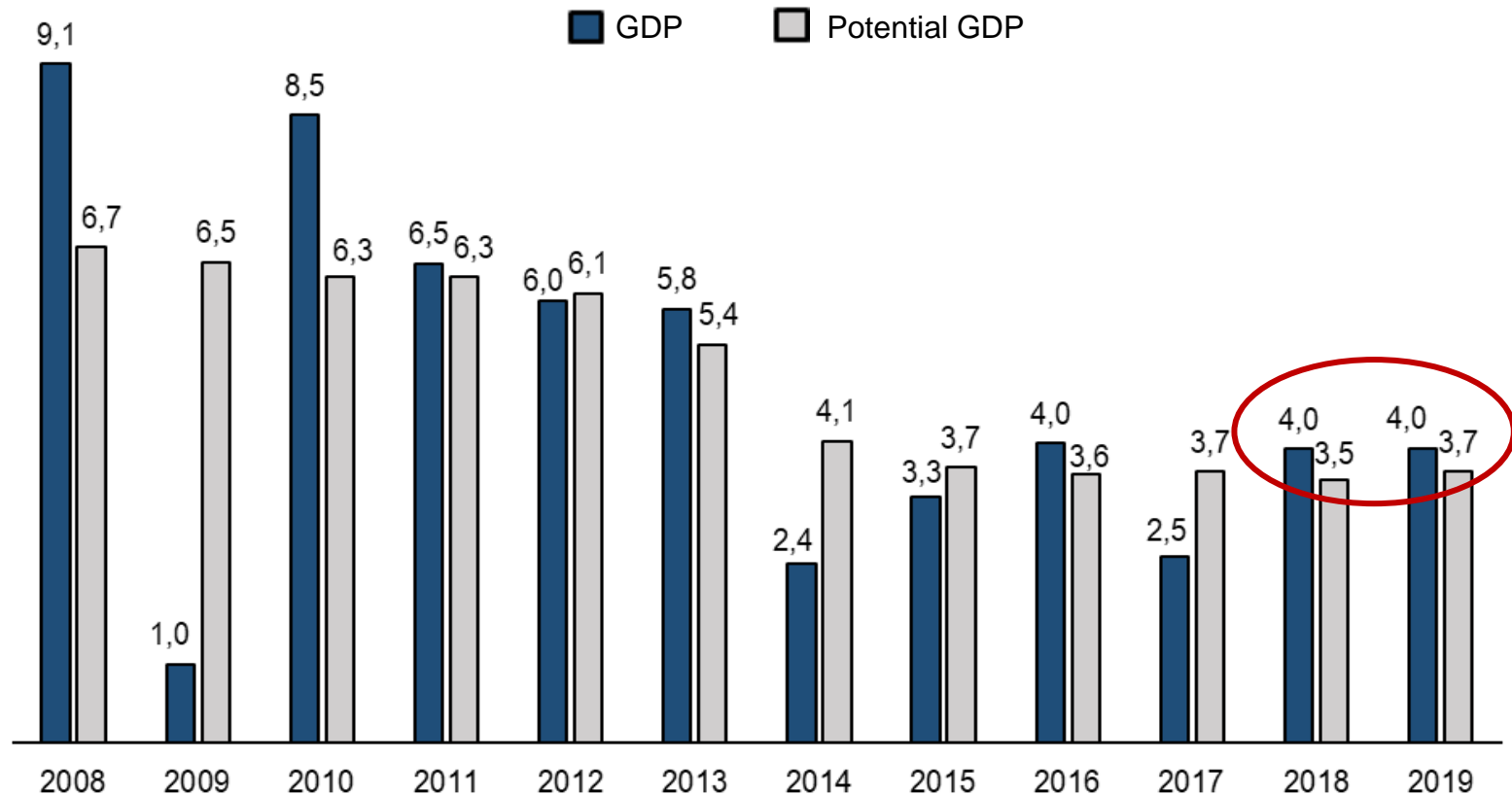
\*Forecast. Inflation Report December 2018.

Source: BCRP.



**GDP will grow more than its potential in the next years due to the gradual closing of the output gap. Higher investment explains the increase in the potential growth.**

**Real and Potential GDP, 2008 – 2019**  
(% change)



\* The annual output gap is computed as the average of the quarterly estimates.

Source: BCRP

**GDP is expected to grow 4% in the next two years, driven by investment and private consumption.**

<b>GDP</b> (YoY real % change)					
	2016	2017	2018	2019*	2020*
<b>Domestic Demand</b>	1.1	1.4	4.3	3.9	4.0
Private consumption	3.3	2.5	3.8	3.8	3.9
Public consumption	0.3	0.5	2.0	2.9	1.8
Private investment	-5.4	0.2	4.4	6.5	6.0
Public investment	-0.2	-2.3	8.4	2.8	3.4
<b>Exports</b>	9.4	7.8	2.5	4.7	4.8
<b>Imports</b>	-2.2	4.1	3.4	4.3	5.1
<b><u>GDP</u></b>	<u>4.0</u>	<u>2.5</u>	<u>4.0</u>	<u>4.0</u>	<u>4.0</u>

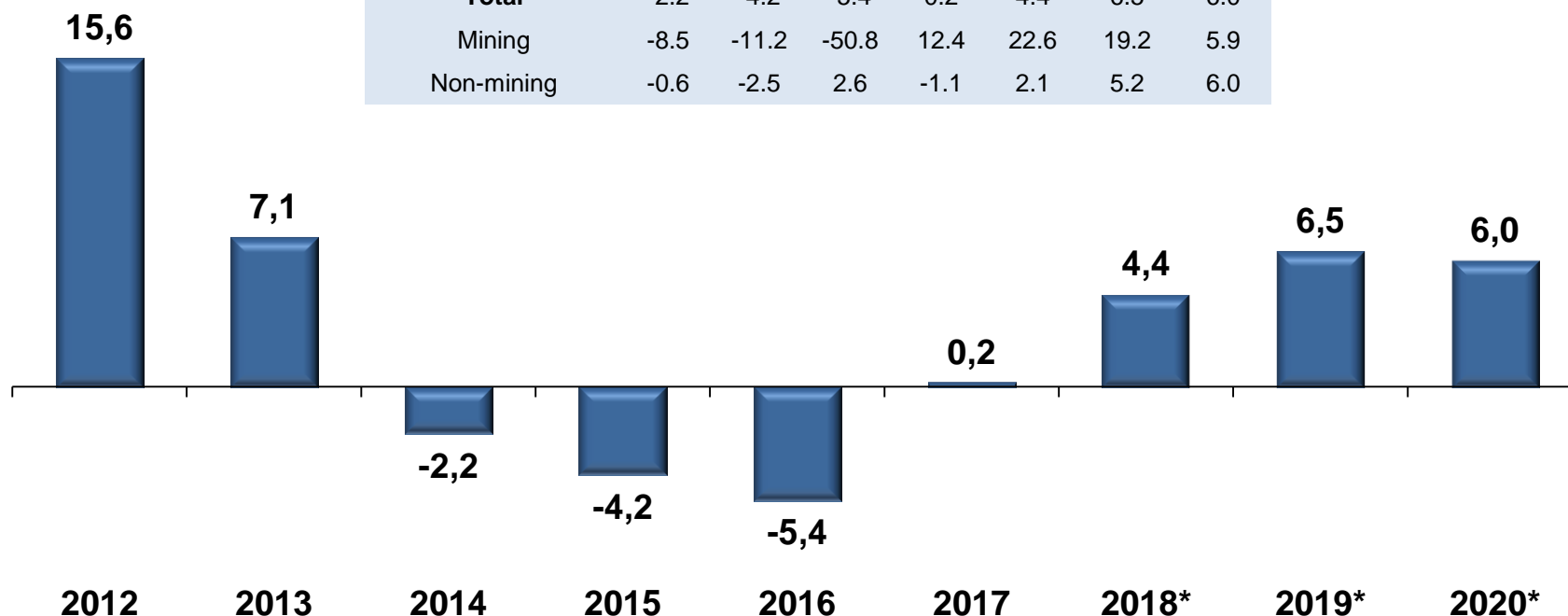
\*Forecast.

Source: BCRP.

**Private investment has recovered since the second half of 2017, after 14 consecutive months of decrease. Higher rates of private investment growth are expected in the next two years.**

### Private Investment (real % change)

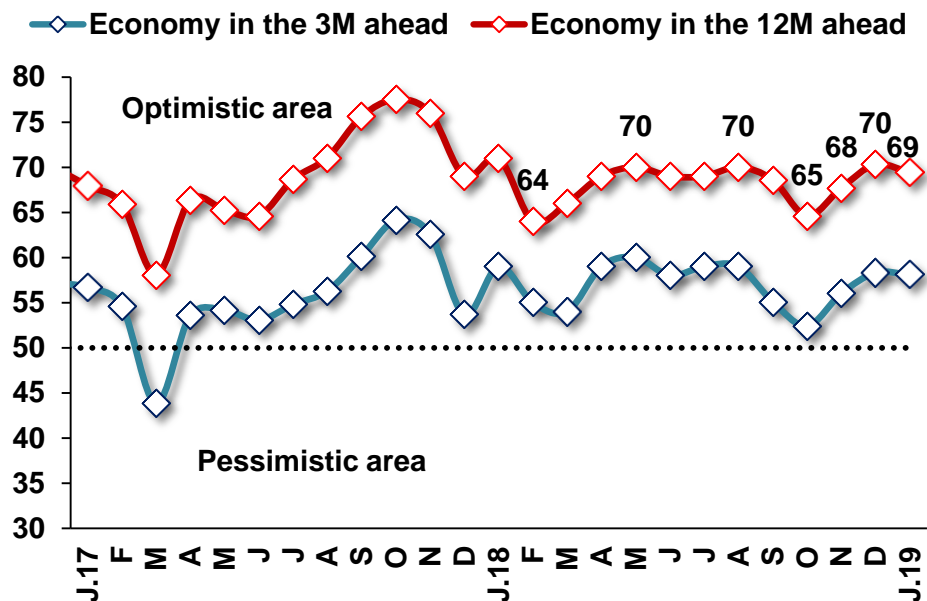
real % change	2014	2015	2016	2017	2018*	2019*	2020*
<b>Total</b>	-2.2	-4.2	-5.4	0.2	4.4	6.5	6.0
Mining	-8.5	-11.2	-50.8	12.4	22.6	19.2	5.9
Non-mining	-0.6	-2.5	2.6	-1.1	2.1	5.2	6.0



\*Forecast. Inflation Report December 2018.  
Source: BCRP.

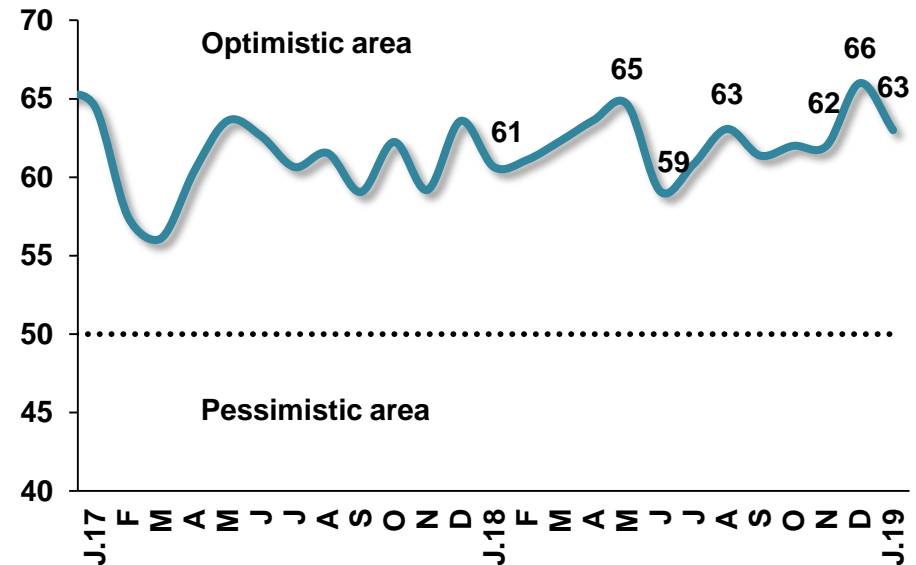
## Private sector confidence remains high.

**Business expectations on the economic situation for the three and twelve months ahead**



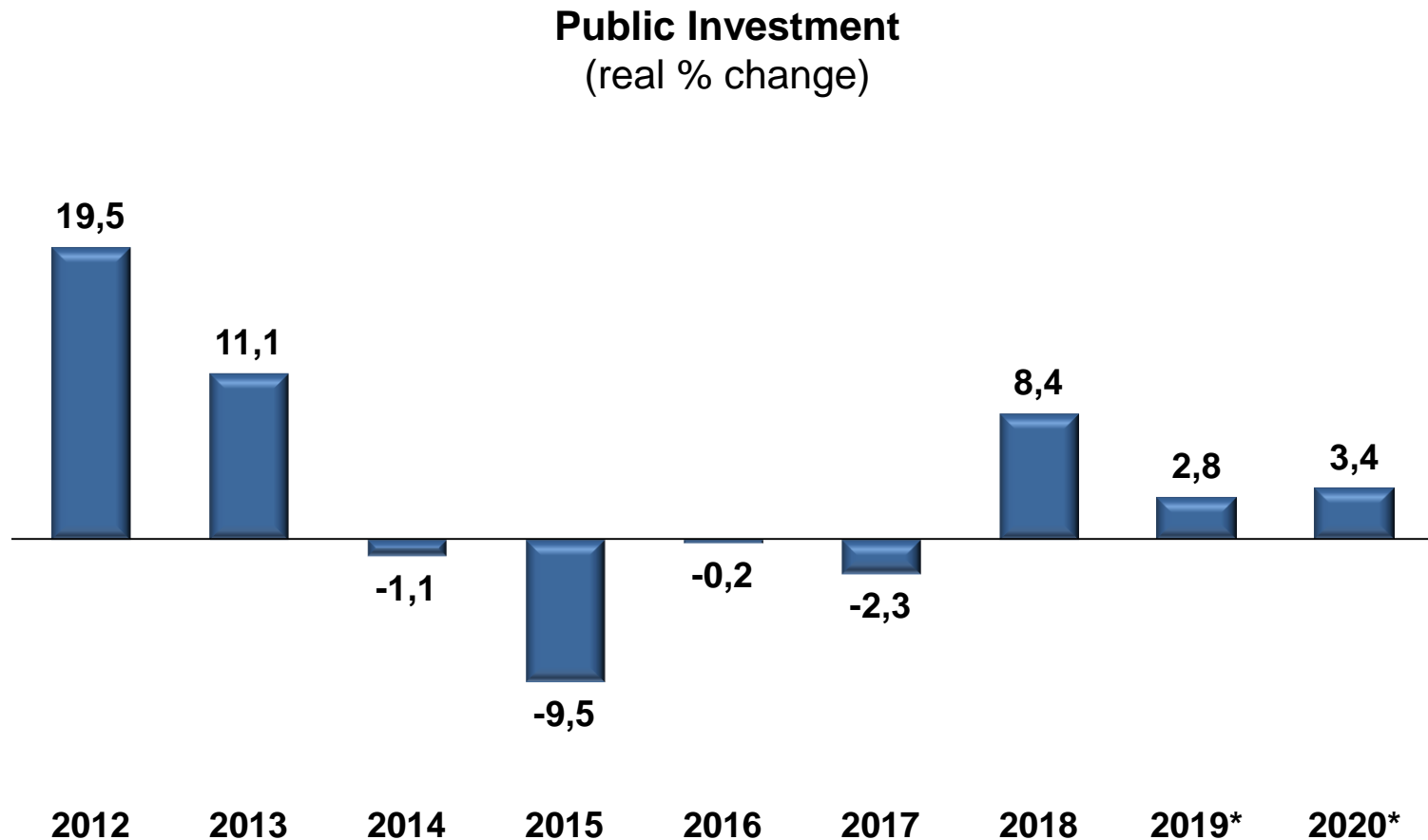
**Business expectations on the family economy situation for the twelve months ahead**

(INDICCA, Lima metropolitan area)



Source: Apoyo Consultoría, BCRP.

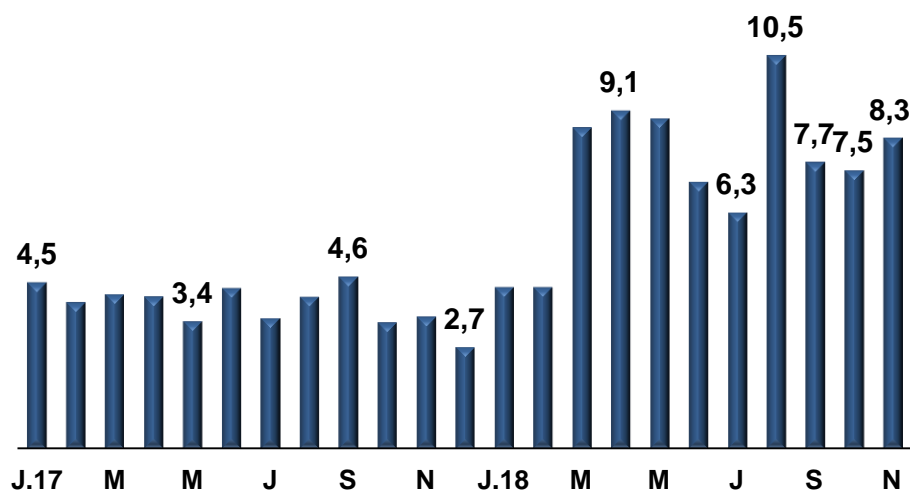
## Public investment would account for US\$ 23 billions in 2019-2020.



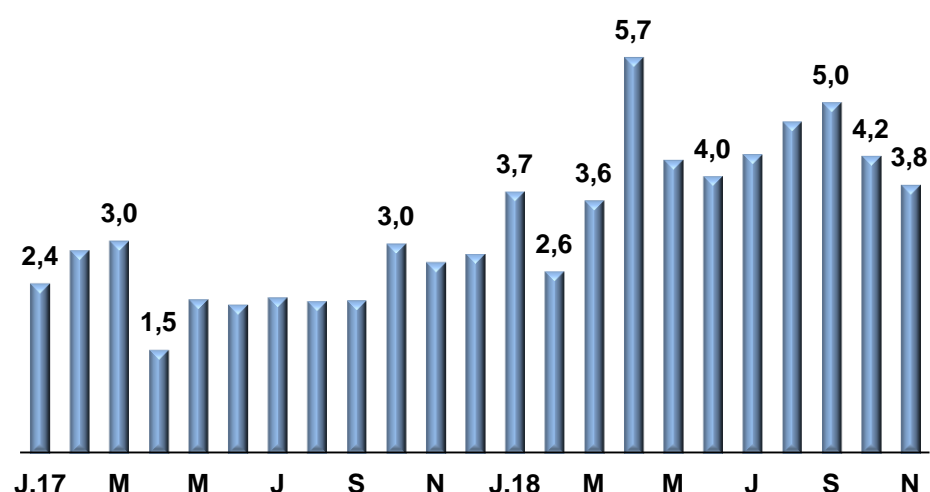
\*Forecast. Inflation Report December 2018.  
Source: BCRP.

# Private consumption has been driven by favorable labor market conditions and ...

**Wage bill**  
(YoY % nominal change)



**Private Formal Employment**  
(YoY % change)

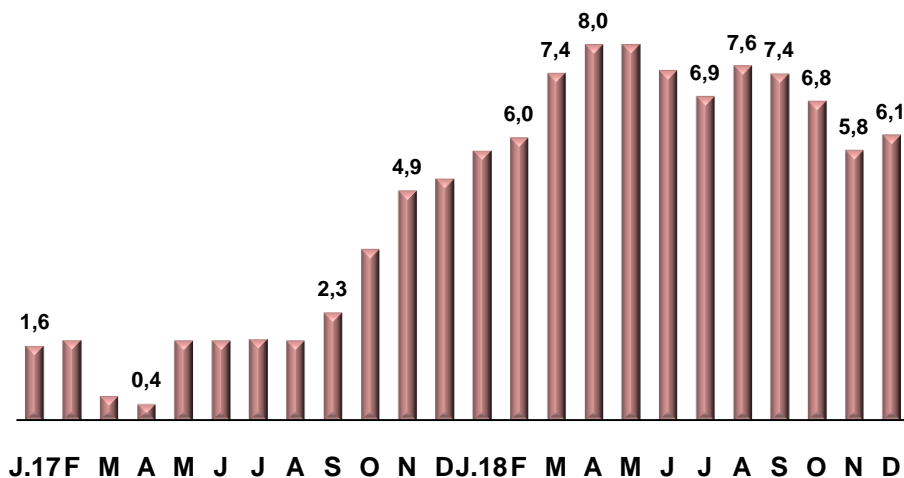


Source: SUNAT.

Jan-Nov. 2018	
<b>Total</b>	<b>4.2</b>
Agriculture and livestock	19.7
Agricultural exports	13.2
Business advisory activities	8.1

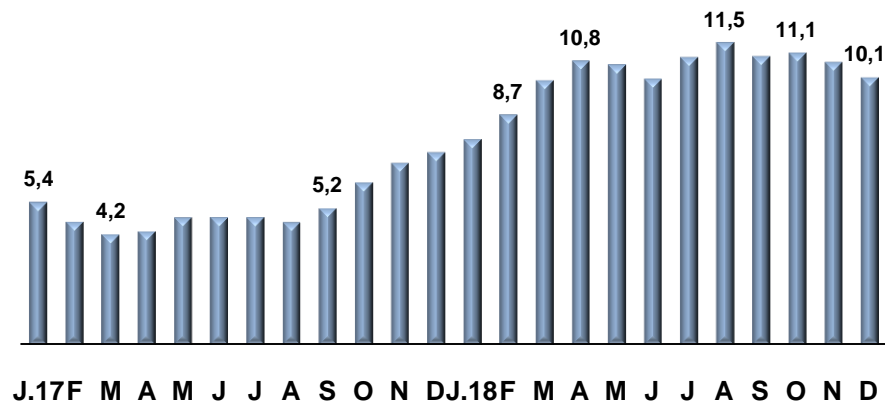
... financial sector indicators continue showing signs of greater dynamism.

**Credit to the Private Sector**  
(YoY real % change)

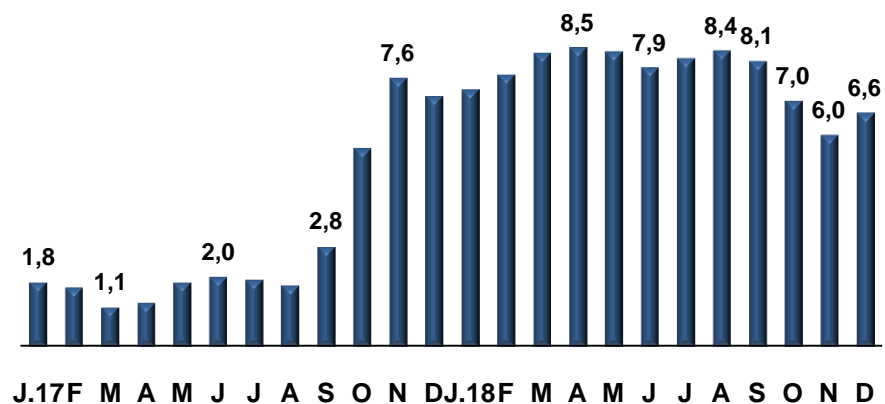


Source: BCRP.

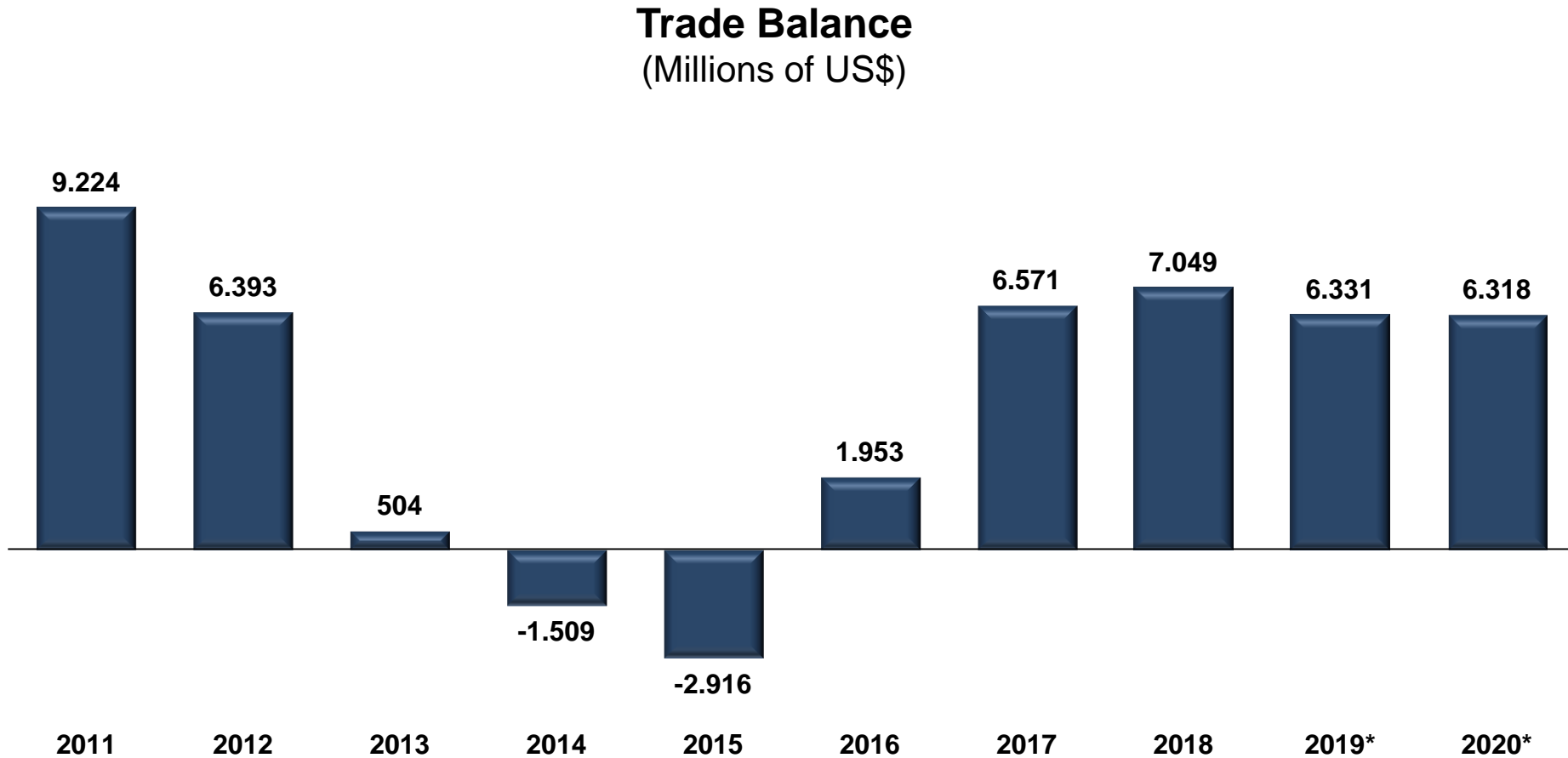
**Consumption**  
(YoY real % change)



**Mortgages**  
(YoY real % change)



Since 2017 the trade surplus has been more than US\$ 6 billion.



\* Forecast.  
Source: BCRP.

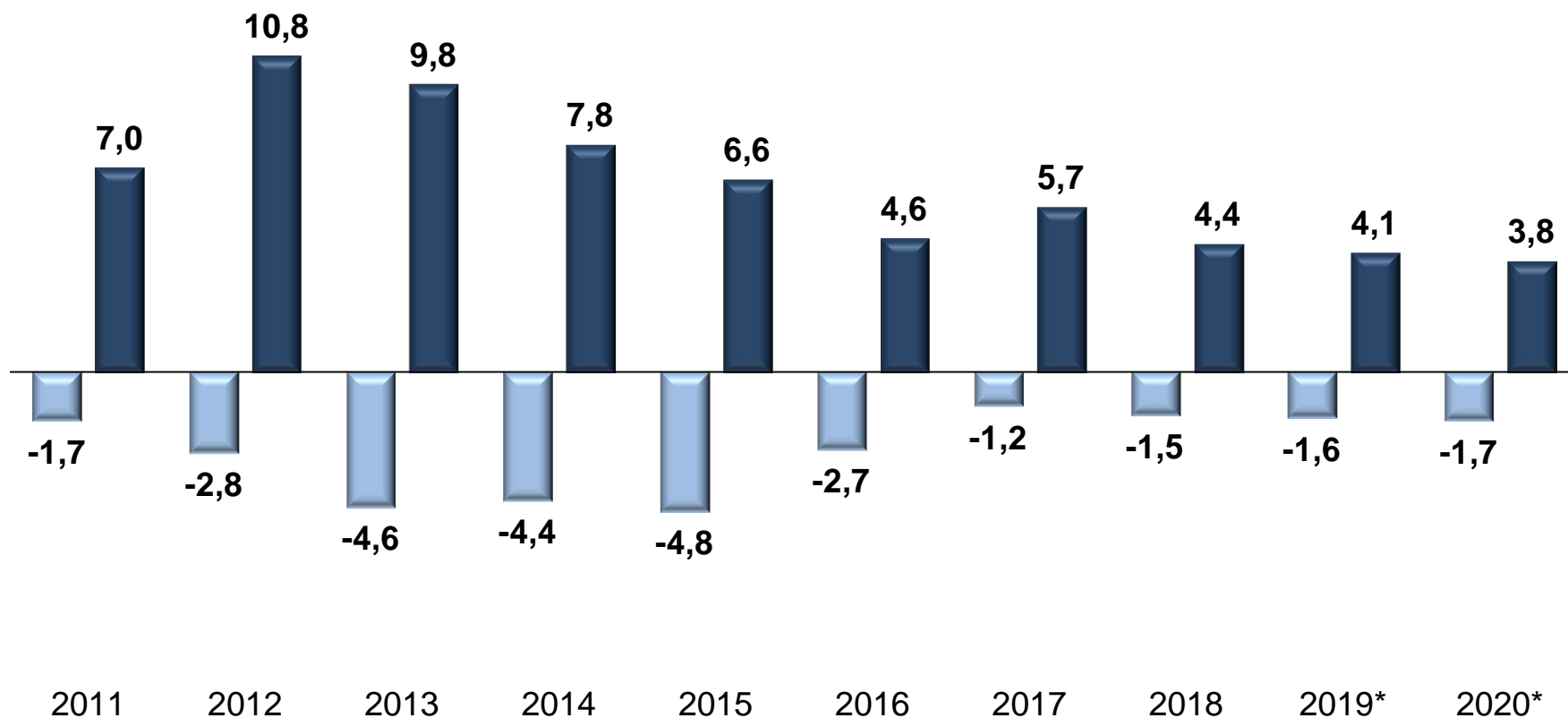


# The current account deficit is financed by long-term private capital inflows, mainly FDI.

## CURRENT ACCOUNT AND LONG-TERM EXTERNAL FINANCING OF THE PRIVATE SECTOR<sup>1/</sup>

(% GDP)

■ Current Account   ■ Long-term External Financing of the Private Sector



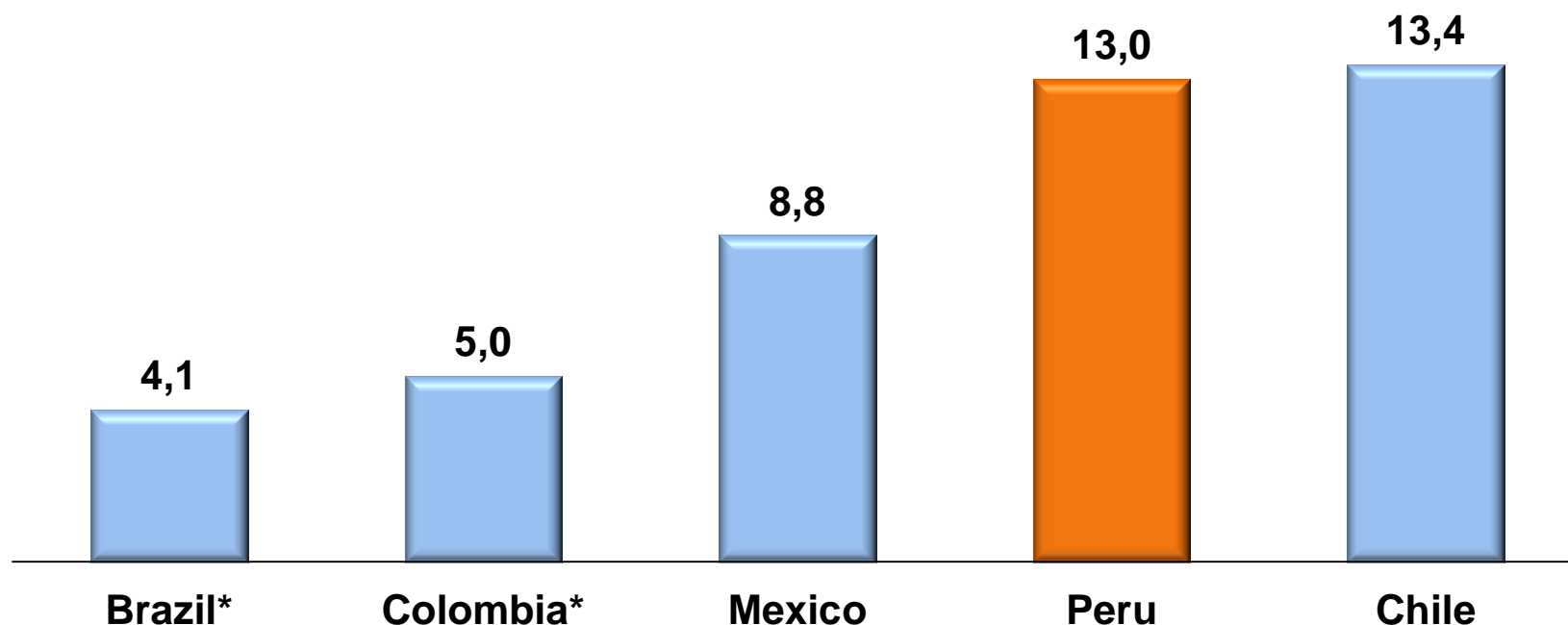
\*Forecast.

1/ Includes net foreign investments, portfolio investment and private sector's long-term disbursement.

Source: BCRP.

## Peru's non-Commodity export growth remains as the highest among LATAM-5.

**LATAM-5 Non-Commodity Exports:  
% change  
(Jan 2018 – Dec 2018 / Jan 2017 – Dec 2017)**



\*As of November 2018.

Chile: excludes mining exports; Colombia: excludes non-monetary gold, coffee, and oil/coal/ferronickel exports; Brazil: industrial exports (total and semi manufactured goods); Mexico: excludes oil exports.

Source: Country official statistics and UN Comtrade (world ranking).

## Mining exports reported a new high record in 2018: US\$ 29 billion.



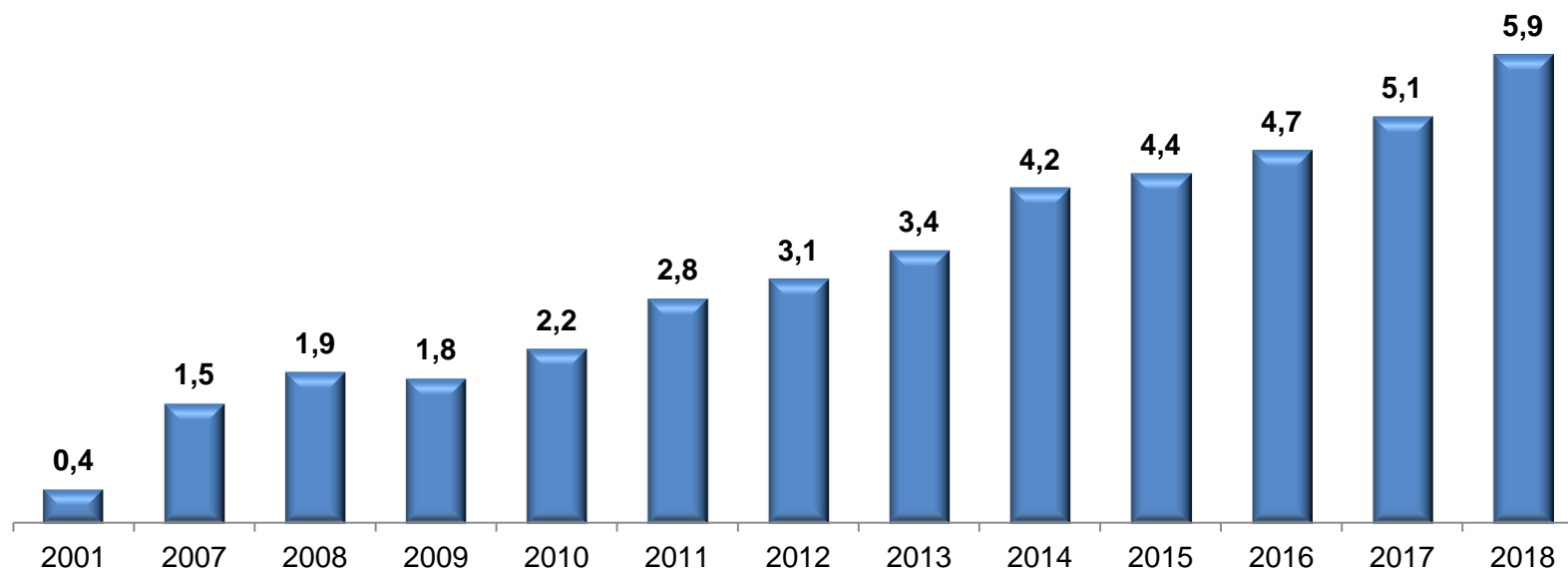
Share of the world (2017) 1/	Copper (2)	Silver (2)	Zinc (2)	Lead (4)	Molybdenum (4)	Tin (6)	Gold (6)
Production	12.1%	18.0%	10.6%	6.4%	9.0%	6.2%	4.9%
Reserves	10.2%	17.5%	12.2%	6.8%	12.9%	2.2%	4.3%

1/ Mining production.

Source:

# Mining and agricultural non-commodity exports have risen throughout the last years.

**Agricultural non-commodity exports**  
(US\$ Billions)



Share of the world (2017)	Asparagus (2)	Blueberries (2)	Avocados (3)	Mangoes (4)	Paprika (4)	Grapes (6)	Tangerines (6)
Export (US\$ millions)	30.1%	15.8%	10.0%	8.6%	4.3%	8.0%	4.0%

Source: Comtrade

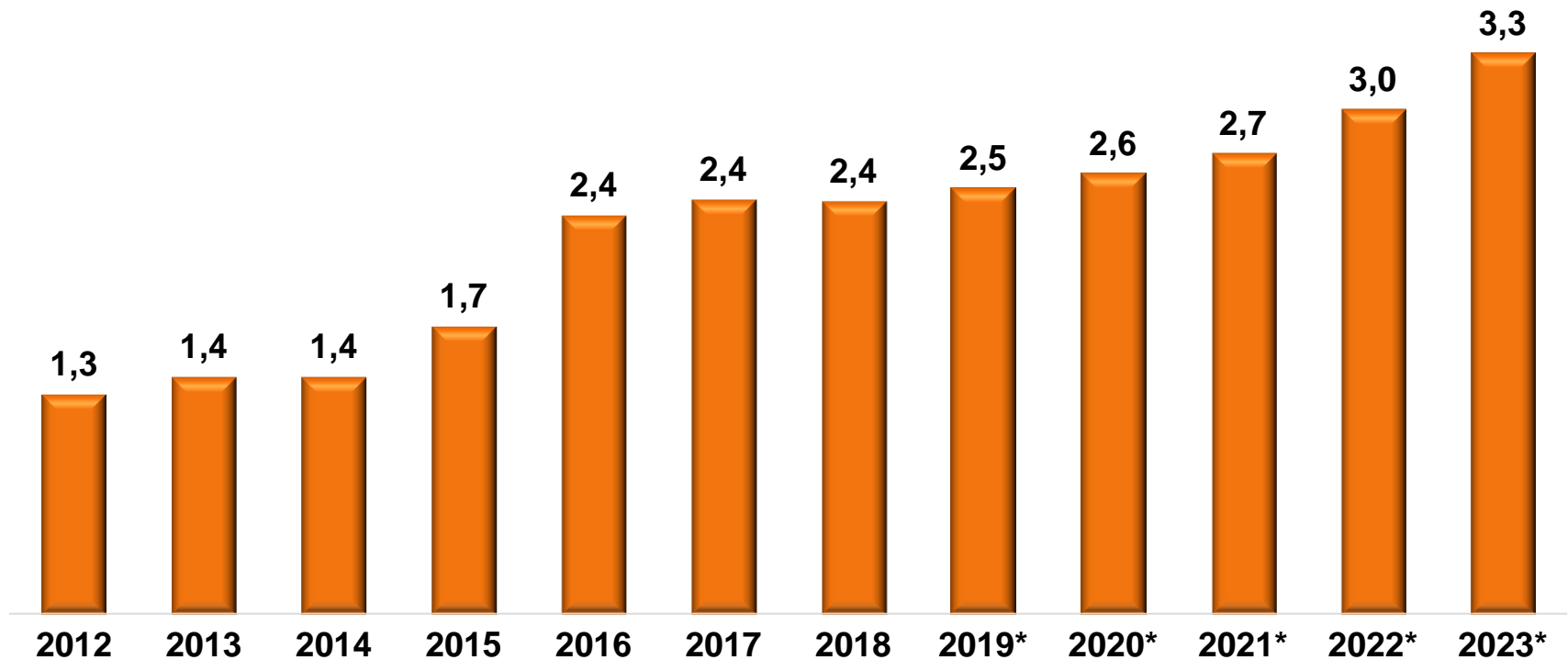
## Economic growth in 2019 and 2020 will be led by the non-extractive industries (construction) and the recovery of mining production.

GDP BY INDUSTRY (YoY real % change)					
	2016	2017	2018	2019*	2020*
<b>Extractive industries</b>	<b>10.0</b>	<b>3.1</b>	<b>3.3</b>	<b>3.9</b>	<b>3.3</b>
Agriculture and livestock	2.7	2.6	7.5	4.0	4.0
Fishing	-10.1	4.7	39.7	-6.7	5.4
Mining	21.2	4.5	-1.5	5.3	3.0
Oil & Carbons	-5.1	-2.4	0.0	4.4	-0.5
Manufacturing	-0.6	1.9	13.2	0.0	5.5
<b>Non-extractive industries</b>	<b>2.5</b>	<b>2.3</b>	<b>4.2</b>	<b>4.0</b>	<b>4.2</b>
Manufacturing	-1.6	-0.9	3.7	3.8	3.8
Electricity and water	7.3	1.1	4.4	4.0	4.0
Construction	-3.2	2.1	5.4	6.9	7.5
Commerce	1.8	1.0	2.6	3.4	3.5
Services	4.0	3.3	4.4	3.9	4.0
<b><u>GDP</u></b>	<b><u>4.0</u></b>	<b><u>2.5</u></b>	<b><u>4.0</u></b>	<b><u>4.0</u></b>	<b><u>4.0</u></b>

\*Forecast. Inflation Report December 2018.  
Source: BCRP.

**With this investment profile, copper production will expand up to 3.3 millions of MT in 2023.**

**Copper production, 2012-2023**  
Millions of MT

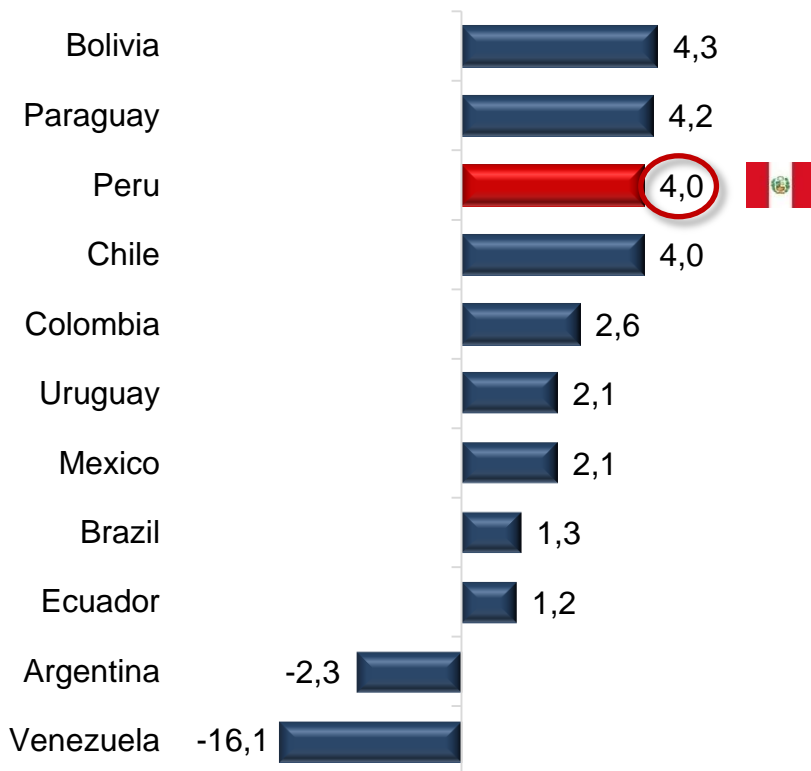


\*Forecast  
Source: BCRP.

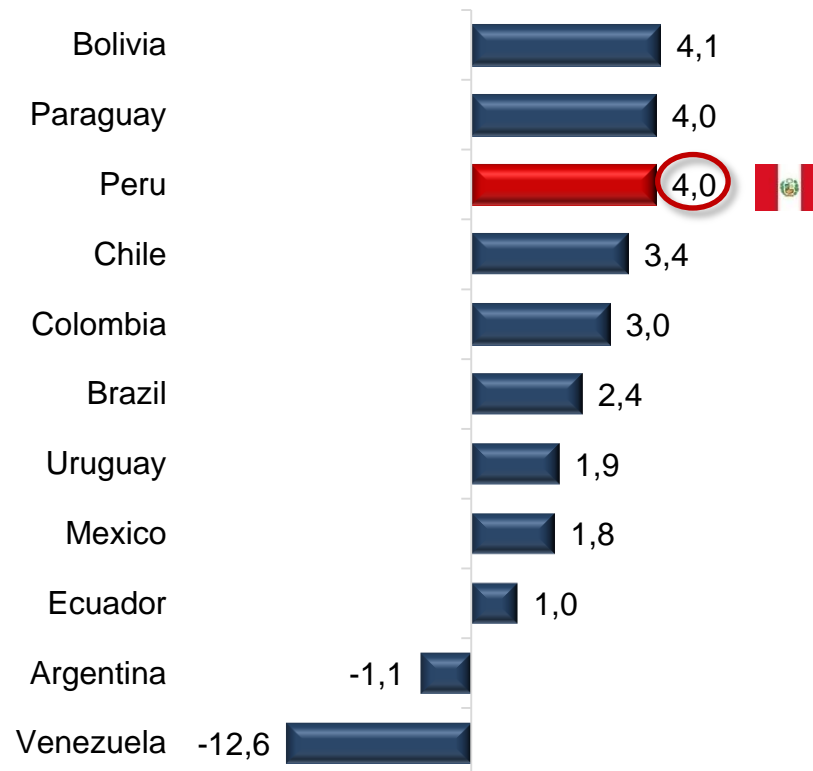
## In 2018 and 2019, Peru's growth will be among the highest in the region.

### Latin America: GDP (YoY % change)

2018



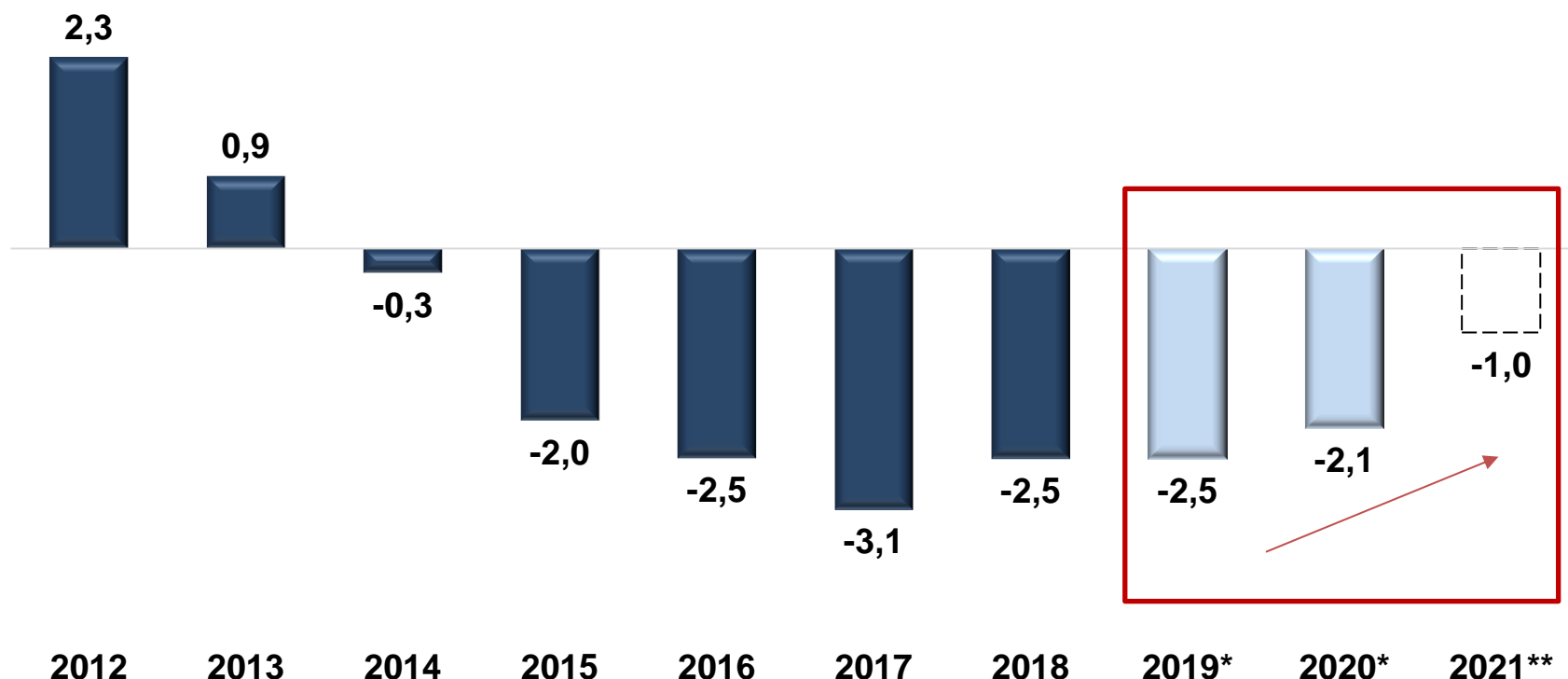
2019



Source: Latin America Consensus Forecast (Jan 2018) and BCRP (Peru).

**In the next two years, the fiscal deficit is expected to reduce gradually due to the government's fiscal consolidation process.**

**OVERALL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR:  
2012 - 2021  
(% of GDP)**



\*Forecast.

\*\*Deficit target derived from the fiscal consolidation process.

Source: BCRP.



# Contents

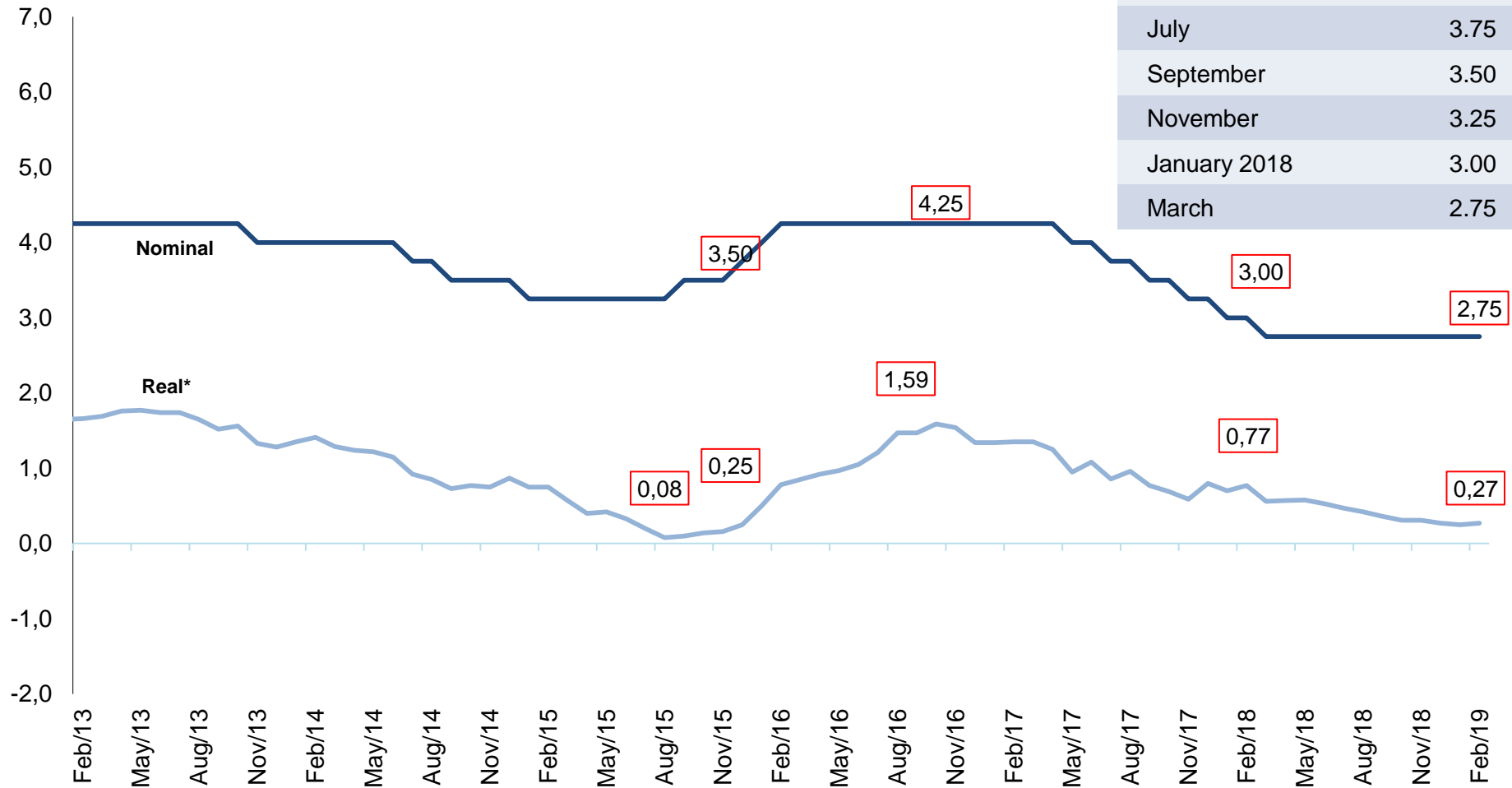
**Sound Macroeconomic Fundamentals**

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**Monetary Policy Stance**

# Accommodative monetary policy stance

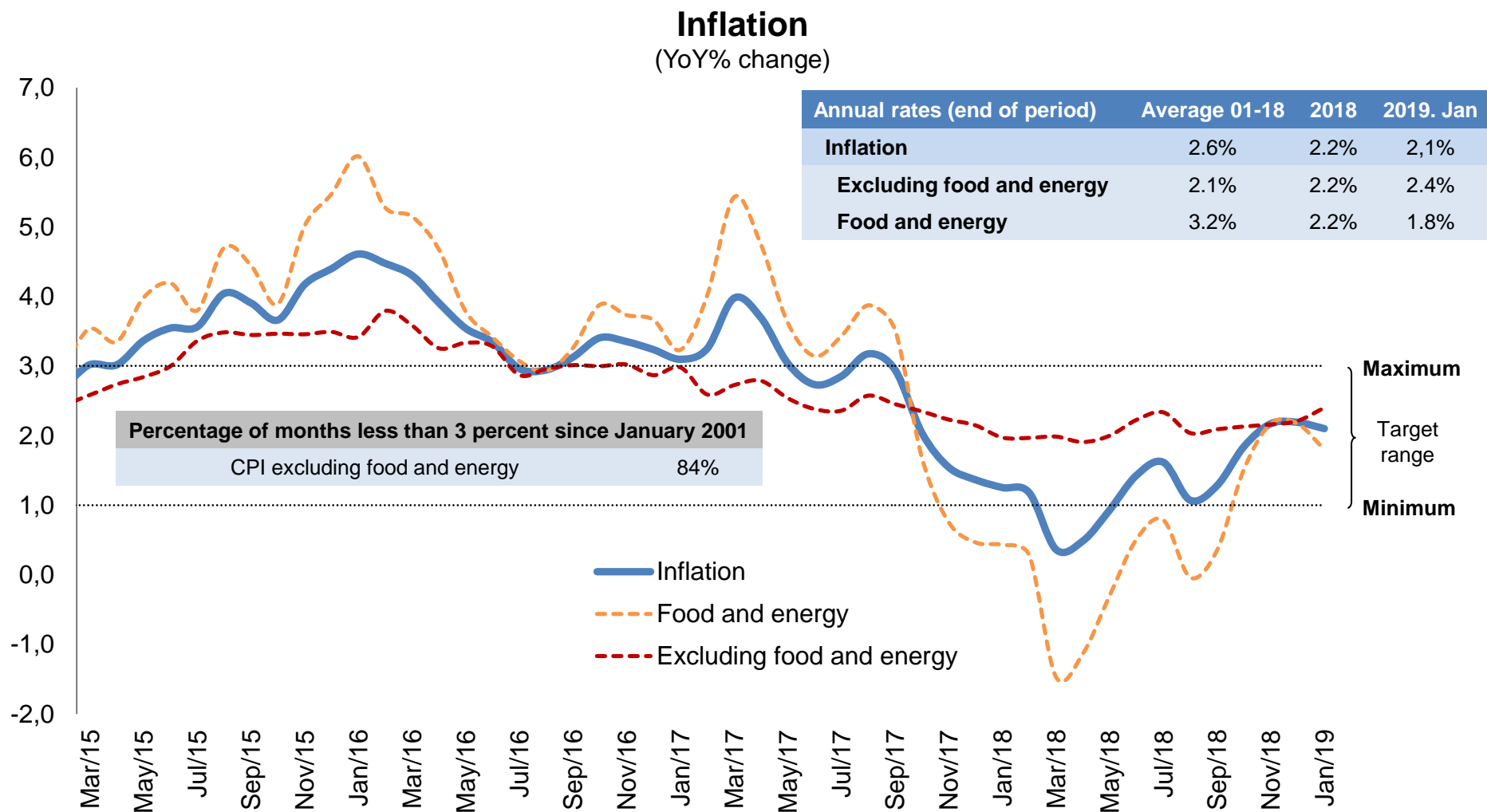
## Nominal and Real Reference Rate (%)



\* Ex-ante (with expected inflation).

Source: BCRP.

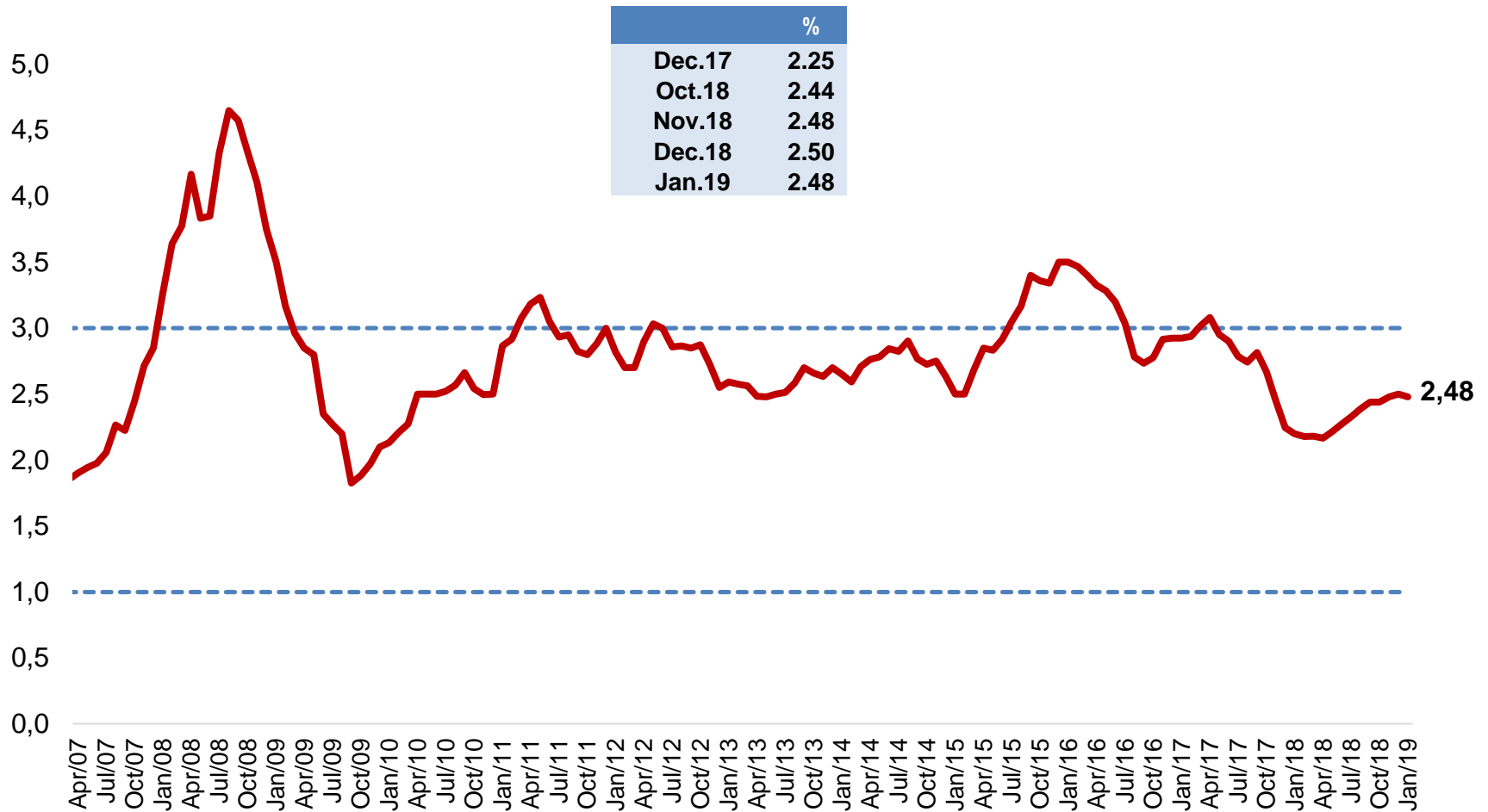
# Inflation has remained in the target range since June and has been around 2% since November.



Source: BCRP.

# Inflation expectations remain in the target range.

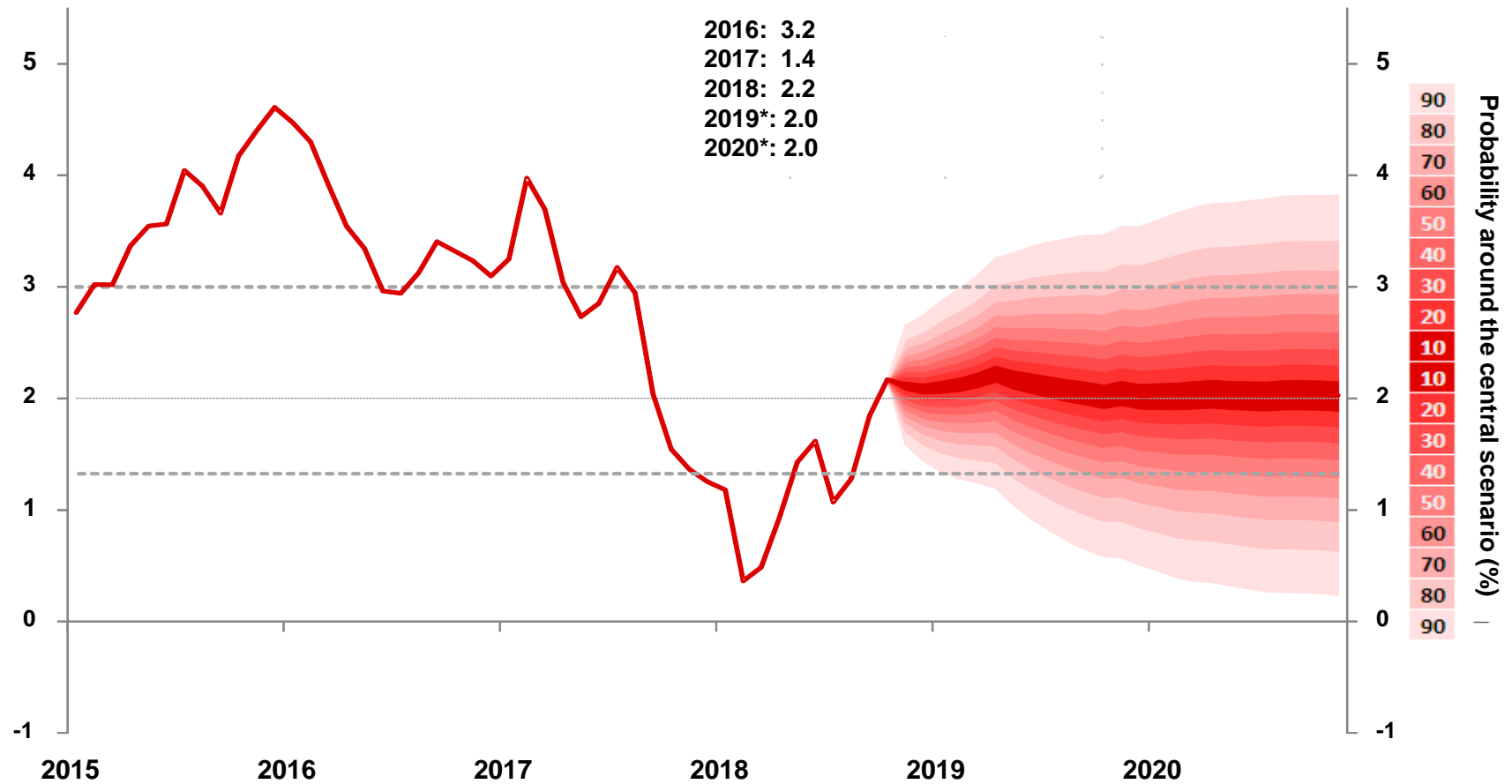
## 1-Year Ahead Inflation Expectations (%)



Source: BCRP.

# Inflation is expected to remain around the target center.

## Inflation forecast 2019-2020 (YoY % change)

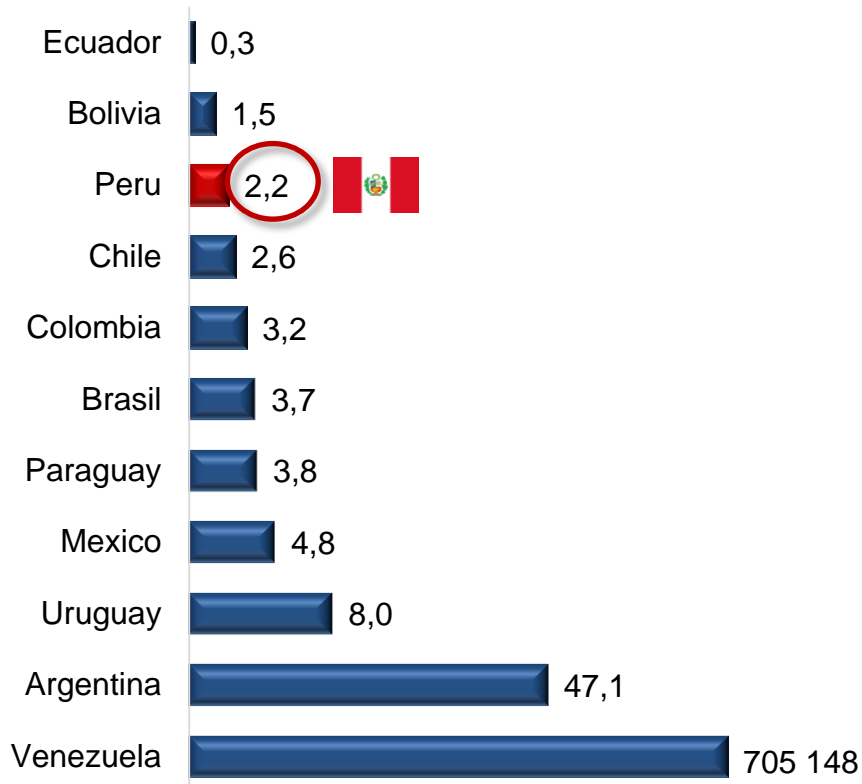


\* Forecast  
Source: BCRP.

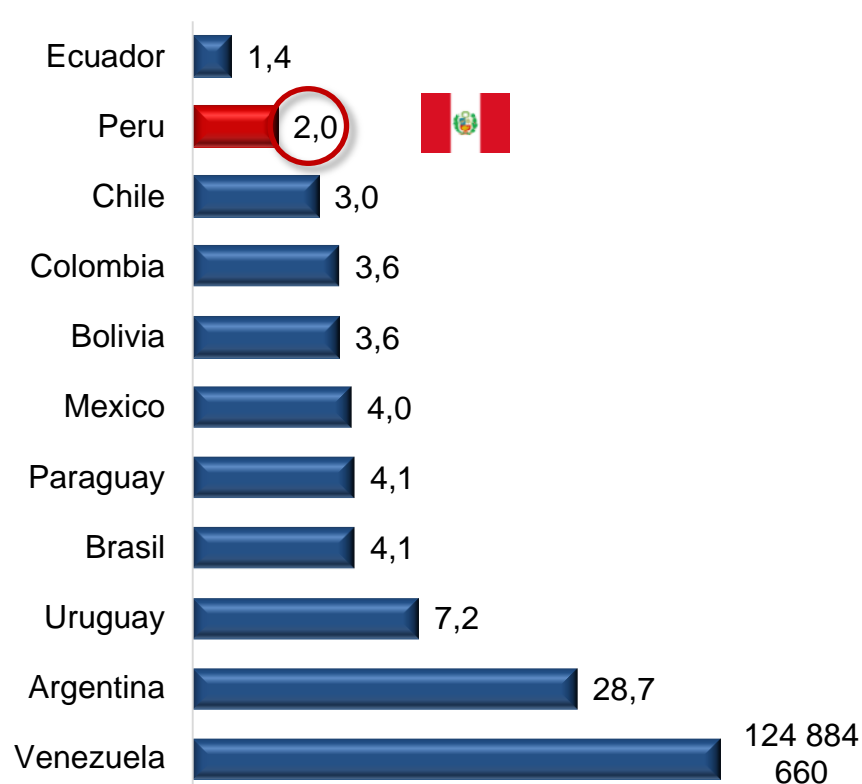
# Inflation in Peru will continue to be one of the lowest in the region.

## Latin America: Inflation (YoY % change)

2018



2019



Source: Latin America Consensus Forecast (Jan 2019) and BCRP (Peru).



BANCO CENTRAL DE RESERVA DEL PERÚ



# Monetary Policy and macroeconomic Stability

**Julio Velarde**  
**Governor**  
**Central Reserve Bank of Peru**

**February 2019**

