

PERU

Key conditions and challenges

Table 1	2023
Population, million	34.4
GDP, current US\$ billion	267.6
GDP per capita, current US\$	7789.3
International poverty rate (\$2.15) ^a	2.7
Lower middle-income poverty rate (\$3.65) ^a	9.5
Upper middle-income poverty rate (\$6.85) ^a	32.2
Gini index ^a	40.3
School enrollment, primary (% gross) ^b	107.7
Life expectancy at birth, years ^b	72.4
Total GHG emissions (mtCO2e)	183.2

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2022), 2017 PPPs.
 b/ WDI for School enrollment (2022); Life expectancy (2021).

GDP growth is expected to be 2.7 percent in 2024, following a contraction in 2023 due to adverse climatic events, social unrest, and weak business confidence.

Poverty is projected to decrease slightly to 33.2 percent in 2024. Risks include the potential intensification of El Niño and political uncertainty. Overcoming structural challenges related to low-productivity jobs and low-quality public services is critical to boosting long-term growth and poverty reduction.

Peru has recently concluded a decade of low growth (2014-2023), marked by limited advancements in creating quality jobs and reducing poverty. This contrasts sharply with the preceding decade (2004-2013), which saw rapid growth and consistent poverty reduction, fueled by capital accumulation and productivity gains underpinned by sound macroeconomic policies and favorable terms of trade. The macroeconomic environment is characterized by low public debt, ample international reserves, and a credible central bank and the financial system is well-capitalized and resilient to liquidity shocks. However, the economy is susceptible to commodity price fluctuations due to its reliance on mineral exports. Additionally, Peru's vulnerability to climate change is high due to its exposure to natural hazards and dependence on glacial freshwater. Structural constraints, such as subpar services and infrastructure quality limit formal job creation, economic diversification, and the pace of poverty and inequality reduction. By 2022, 32 percent of Peruvians lived on less than US\$ 6.85 per capita per day, largely due to low-paying jobs and insufficient social protection. Furthermore, food insecurity affected half of the population, a twofold increase since the pandemic. Enhancing the quality of public services, governance, and the business environment while ensuring political stability

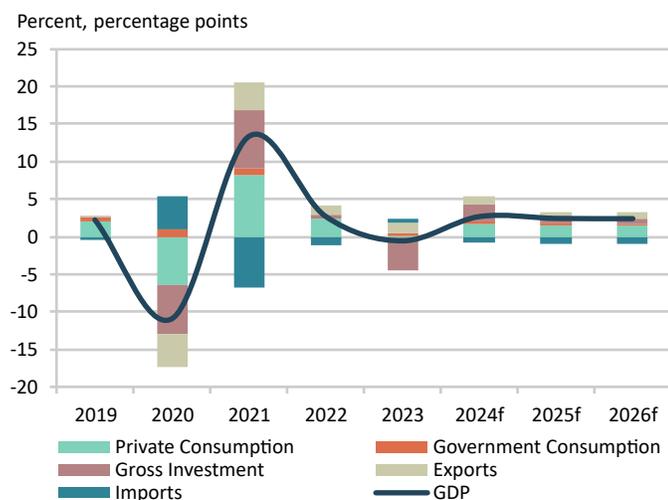
is crucial to achieve higher growth that combats poverty and inequality.

Recent developments

In 2023, real GDP shrank by 0.6 percent, impacted by adverse weather, social unrest, and faltering business confidence. El Niño and road blockades disrupted production in several regions, particularly in agriculture, fishing, and related manufacturing sectors. The mining sector, buoyed by the Quellaveco mine, grew by 9.5 percent, while the service sector saw a modest 0.6 percent growth. Domestic demand fell primarily due to weaker private investment and consumption, stymied by low business and consumer confidence, China's economic slowdown, tight financial conditions, and high inflation. The recession in 2023 adversely affected the labor market, with employment dropping by 0.9 percent, especially in small firms. Real wages rose by 3.5 percent but did not reach pre-pandemic levels. The share of people living under the US\$6.85 poverty line is estimated to have slightly risen to 33.8 in 2023, due to stagnant job quality and productivity. Inequality is believed to have increased with the Gini coefficient rising from 40.3 to 41.4.

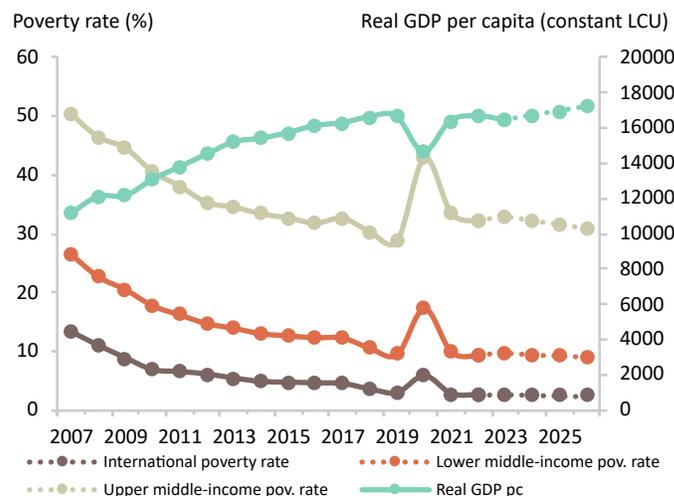
The fiscal deficit widened to 2.8 percent of GDP in 2023, exceeding the fiscal target by 0.4 percentage points. This marks the first time in 22 years that Peru has failed to accomplish its fiscal rule. Government revenues dropped by 2.3 percentage points of GDP from 2022, due to reduced corporate

FIGURE 1 Peru / Real GDP growth and contributions to real GDP growth



Sources: BCRP and World Bank staff calculations.

FIGURE 2 Peru / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

income and value-added tax collections, reflecting lower mining prices and subdued economic activity. Expenditures decreased by 1.1 percentage points of GDP, reflecting the phasing out of emergency COVID-19 spending. Public debt (32.4 percent of GDP) and sovereign spreads (at around 170 basis points) remained among the lowest in the region.

Inflation decreased through 2023, reaching 3.0 percent by January 2024, within the Central Bank's target band (1-3 percent). Core inflation, excluding food and energy prices, was at 2.9 percent. Inflation expectations remained anchored at 2.6 percent, supported by the Central Bank's tightening measures and falling global fuel prices. The Central Bank reduced its reference policy rate, from 7.75 percent in August 2023 to 6.25 percent in January.

The current account closed 2023 with a 0.6 percent surplus in 2023, attributed to reduced import values and a smaller primary income deficit amid declining import prices and a contraction in domestic demand. The local currency appreciated by nearly 2.6 percent over the year, mirroring the global decline of the dollar. Net international reserves amounted to 26.5 percent of GDP in 2023, down from 29.3 percent in 2022, due to higher FX sales operations with the public sector.

Outlook

GDP growth is projected at 2.7 percent for 2024 as the negative shocks of 2023 subside. Monetary easing should bolster private spending. Public spending is anticipated to aid recovery, especially with improved execution of capital expenditure at the subnational level in the second year of their mandate. Potential growth is likely to stay at pre-pandemic levels due to ongoing institutional risks and China's decelerating growth, Peru's main trading partner. Over the medium term, GDP is expected to grow at an annual rate of 2.4 percent, primarily supported by exports from new mine projects (Quellaveco, Toromocho expansion).

The fiscal deficit is expected to narrow to 2.4 percent in 2024 due to a revenue recovery, which is supported by strong domestic demand, supportive mining prices and reforms of the tax administration. The deficit will, however, remain above the fiscal target due to spending pressures from increased public salaries and improved budget execution of subnational governments. Fiscal consolidation will continue in the coming years, however, the slower path

would postpone the return to the one-percent target in 2026. Public debt is projected to remain stable at around 34 percent of GDP. Annual inflation will remain within the target range of 1-3 percent in 2024, supported by the easing of output shocks and moderate domestic demand growth. Inflation expectations would remain within the target range. The Central Bank is expected to reduce the interest rate further until it converges to its natural rate of 2 percent.

The current account deficit is anticipated to widen slightly due to increased import values and higher expected profits from FDI as domestic demand recovers. FDI inflows are expected to remain above 2 percent of GDP as some medium-size projects (Zafranal, Antamina reposition, Taromocho expansion phase II) enter their execution phase.

Domestic and external risks persist. Domestically, continued political uncertainty could undermine private investment and exports. A stronger-than-expected El Niño could further impact agriculture and fishing. A delayed decrease in inflation could postpone the easing of financial conditions and the revival of domestic demand. External risks include lower-than-anticipated growth in China, a more rapid global economic slowdown, falling commodity prices, rising interest rates, and escalating climate change threats.

TABLE 2 Peru / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	13.4	2.7	-0.6	2.7	2.4	2.4
Private consumption	12.5	3.6	0.1	2.6	2.3	2.3
Government consumption	5.0	-0.2	3.2	2.0	2.0	2.0
Gross fixed capital investment	37.3	1.7	-12.5	11.3	2.8	2.8
Exports, goods and services	14.4	4.5	5.1	3.5	3.2	3.2
Imports, goods and services	25.6	4.0	-1.8	2.5	3.1	3.1
Real GDP growth, at constant factor prices	13.1	2.8	-0.4	2.7	2.4	2.4
Agriculture	5.3	3.1	-3.9	3.7	3.0	2.4
Industry	17.2	1.5	-1.3	2.7	2.1	2.1
Services	11.5	3.5	0.6	2.6	2.6	2.6
Inflation (consumer price index)	4.0	7.9	6.3	2.6	2.3	2.3
Current account balance (% of GDP)	-2.2	-4.0	0.6	-1.3	-1.2	-1.2
Net foreign direct investment inflow (% of GDP)	2.5	4.6	1.0	2.6	2.5	2.5
Fiscal balance (% of GDP)	-2.5	-1.7	-2.8	-2.4	-2.0	-1.5
Revenues (% of GDP)	21.1	21.8	19.8	20.2	20.4	20.5
Debt (% of GDP)	35.9	33.8	32.9	33.5	33.8	33.8
Primary balance (% of GDP)	-1.0	-0.1	-1.1	-0.8	-0.4	-0.1
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	2.8	2.7	4.2	3.6	3.1	2.6
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	10.0	9.5	11.4	10.6	10.0	9.3
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	33.4	32.2	33.8	33.2	32.5	31.8
GHG emissions growth (mtCO₂e)	2.0	0.8	-0.9	-0.5	-0.4	-0.4
Energy related GHG emissions (% of total)	25.4	25.8	24.9	24.2	23.8	23.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on SEDLAC harmonization, using 2022-ENAH0. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.

b/ Projections using microsimulation methodology.