

PERU

Table 1 **2021**

Population, million	33.4
GDP, current US\$ billion	223.2
GDP per capita, current US\$	6691.2
International poverty rate (\$2.15) ^a	5.8
Lower middle-income poverty rate (\$3.65) ^a	17.4
Upper middle-income poverty rate (\$6.85) ^a	42.7
Gini index ^a	43.8
School enrollment, primary (% gross) ^b	121.0
Life expectancy at birth, years ^b	76.9
Total GHG emissions (mtCO2e)	190.2

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2020), 2017 PPPs.
 b/ Most recent WDI value (2020).

Peru's economy is expected to grow somewhat below the pre-pandemic pace in 2022-24, supported by higher exports, while domestic demand is expected to slow down, in the context of low business confidence, lower growth of trading partners, and volatile energy prices. Poverty is projected to remain above pre-pandemic levels, hampered by the lower quality of employment. Overcoming structural challenges related to low-productivity jobs and low-quality public services is critical to boost long-term growth and poverty reduction.

Key conditions and challenges

Peru's macroeconomic fundamentals remain solid, including a relatively low public debt to GDP ratio, considerable international reserves, and a credible central bank. However, important structural weaknesses related to widespread informality, limited economic diversification, and weak state capacity have led to a significant slowdown in GDP growth since the end of the commodity boom in 2014, attenuating the pace of poverty and inequality reduction. Progress in reducing the size of the informal sector, which employs three-quarters of workers in low-productivity jobs, has been scant. In addition, low-quality government services, including in education, health, and water, hamper growth and poverty reduction. They also made the country more vulnerable to the COVID-19 pandemic, placing Peru as one of the leading countries in mortality rates associated with the virus. The strict measures adopted to limit negative health outcomes led to significant losses in output and an increase in poverty of over 13 percentage points (\$6.85 poverty line) during 2020.

Recent developments

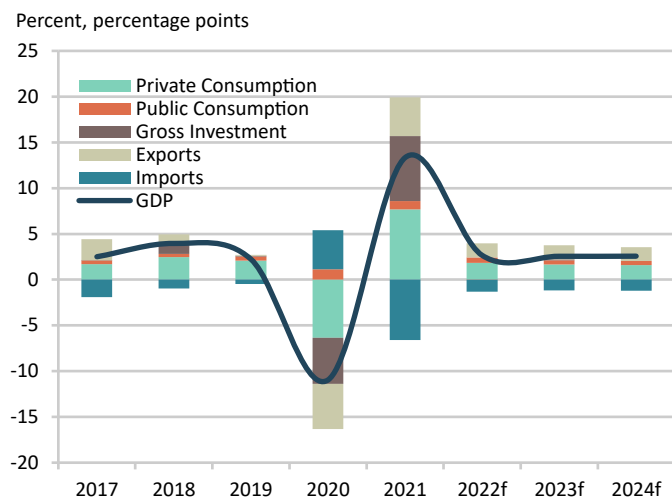
GDP grew by 3.5 percent y-o-y in the first half of 2022, led by higher activity in manufacturing, construction, and services, and

supported by considerably fewer restrictions than the previous year's first semester. However, the recovery in poverty has been slow, due to the sluggishness of real wages, still 12 percent below their 2019 level, and the lower average quality of jobs, with underemployment and informality rates higher by 4 p.p. compared to their pre-pandemic rates. Also, existing inequalities between formal and informal workers have widened, as the ratio of formal to informal average wage went from 2.3 pre-pandemic to 2.4 in 2021.

The annual fiscal deficit continued trending downwards and stood at 1.2 percent of GDP by July 2022, compared to 2.5 percent in December 2021. The reduction was mainly driven by the increase in fiscal revenues, associated with the higher collection of corporate income tax in the context of high mineral prices. In this context, public debt stood at 34 percent of GDP by June 2022, two percentage points below its level in December 2021.

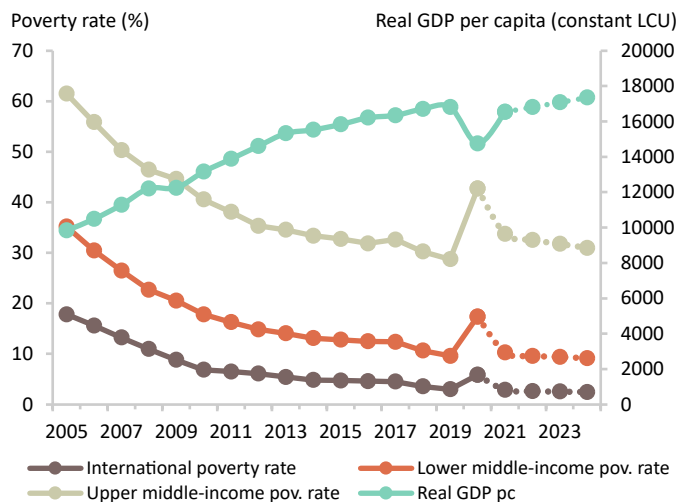
Annual inflation reached 8.4 percent by August 2022, below its peak in June, but still markedly higher than its 2.8 percent average in the decade before the pandemic. The sizable increase in liquidity to counteract the fall in demand during the COVID-19 crisis ignited an upward trend in inflation since mid-2021, which was subsequently exacerbated by the increase in food and energy prices linked to the Russia-Ukraine conflict. Rising prices led to higher food insecurity among the poor, as they spend on it a higher percentage of their budget. To curb inflation, the Central Bank tightened its monetary policy by elevating the reference policy rate by 650 basis points since August

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



Sources: Central Bank and World Bank staff.

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



Source: World Bank. Notes: See Table 2.

2021, to 6.75 percent currently. To counteract food insecurity, the Government launched a one-time cash transfer to be distributed by end-2022.

The current account deficit reached 5.6 percent of GDP during the first semester, driven by higher outflows to remunerate foreign capital, in the context of record mineral prices and higher profits of mining companies. These additional outflows markedly surpassed the increase in mining exports and the surplus trade balance.

Outlook

GDP is expected to grow by about 1.7 percent y-o-y in the second semester, completing a 2.7 percent expansion in 2022. Activity would be supported by higher mining exports but would also reflect a slowdown in domestic demand. Private investment would be stagnant in a context where business confidence is low due to political instability. The recovery of high-quality jobs, more dependent on private investment, will be slow, limiting productivity gains and workers' income.

Over the medium term, output is expected to expand at around 2.6 percent annually, somewhat below the pre-pandemic trend. GDP growth would be mainly supported

by higher exports, due to the entry into production of new important mines, such as Quellaveco. Private spending would continue expanding slowly in the context of low business confidence, lower expected growth for trading partners, and volatility in energy prices. Expansion of public spending will be restricted by the fiscal consolidation mandated by fiscal rules. Although output is projected to remain above the pre-pandemic level, poverty is expected to decline just to 32.5 percent this year, still above its level in 2019. Setbacks in informal employment are not expected to be corrected in the medium term due to the persistence of job informality. In turn, poverty is projected to decline to 31 percent by 2024, still higher than its pre-pandemic level of 28.7 percent.

The public deficit is projected to slightly increase next year, mainly due to an anticipated reduction in revenues, given the correction in mining prices. However, the trajectory of the deficit would remain in line with fiscal rules, converging to 1 percent by 2026. This consolidation would entail a moderate effort on expenditures, especially those related to extraordinary transfers. Thus, public debt is projected to remain stable in 2022-24, at around 35 percent.

The current account deficit would moderate in the second semester of 2022, finishing the year above 3 percent of GDP. Over

the medium term, it is expected to decline mainly due to higher exports and the normalization of mining companies' profits, in line with the correction of mineral prices.

Annual inflation is expected to follow a decreasing trend in the coming years, due to the moderation in domestic demand, accompanied by the tightening measures taken by the Central Bank. Thus, inflation is expected to return to its target range of 1 – 3 percent by the end of 2023, providing some support to poverty reduction.

The balance of risks is tilted to the downside. Political volatility might continue introducing uncertainty around the future policy agenda, undermining business confidence and investment prospects. Low citizen support for Congress and the Executive Branch could eventually translate into greater government spending, compromising fiscal objectives. An eventual misalignment of fiscal and monetary policies might also pose a risk to inflation reduction. The economy is also vulnerable to lower growth of main trading partners, capital outflows, sudden reductions in prices of minerals, increases in the international price of fuels, and natural disasters. A positive development is that the ongoing energy transition is expected to provide support to the long-term price of copper, Peru's main export product.

TABLE 2 Peru / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.2	-11.0	13.3	2.7	2.6	2.6
Private Consumption	3.2	-9.8	11.7	2.9	2.5	2.5
Government Consumption	3.6	9.1	6.0	4.0	3.2	3.2
Gross Fixed Capital Investment	2.9	-16.2	34.1	0.0	0.5	0.9
Exports, Goods and Services	0.3	-18.2	17.1	6.1	5.7	5.5
Imports, Goods and Services	1.7	-15.4	25.1	4.5	4.0	4.0
Real GDP growth, at constant factor prices	2.2	-10.9	12.8	2.7	2.6	2.6
Agriculture	1.5	1.0	3.7	1.8	2.0	2.0
Industry	-0.1	-13.3	16.4	3.3	4.3	4.0
Services	3.8	-10.7	11.8	2.4	1.5	1.7
Inflation (Consumer Price Index)	2.1	1.8	4.0	7.4	4.3	2.5
Current Account Balance (% of GDP)	-0.7	1.2	-2.3	-3.5	-2.5	-0.8
Net Foreign Direct Investment Inflow (% of GDP)	2.2	-0.4	2.5	2.7	2.3	2.2
Fiscal Balance (% of GDP)	-1.6	-8.9	-2.5	-2.1	-2.4	-2.0
Debt (% of GDP)	26.6	34.6	35.9	35.2	35.9	35.8
Primary Balance (% of GDP)	-0.2	-7.3	-1.0	-0.2	-0.5	-0.5
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	3.0	5.8	2.9	2.6	2.5	2.5
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	9.6	17.4	10.2	9.6	9.4	9.1
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	28.7	42.7	33.8	32.5	31.8	31.0
GHG emissions growth (mtCO₂e)	1.5	-2.6	2.4	1.1	0.9	0.8
Energy related GHG emissions (% of total)	28.2	27.0	28.3	28.7	29.0	29.2

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

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ Calculations based on SEDLAC harmonization, using 2021-. Actual data: 2021. Forecasts are from 2022 to 2024.

b/ Projections using microsimulation methodology.