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## Latam Daily: Peru's New Central Bank Projections for 2022

- **Peru: New Central bank projections for 2022: cautious forecasting with some unknowns ahead**

### PERU: NEW CENTRAL BANK PROJECTIONS FOR 2022: CAUTIOUS FORECASTING WITH SOME UNKNOWNNS AHEAD

The BCRP released its quarterly [Inflation Report](#) on Friday, December 17. The BCRP updates its forecasts on a quarterly basis in this publication and provides its view on the economic and monetary outlook going forward (see table 1 for all updated forecasts).

**One of the key modifications in Friday's report was a substantial increase in the BCRP inflation forecast for 2021, from 4.9% to 6.2%. More importantly, the BCRP raised its forecast for 2022 only very mildly, from 2.6% to 2.9%.** One gets the impression that the BCRP is not quite ready to signal that inflation could remain outside of its 3% target range ceiling next year. We, on the other hand, expect yearly inflation to end 2022 at 4.5%.

**BCRP guidance states that monetary policy would continue to be expansionary for a prolonged period of time, during which there will be a gradual withdrawal of monetary stimulus.** What this means, in our view, is that the BCRP will continue raising the reference rate, but not so aggressively as to surpass inflation expectations. In other words, it would seek to maintain a negative real reference rate throughout the foreseeable future, with the rate becoming less and less negative over time. The key here is inflation expectations, which the BCRP has just raised for 2022 from 2.8% to 3.5%. The assumption behind our forecast that the BCRP will raise the reference rate in 2022 to 4.0% is that inflation will surpass 7% early in the year, and that inflation expectations will be higher than the 3.5% that the BCRP is foreseeing.

**Overall, and aside from inflation, growth forecasts for 2022 appear to reflect a sense of uncertainty that many market analysts entertain.** The fact that the BCRP has not modified its GDP or domestic demand forecasts in this report may well reflect a stance that future growth is just too much of an open question to be making changes, at least until initial figures start to appear. Note, for the record, that the BCRP forecast of 3.4% GDP growth in 2022 compares with our expectation of 2.6%. The general story is the same as ours, growth that is relatively mediocre if you consider today's metal prices. Where we are in closer agreement is in low private investment, nil growth according to the BCRP and marginal 1% growth for us. The BCRP is one percentage point greater in its consumption forecast: 4.0%, to our 3.0%.

**Also of note is that, whereas the BCRP expects domestic demand growth to surpass aggregate GDP growth in 2021, in 2022 the BCRP expects domestic demand, with 3.0% growth, to underperform GDP growth (3.4%).** Thus, net exports will have a greater weight in growth. This is in part due to 2022 being the first full year of operation of the new Minas Justa mine. The risk, of course, is that social conflicts affect mining output significantly. Social conflicts have already shut down the Las Bambas mine indefinitely. The recent closure, the duration of which is hard to pre-determine, may not be sufficiently reflected in the BCRP forecasts.

**The other issue where uncertainty appears evident is in the BCRP forecast of nil net short-term capital outflow.** This seems optimistic, after an all-time high of over USD16 bn in 2021. Assuming nil net anything can sometimes be an easy way out when you're unsure of what to expect.

**Where the BCRP concern over political stability does filter through is in the change in forecast for the PEN depreciation in 2022 from 0.6% previously, to 2.7% currently.** In other words, despite strong and improving macro accounts, the BCRP expects the PEN to

continue to be under pressure, albeit of a milder magnitude compared to 2021.

**The BCRP is much more sure-footed regarding its fiscal forecasts, where they have made major changes. With Peru's 12-month fiscal deficit to November at 3.3% of GDP, the BCRP is keeping on trend in forecasting 3.1% for full-year 2021 (down from 4.0%) and 2.8% of GDP for 2022 (down from 3.4%, previously).** Although the changes are large, they are believable, given the current trend in fiscal accounts.

—Guillermo Arbe

**Table 1**

**Peru: BCRP Major Forecast Changes**

	2021		2022	
	Previous	New	Previous	New
Inflation	4.9	6.2	2.6	2.9
Inflation Expectations	3.7	5.8	2.8	3.5
PEN Depreciation	13.7	12.3	0.6	2.7
GDP Growth	11.9	13.2	3.4	3.4
Domestic Demand Growth	12.5	13.9	3.0	3.0
Private Consumption	9.2	11.2	4.0	4.0
Private Investment	24.5	36.0	0.0	0.0
Public Investment	20.0	21.9	4.5	4.5
Exports (volume)	11.9	13.3	6.4	7.5
Imports (volume)	14.5	16.3	4.4	4.3
BOP Current Account (% GDP)	-1.7	-1.9	0.2	-1.3
Trade Surplus (USD bn)	15.0	14.7	17.6	15.6
Short-term Net Capital Inflow (USD bn)	-13.9	-16.6	0.0	0.0
Fiscal Deficit (% GDP)	-4.0	-3.1	-3.4	-2.8
Public Debt Outstanding (% GDP)	34.9	36.8	34.7	35.9

Sources: Scotiabank Economics, BCRP.

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