

PERU

Table 1

	2023
Population, million	34.4
GDP, current US\$ billion	266.9
GDP per capita, current US\$	7768.5
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	107.4
Life expectancy at birth, years ^b	73.4
Total GHG emissions (mtCO2e)	185.9

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2022), 2017 PPPs.

b/ Most recent WDI value (2022).

GDP growth is expected to reach 3.1 percent in 2024, after a mild recession in 2023, which together with lower inflation is expected to drive down poverty rates to 33.1 percent in 2024. Risks include heightened political uncertainty, which could affect the well-established fiscal credibility. Overcoming structural challenges related to low-productivity jobs and low-quality public services is critical to boosting long-term growth and poverty reduction.

Key conditions and challenges

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. The macroeconomic environment is characterized by low public debt, ample international reserves, 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. Additionally, Peru's vulnerability to climate change is high due to its exposure to natural hazards and dependence on glacial freshwater.

Structural constraints limit formal job creation and the pace of poverty and inequality reduction. Informality affects 71.1 percent of workers and gender disparities are stark: women's monthly earnings are on average 25.7 percent lower than men's. By 2023, more than one in three Peruvians subsisted on less than US\$6.85 daily (2017 PPP), largely due to low-productivity jobs and inadequate social protection. Over half of the population faced food insecurity. Improving the quality of public services and infrastructure, governance and the business environment, while ensuring political stability, is crucial to achieving higher growth. Improving job quality, labor formalization, and gender equality in the

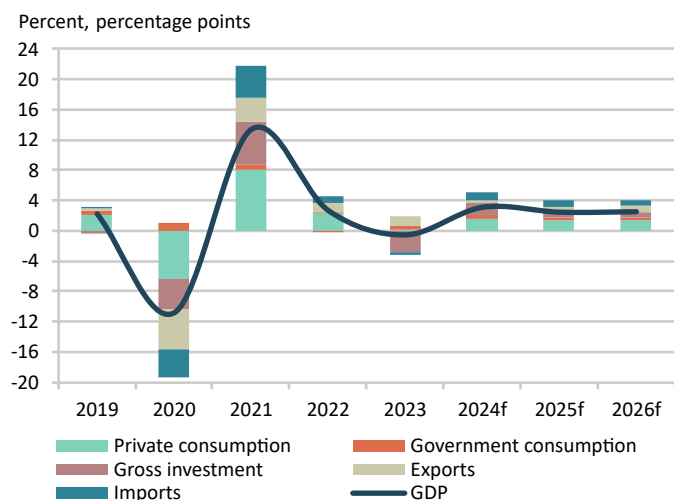
labor market are needed steps to make growth inclusive.

Recent developments

In 2024, the Peruvian economy is recovering from the previous year's recession. The cumulative annual growth rate for the first half of 2024 was 2.5 percent. The economic bounce-back reached most sectors, especially those severely affected by the adverse weather shocks of 2023 (agriculture and fisheries, the latter adding around 0.3 percentage points to the first-semester y-o-y growth). In addition to dissipating supply shocks, the recovery reflects higher business confidence, a strong expansion in public investment, the gradual easing of monetary conditions, and better export commodity prices.

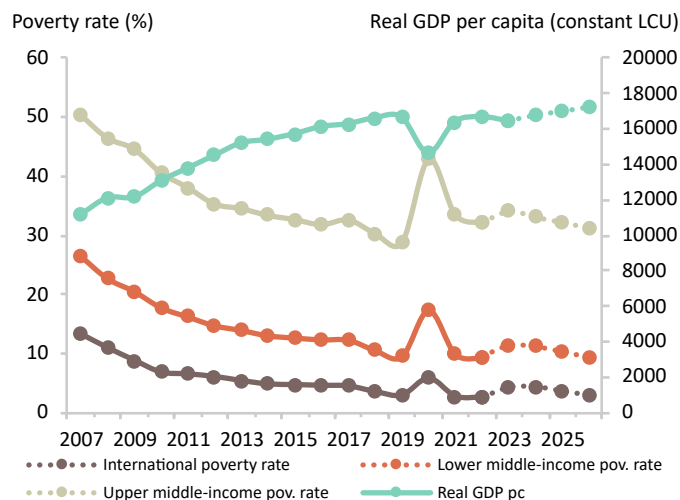
The fiscal deficit widened in 2024, from 2.8 percent of GDP in 2023, to 4.0 percent of GDP in the first eight months of the year, due to stagnating tax revenues and accelerating non-financial expenditures. Real growth in expenditure up to August reflects higher growth in public investment (27.4 percent y-o-y), but also non-negligible increases in wages (6.3 percent y-o-y). Unlike 2023, when the government did not adhere to the fiscal rule, this year, it amended the rule to allow a higher fiscal deficit for 2024, raising it from 2 percent to 2.8 percent of GDP. Public debt (32.7 percent of GDP in the second quarter of 2024) and sovereign spreads (166 basis points at the beginning of September) remain at historically low levels.

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



Sources: Central Reserve Bank of Peru (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.

Inflation reached 2.0 percent in August 2024 (within the Central Bank's target range of 1-3 percent). Core inflation remained closer to 3 percent due to higher inflation in some service sectors. The Central Bank lowered its policy rate by 1.5 percentage points since last December, to 5.25 percent in September. The labor market showed improvements in July 2024, with employment rising 2.8 percent year-over-year. The services, commerce, and construction sectors added the most jobs during the month.

The current account recorded a surplus of 0.8 percent and 2.3 percent of GDP in the first two quarters of the year, largely due to better export prices and higher earnings on assets held abroad by Peruvians coupled with a reduction in the profits of foreign companies based in Peru. The exchange rate has remained broadly stable and net international reserves stood at 27 percent of GDP in July 2024.

Outlook

Growth is expected to reach 3.1 percent in 2024. The approval by Congress of

the withdrawal of private pension funds (accumulated numbers until mid-August represent 2.4 percent of GDP) will boost consumers' real disposable income in a context of declining inflation rates. GDP growth is projected to moderate to around 2.5 percent thereafter. New investments in the mining sector (Zafranal, Corani, Reposición Antamina, and possibly Tía María) and the opening of the port of Chancay at the end of 2024 would help support medium-term growth. Moderate poverty (US\$6.85/day, 2017 PPP) is projected to decline to 31.3 percent by 2026 driven by economic growth and lower inflation.

Despite the fiscal rule amendment, the fiscal deficit is expected to close at 3.3 percent in 2024, exceeding the revised ceiling. Revenues are expected to accelerate in the second half of the year due to higher commodity export prices and improved economic activity, and expenditures are expected to grow at a similar pace to early-2024. The recent revision of the fiscal rule also raised the fiscal deficit ceiling from 1.5 percent to 2.2 percent of GDP in 2025 and from 1.0 percent to 1.8 percent of GDP

in 2026. The medium-term baseline scenario reflects this new consolidation path, exceeding the ceiling by a small margin. Regularization of income tax in 2025, supported by higher commodity prices of 2024, and conservative growth projection of the 2025 budget, would contribute the consolidation. Public debt would follow a stable path in the coming years. Inflation is expected to remain within the Central Bank's target of 1-3 percent. The Central Bank is expected to continue lowering its policy rate. The current account will improve in 2024, mainly because of better terms of trade observed since the second quarter.

Domestic risks related to political uncertainty will continue to drag on economic growth and the presidential election in 2026 will add another layer of uncertainty. If the government fails to adjust its fiscal accounts promptly, it could weaken the credibility of fiscal policy, with potential implications for the market outlook for debt. Increased threats from climate change could continue to impact medium-term growth. External risks include a faster-than-expected slowdown in US growth and a deterioration in commodity prices.

TABLE 2 Peru / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	13.4	2.7	-0.6	3.1	2.5	2.5
Private consumption	12.4	3.6	0.1	2.4	2.1	2.2
Government consumption	4.8	-0.2	4.6	4.1	2.2	2.2
Gross fixed capital investment	34.6	0.7	-5.4	6.4	2.9	2.9
Exports, goods and services	13.3	5.2	4.9	1.5	3.2	3.2
Imports, goods and services	17.9	3.9	-1.4	4.0	3.1	3.1
Real GDP growth, at constant factor prices	13.1	2.7	-0.4	3.1	2.5	2.5
Agriculture	5.3	3.1	-3.9	4.1	2.8	2.4
Industry	17.2	1.5	-1.3	2.6	2.3	2.1
Services	11.6	3.5	0.6	3.3	2.6	2.8
Inflation (consumer price index)	6.4	8.5	3.2	2.2	2.0	2.0
Current account balance (% of GDP)	-2.1	-4.0	0.8	1.8	0.6	0.4
Net foreign direct investment inflow (% of GDP)	2.3	4.8	0.9	2.5	2.5	2.5
Fiscal balance (% of GDP)	-2.5	-1.7	-2.8	-3.3	-2.3	-1.9
Revenues (% of GDP)	20.9	22.1	19.8	19.2	20.4	20.4
Debt (% of GDP)	35.8	33.9	32.9	33.6	34.7	35.0
Primary balance (% of GDP)	-1.0	-0.1	-1.1	-1.7	-0.6	-0.3
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	2.8	2.7	4.3	4.3	3.6	3.0
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	10.0	9.5	11.5	11.2	10.3	9.3
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	33.4	32.2	34.2	33.1	32.2	31.3
GHG emissions growth (mtCO₂e)	3.5	1.2	-1.2	0.2	0.0	0.1
Energy related GHG emissions (% of total)	25.8	25.9	25.0	25.1	25.1	24.9

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.