CENTRAL RESERVE BANK OF PERU

Summary Inflation Report

September 2015

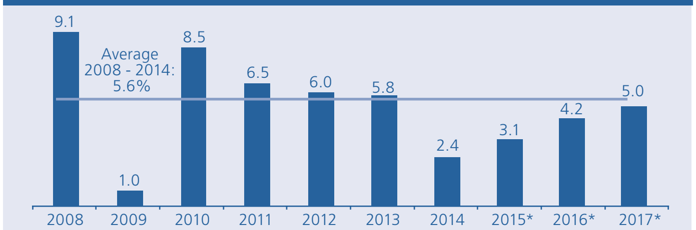
This Inflation Report was prepared using data on the Balance of Payments and Gross Domestic Product at Q2-2015 and data on the Non-Financial Public Sector, Monetary Accounts, Inflation, Financial Markets, and the Exchange Rate at August 2015.

WORLD GDP GROWTH
(Annual % change)

	PPP% 2013	2014	2015* IR May.15	2015* IR Sep.15	2016* IR May.15	2016* IR Sep.15	2017* IR Sep.15
Advanced economies	**43.8**	**1.8**	**2.1**	**2.0**	**2.4**	**2.3**	**2.2**
Of which:							
1. United States	16.3	2.4	2.4	2.4	2.9	2.9	2.7
2. Eurozone	12.5	0.9	1.5	1.5	1.7	1.7	1.7
Germany	3.5	1.6	1.6	1.5	1.6	1.6	1.5
France	2.5	0.2	1.2	1.1	1.5	1.4	1.5
Italy	2.0	-0.4	0.6	0.8	1.2	1.2	1.2
Spain	1.5	1.4	2.7	3.1	2.2	2.4	2.0
3. Japan	4.6	-0.1	0.9	0.9	1.3	1.5	0.4
4. United Kingdom	2.4	3.0	2.5	2.4	2.4	2.4	2.2
Developing economies	**56.2**	**4.5**	**4.1**	**3.9**	**4.7**	**4.6**	**4.9**
Of which:							
1. Developing Asia	28.6	6.8	6.6	6.4	6.6	6.4	6.5
China	15.7	7.3	6.8	6.7	6.6	6.5	6.3
India	6.6	7.3	7.2	7.1	7.4	7.4	7.6
2. Commonwealth of Independent States	4.8	1.0	-2.1	-1.8	0.7	1.1	2.0
Russia	3.4	0.6	-4.2	-3.7	-0.4	0.2	1.0
3. Latin America and the Caribbean	8.8	1.3	0.8	0.2	2.3	1.6	2.8
Brazil	3.1	0.1	-1.0	-1.8	1.2	0.5	2.3
World Economy	**100.0**	**3.3**	**3.2**	**3.0**	**3.7**	**3.6**	**3.7**
Memo:							
Peru's trading partners 1/	59.4	2.4	2.3	1.9	2.8	2.6	2.8

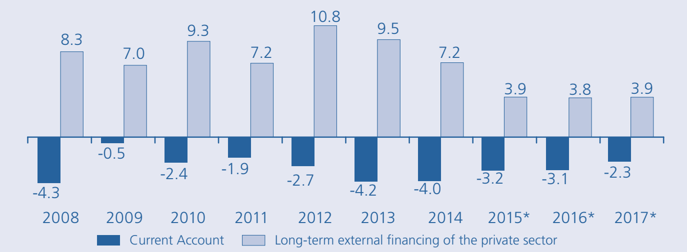
* Forecast.
1/ Basket of Peru's 20 main trading partners.
IR: Inflation Report.

GROSS DOMESTIC PRODUCT: 2008-2017
(Real % change)



* Forecast.

CURRENT ACCOUNT AND LONG-TERM EXTERNAL FINANCING OF THE PRIVATE SECTOR: 2008-2017 1/
(% GDP)



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

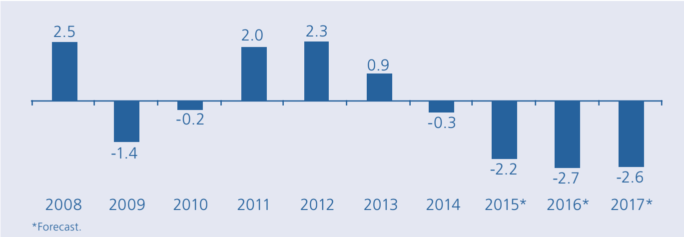
A sustained improvement in the US economy has characterized the global economy since May –when our last Report was published–, which has increased the likelihood that the Federal Reserve will raise its interest rate in the coming months. In addition, lower prospects for growth in China have generated a further decline in the prices of commodities. Because of this, the forecast of global growth in 2015 has been revised down from 3.2 to 3.0 percent, the downward revision of the growth forecast for Latin America –down from 0.8 to 0.2 percent– being worth pointing out in connection with the fall of GDP in Brazil. In 2016 and 2017, the world economy is estimated to show greater dynamism recording growth rates of 3.6 and 3.7 percent, respectively.

Peru would recover its GDP growth pace in 2015 with a rate of 3.1 percent as a result of a partial reversal of the supply shocks that affected the primary sector in 2014 (down 2.3 percent). The main difference with the growth rate estimated in our Report of May (3.9 percent) is the lower dynamism of non-primary activities associated with lower public expenditure, the drop of private investment, and the decline of non-traditional exports in the first half of the year. However, economic activity is expected to show a gradual recovery and a faster pace of growth in the second half of the year, driven by the positive impact of net exports and government spending.

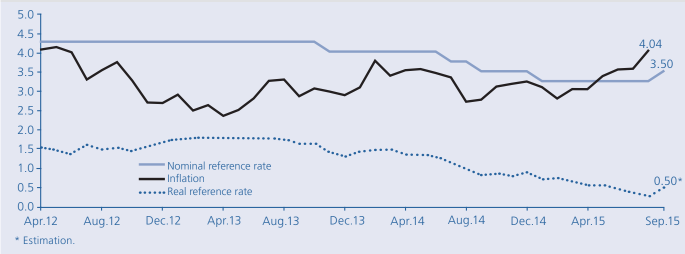
Peru's GDP would show a faster pace of growth in 2016 and 2017 –with growth rates of 4.2 and 5.0 percent, respectively–, in line with the recovery of private and public investment associated with a gradual improvement of economic expectations, the announcement of private investment projects, and a better implementation of spending at the level of the subnational governments.

In 2015 the current account deficit of the balance of payments would be equivalent to 3.2 percent of GDP, lower than in 2014 (4.0 percent). The deficit is expected to be lower than the one estimated in our previous Inflation Report mainly as a result of lower factor income payments due to companies' lower earnings, which would offset the impact of the deterioration of the terms of trade on the trade

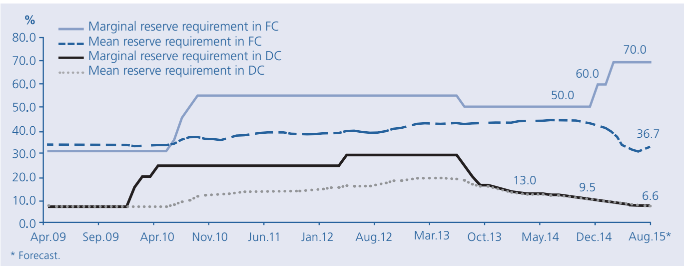
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2008-2017
(% GDP)



REFERENCE INTEREST RATE AND INFLATION
(%)



RATES OF RESERVE REQUIREMENTS IN DOMESTIC AND FOREIGN CURRENCY
(As % of total obligations subject to legal requeriments)



CURRENCY REPO OPERATIONS
(Million S/.)

Date	Operation	Term	Amount	Average rate
01 Jun.15	Regular	6-months	500	3.94%
03 Jun.15	Substitution	2-years	300	3.03%
05 Jun.15	Expansión	2-years	400	4.61%
12 Jun.15	Expansión	2-years	200	4.69%
12 Jun.15	Substitution	2-years	200	3.15%
19 Jun.15	Substitution	2-years	200	3.19%
26 Jun.15	Substitution	2-years	132	3.16%
3 Jul.15	Expansión	2-years	500	4.70%
10 Jul.15	Expansión	2-years	300	4.80%
17 Jul.15	Regular	6-months	300	4.20%
31 Jul.15	Regular	6-months	500	4.60%
07 Aug.15	Regular	6-months	400	5.07%
21 Aug.15	Regular	1-year	500	5.98%
24 Aug.15	Regular	3-years	500	6.63%
25 Aug.15	Substitution	3-years	500	5.31%
28 Aug.15	Regular	2-years	250	5.68%
TOTAL			**5,682**	

AUCTIONS OF PUBLIC DEPOSITS
(Million S/.)

Date	Operation	Term	Amount	Average rate
03 Jun.15	Banco de la Nación	1-year	300	4.36%
10 Jun.15	Treasury	1-year	300	4.30%
24 Jun.15	Treasury	6-months	500	4.47%
08 Jul.15	Treasury	6-months	500	4.43%
22 Jul.15	Treasury	5-months	300	4.73%
19 Aug.15	Treasury	6-months	250	5.25%
24 Aug.15	Treasury	6-months	300	5.89%
TOTAL			**2,450**	

deficit. In 2016 and 2017 the current account deficit is expected to decrease to 3.1 and 2.3 percent, respectively, as a result of a recovery in mining exports associated with the onset of operations at Las Bambas and the expansion of Cerro Verde.

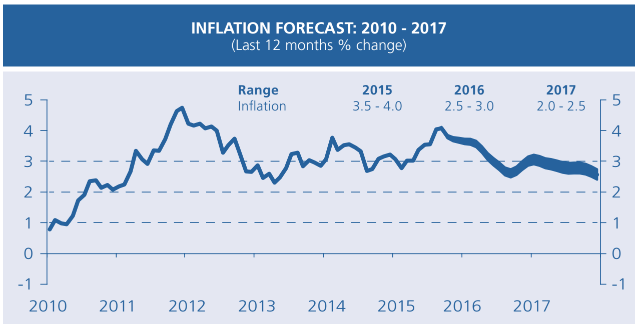
A public sector deficit of 2.2 percent of GDP is estimated for 2015 (vs.0.3 percent in 2014). The increase in the deficit is explained by the lower revenues projected due to the lower pace of growth of economic activity, the reduction of the income tax, and the reduction of the items subject to tax withholding systems (retenciones and detracciones). This would be in part offset by lower public investment as a result of the contraction of subnational governments' expenditure in the first half of the year. In 2016 and 2017, the deficit would increase to 2.7 and 2.6 percent, respectively, showing a similar path to the one foreseen in the Revised Multi-Annual Macroeconomic Plan for 2016-2018.

In September, the Board of the Central Reserve Bank of Peru (BCRP) have approved to raise the monetary policy interest rate by 25 basis points to 3.50 percent, in a context in which inflation expectations for the next year have risen to similar levels to the upper band of the inflation target range. This level of the policy rate, which is equivalent to a real interest rate of 0.5 percent, reflects an expansionary monetary stance similar to the one observed two months ago. In this way, the Board has reiterated the importance that the future evolution of inflation expectations have on the evolution of the policy benchmark rate.

The BCRP has also continued lowering the rate of reserve requirements in domestic currency to provide banks with liquidity in soles and facilitate the expansion of credit in this currency, in a context in which deposits in soles have been growing at a slower pace than credit. The most recent reduction in the rate of required reserves in soles – from 7.0 to 6.5 percent– came into effect in June 2015. In addition to this, the BCRP has also continued placing long term repos and auctioning public deposit funds to meet the requirements for liquidity in soles.

Moreover, in order to offset the excessive pressure of the market of derivatives on the domestic currency, the BCRP has adjusted additional reserve requirements in soles according to the level of sell operations of forwards with currency derivatives.

In August 2015 the accumulated rate of inflation in the last 12 months was 4.0 percent, this rate reflecting mainly increases in food prices and electricity rates. The rate of inflation excluding food and energy was 3.48 percent, with education costs and water supply rates accounting mainly for this higher rate, together with the prices of



some items associated with the foreign exchange rate, such as the prices of vehicles and house rents.

Inflation is expected to gradually go towards 2.0 percent in the 2015-2017 forecast horizon, converging to the 2.0 percent target more slowly than estimated in our Inflation Report of May. This slower pace of convergence to the target would be reflecting mainly a higher-than-expected nominal depreciation, increased inflation expectations, and supply shocks associated with the impact of El Niño event.

Risk Balance

As regards the inflation forecast, the events that could most likely divert the rate of inflation from the baseline scenario include greater volatility in international financial markets, a slowdown of domestic demand, slower global growth, and the occurrence of supply shocks.

a. Lower global growth

The baseline scenario considers a slower recovery in the world economy in 2015-2017 than the one estimated in our Inflation Report of May due mainly to economic slowdown in the emerging economies. However, if such recovery were to take even longer and if the terms of trade continued deteriorating, the resulting lower external impulse would translate into a lower output gap and into a lower inflation rate.

b. Slowdown in domestic demand

Economic recovery could take longer than expected if the implementation of both public and private investment projects were to be postponed. This would lead to a more negative output gap (and to a reduction in the growth of the potential output) and, therefore, to lower inflation in the forecast horizon.

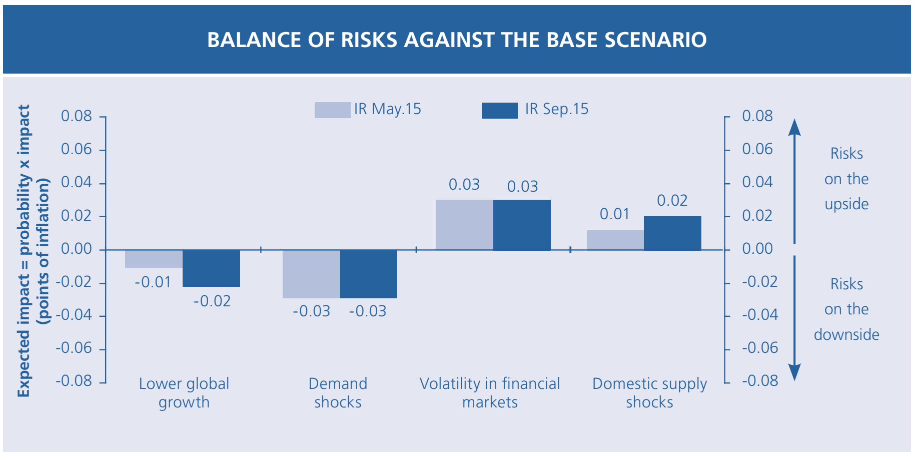
c. Volatility in international financial markets

This risk could occur if the withdrawal of monetary stimulus by the U.S. Federal Reserve brought about volatility in international financial markets. Such a scenario could generate depreciation pressures that would affect inflation on the upside through the pass-through effect.

d. Supply shocks

The baseline scenario considers a moderate-to-strong El Niño event. A more severe El Niño than the one considered could generate upward pressures on the prices of some food products.

The evaluation of the above-mentioned risks continues to show a neutral balance for the inflation forecast. However, a more negative impact is estimated due to lower global growth, although offset by increased supply shocks.



SUMMARY OF INFLATION REPORT FORECASTS

	2014	2015 [1/]		2016 [1/]		2017[1/]
		IR May.15	IR Sep.15	IR May.15	IR Sep.15	IR Sep.15
Real % change						
1. Gross Domestic Product	2.4	3.9	3.1	5.3	4.2	5.0
2. Domestic demand	2.2	3.8	2.7	4.4	3.1	3.7
a. Private consumption	4.1	3.7	3.5	4.1	3.5	3.8
b. Public consumption	10.1	8.3	6.5	4.0	5.3	4.0
c. Fixed private investment	-1.7	1.0	-5.5	4.4	2.0	4.4
d. Public investment	-2.4	4.0	-2.0	7.2	8.5	5.0
3. Exports (goods and services)	-1.0	1.7	0.1	8.4	7.0	9.5
4. Imports (goods and services)	-1.5	1.5	-1.3	4.5	2.6	4.2
5. Economic growth in main trading partners	2.4	2.3	1.9	2.8	2.6	2.8
Memo:						
Output gap [2/] (%)	-1.0 ; 0.0	-2.5 ; -1.0	-1.5 ; 0.0	-1.0 ; 0.0	-1.5 ; 0.0	-1.0 ; 0.0
% change						
6. Inflation	3.2	2.0 - 3.0	3.5 - 4.0	1.5 - 2.5	2.5 - 3.0	2.0 - 2.5
7. Average price of crude oil	-4.9	-40.9	-46.5	12.7	-3.6	8.5
8. Expected nominal exchange rate [3/]	6.4	8.8	12.5	1.3	3.0	0.5
9. Real multilateral exchange rate[3]	-0.6	4.0	3.2	0.4	4.2	1.4
10. Terms of trade [4/]	-5.4	-2.0	-4.4	-0.6	-4.5	0.2
a. Export price index	-6.9	-9.0	-13.4	1.9	-4.5	2.3
b. Import price index	-1.5	-7.2	-9.4	2.5	-0.1	2.0
Nominal % change						
11. Currency in circulation	11.2	9.0	8.0	9.0	8.0	8.0
12. Credit to the private sector [5/]	10.4	10.5	9.0	11.5	9.5	9.5
% GDP						
13. Gross fixed investment	25.9	25.4	24.2	25.2	24.2	24.2
14. Current account of the balance of payments	-4.0	-3.9	-3.2	-3.3	-3.1	-2.3
15. Trade balance	-0.6	-0.8	-1.1	-0.2	-1.0	0.0
16. Gross external financing to the private sector [6/]	7.2	5.3	3.9	4.5	3.8	3.9
17. Current revenue of the general government	22.2	20.3	20.0	20.4	20.0	20.0
18. Non-financial expenditure of the general government	21.5	21.4	21.3	21.0	21.5	21.2
19. Overall balance of the non-financial public sector	-0.3	-2.0	-2.2	-1.8	-2.7	-2.6
20. Total public debt balance	20.1	20.7	22.4	21.0	24.2	24.2

IR: Inflation Report.

1/ Forecast.

2/ Differential between GDP and potential GDP (%).

3/ Survey on exchange rate expectations.

4/ Average.

5/ Includes loans made by banks' branches abroad.

6/ Includes net direct investment. portfolio investment and private sector's long term disbursement.