



CENTRAL RESERVE BANK OF PERU

Monetary Policy Statement

August 2020

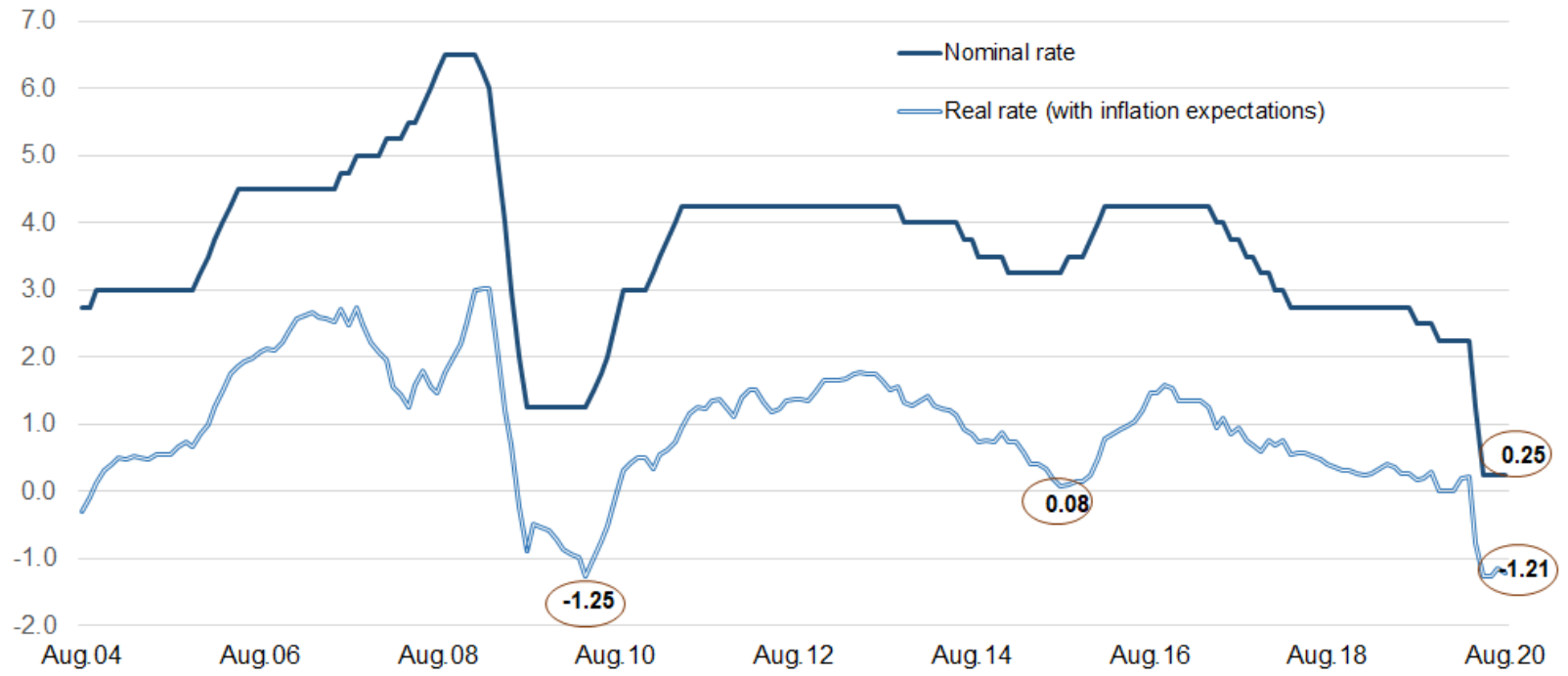
August 14, 2020



CENTRAL RESERVE BANK OF PERU

The Board of Directors of the Central Reserve Bank of Peru (BCRP) decided to continue its expansionary policy stance, maintaining the reference rate at 0.25 percent and implementing further liquidity injection operations.

Policy interest rate
(%)

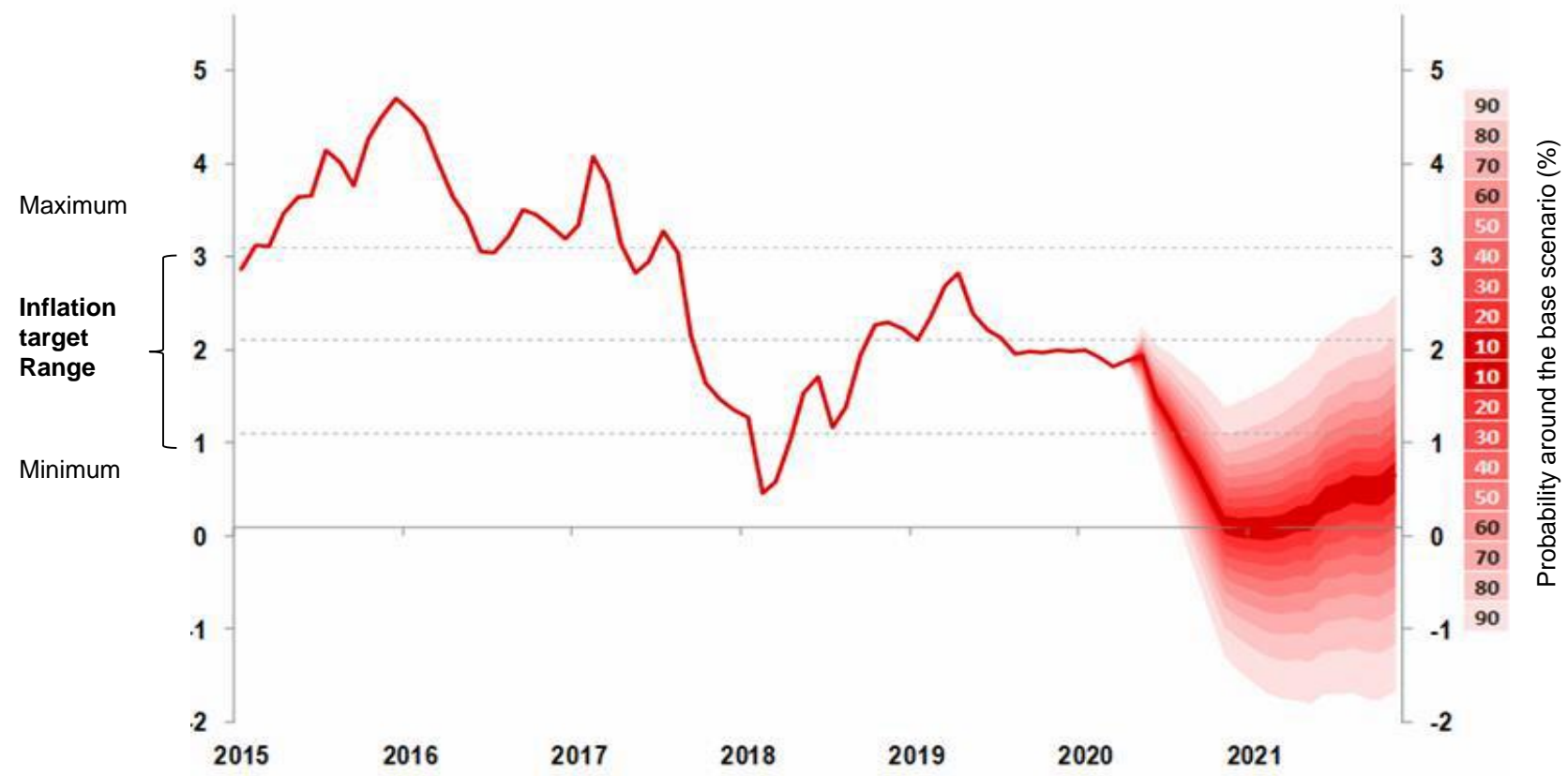


	Dec.16	Apr.17	May.17	Jul.17	Sep.17	Nov.17	Dec.17	Jan.18	Mar.18	Aug.19	Nov.19	Mar.20	Abr.20	May.20	Jun.20	Jul.20	Aug.20
(I) Nominal rate	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.00	2.75	2.50	2.25	2.25	1.25	0.25	0.25	0.25	0.25
(II) Inflation expectations	2.91	3.00	3.05	2.89	2.73	2.66	2.48	2.30	2.19	2.32	2.23	2.03	2.02	1.51	1.52	1.40	1.46
(III) Real rate: (I)-(II)	1.34	1.25	0.95	0.86	0.77	0.59	0.77	0.70	0.56	0.18	0.02	0.22	-0.77	-1.26	-1.27	-1.15	-1.21



Inflation in 2020 and 2021 is expected to fall below the target range due to a significant weakening of domestic demand.

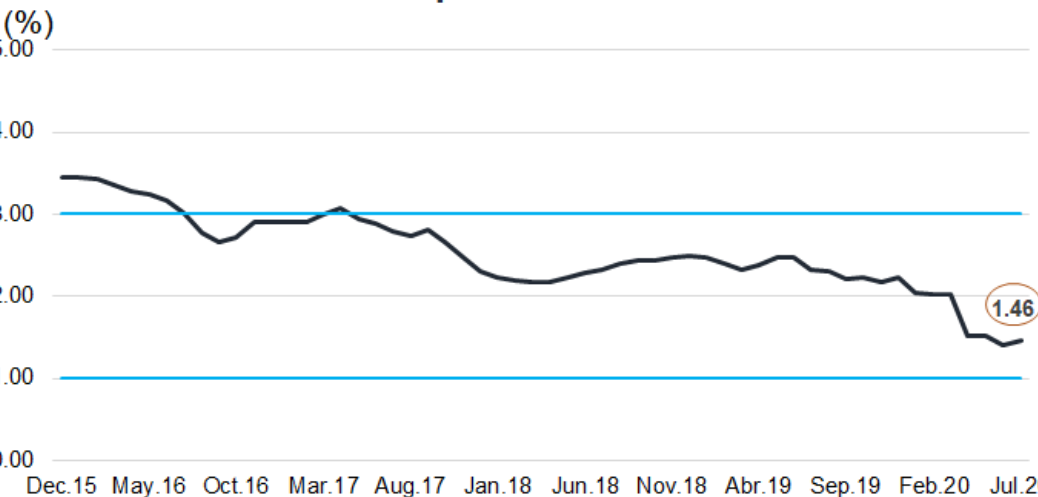
Inflation forecast: 2020-2021 (Last 12-month % change)





One-year ahead expected inflation was 1.5 percent in July.

1-Year ahead inflation expectations*



* Corresponds to the average on expectations of financial entities and economic analysts.

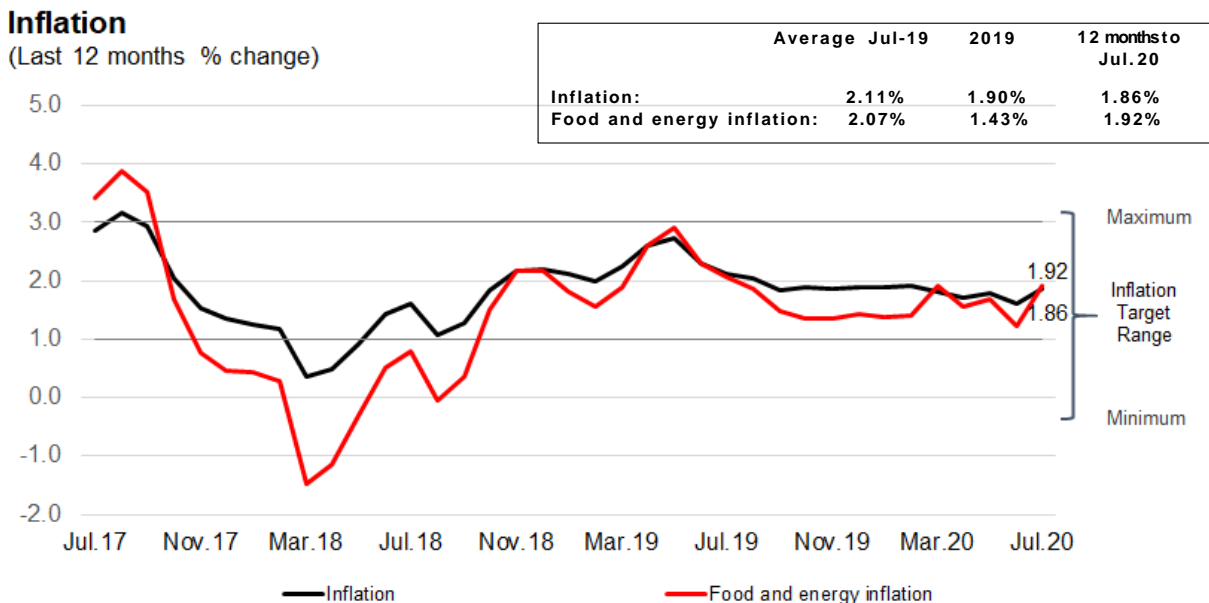
Survey of Macroeconomic Expectations: Inflation (%)

	Survey date:			
	May 29	Jun 30	Jul 31	
Economic analysts ^{1/}				
2020	1.50	1.10	1.10	↓
2021	2.00	2.00	2.00	=
2022	2.10	2.25	2.00	
Financial entities ^{2/}				
2020	1.00	0.60	1.00	↑
2021	1.80	1.50	1.50	=
2022	2.05	2.00	2.00	
Non-financial firms ^{3/}				
2020	2.00	2.00	2.00	=
2021	2.20	2.20	2.00	↓
2022	2.20	2.23	2.22	

1/ 19 analysts in May, 17 in June, and 17 in July 2020.
 2/ 20 financial entities in May, 18 in June, and 19 in July 2020.
 3/ 291 non-financial firms in May, 278 in June, and 294 in July 2020.



Year-on-year inflation increased temporarily from 1.6 percent in June to 1.9 percent in July.



Main Weighted Contribution to Inflation: July 2020

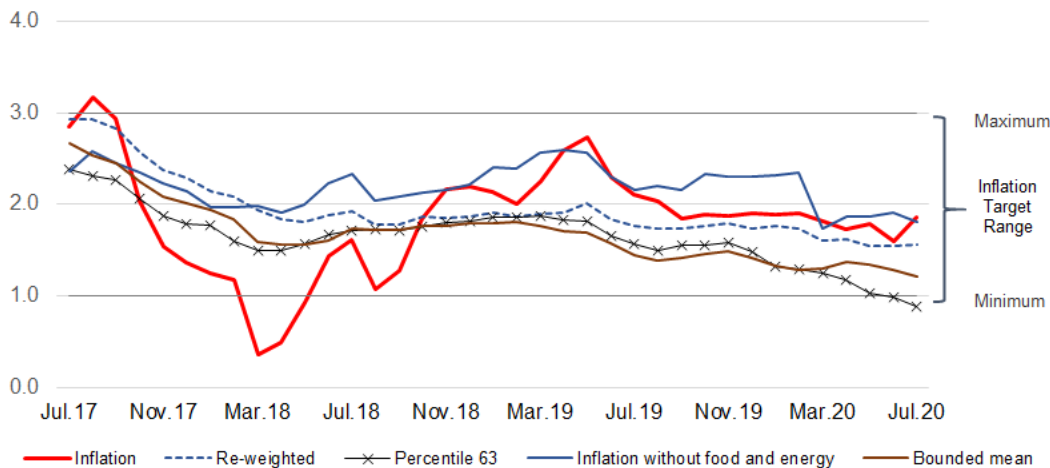
CPI with base 2009 = 100

Positive	Weight	% chg.	Contr.	Negative	Weight	% chg.	Contr.
Chicken meat	3.0	29.4	0.62	Tomato	0.2	-20.1	-0.07
Electricity	2.9	1.9	0.07	Eggs	0.6	-8.1	-0.05
Fresh and frozen fish	0.7	6.1	0.04	Fresh legumes	0.2	-12.6	-0.04
Chicken giblets and other	0.1	22.9	0.03	Gasoline and lubricants	1.3	-3.4	-0.04
Total			0.76	Total			-0.20



Trend indicators of inflation remains in the lower part of the target range.

Inflation
(Last 12 months % change)



	Annual average	Annual % change	
	2001-2019	Jun.20	Jul.20
CPI	2.59	1.60	1.86
CPI excluding food and energy	2.15	1.91	1.81

Trend indicators

Bounded mean	2.58	1.28	1.22
Percentile 63	2.53	0.98	0.88
Re-weighted	2.51	1.54	1.56

Bounded mean: Weighted average of the percentage change of prices between the 34th and 84th percentiles.

Percentile 63: Corresponds to the percentage changes of the item located in the 63th percentile.

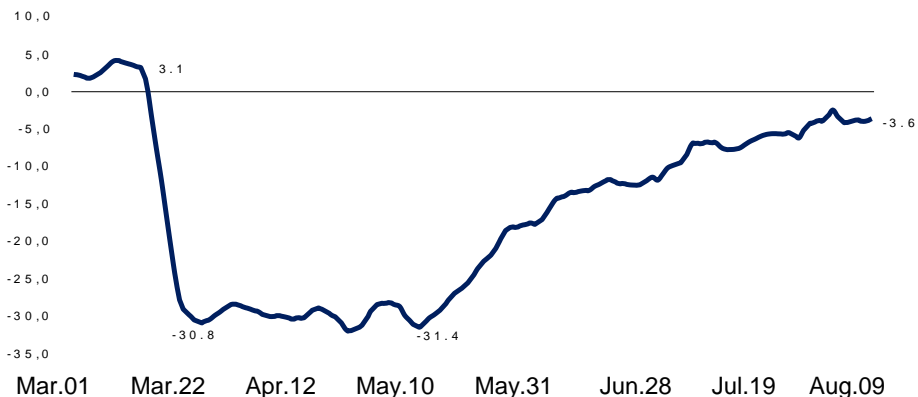
Re-weighted: Reduces the weight of items with greater volatility, considers the original weights of each item between the standard deviation of their monthly percentage changes.



Leading indicators point to a recovery in July relative to the previous month.

Daily Electricity Production

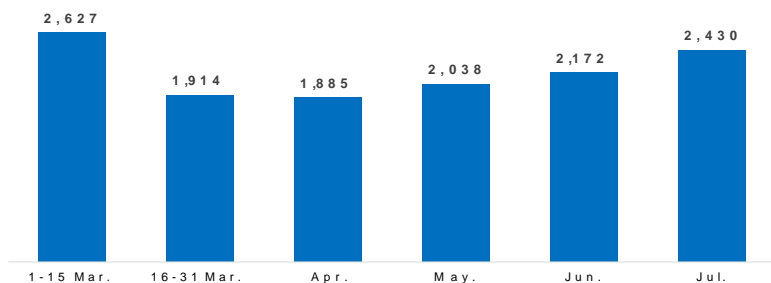
(Annual % change of the moving average 7 with respect to the moving average of the same day of 2019)



	1-15 Mar.	16-31 Mar.	April	May	June	July	August 12
% change	2.5	-27.4	-30.0	-25.4	-12.4	-6.0	-3.6
GWh	155	108	103	109	127	135	138

Number of LBTR Transfers: Clients*

(Daily average of transfers)



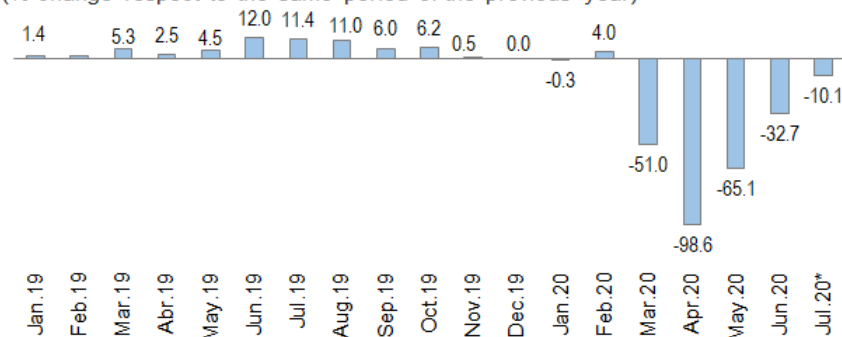
Annual % change

	Mar	Apr	May	Jun	Jul
Total	-14.9	-30.0	-24.9	-19.0	-12.6

* It excludes own operations, purchases/sales of foreign currency, interbank loans and other operations between entities of the financial system.

Domestic consumptions of cement

(% change respect to the same period of the previous year)

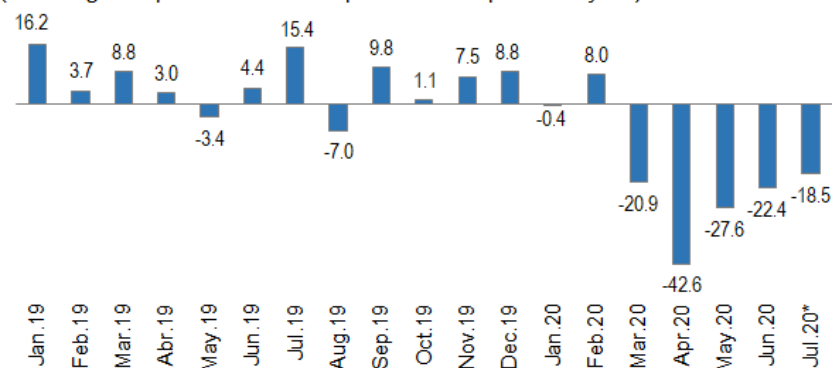


* Data for July 2020 is estimated.

Source: Cement enterprises.

Non traditional exports*

(% change respect to the same period of the previous year)



* Data for July 2020 is estimated.

Source: Sunat



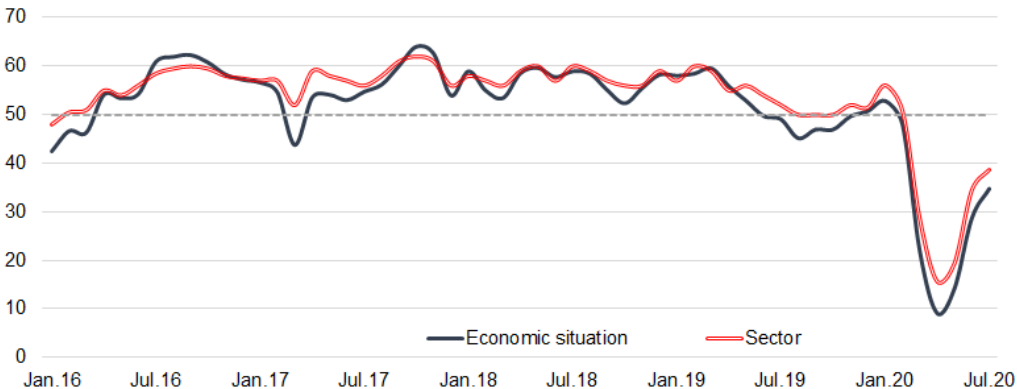
Firms' growth expectations continued to recover in July, in line with gradual economic reopening, although they remain at historic lows.

Macroeconomic Expectations: Survey Results

		Dec.2019	May.2020	Jun.2020			Jul.2020			Correlation with GDP ^{1/}
EXPECTATION:										
ECONOMIC SITUATION:	IN 3 MONTHS	50.8	14.3	28.8	↑	<	34.8	↑	<	0.63
	IN 12 MONTHS	61.5	38.1	53.1	↑	>	53.5	↑	>	0.42
SECTOR:	IN 3 MONTHS	51.5	19.5	34.6	↑	<	38.7	↑	<	0.67
	IN 12 MONTHS	61.5	40.8	54.7	↑	>	56.3	↑	>	0.33
COMPANY'S SITUATION:	IN 3 MONTHS	56.1	22.0	36.6	↑	<	43.4	↑	<	0.66
	IN 12 MONTHS	66.6	43.2	56.5	↑	>	60.2	↑	>	0.66
ABOUT DEMAND:	IN 3 MONTHS	55.1	24.2	38.6	↑	<	46.6	↑	<	0.66
	IN 12 MONTHS	68.0	45.9	55.3	↑	>	60.5	↑	>	0.66
NEW PERSONNEL HIRED:	IN 3 MONTHS	48.6	25.4	32.9	↑	<	37.5	↑	<	0.66
	IN 12 MONTHS	54.0	38.2	45.5	↑	<	47.4	↑	<	0.58

Memo: Greater than 50 points (neutral) means that confidence is on the optimistic tranche and less than 50 points in the pessimistic tranche.
 1/ Correlations from December 2007 to December 2019, respectively.

Expectations about the economic situation and sector in 3 months

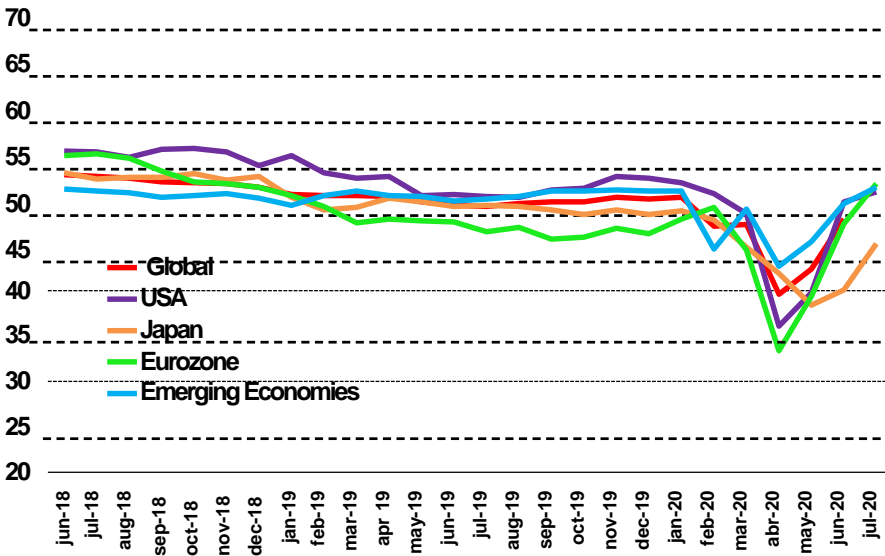


Source: BCRP.

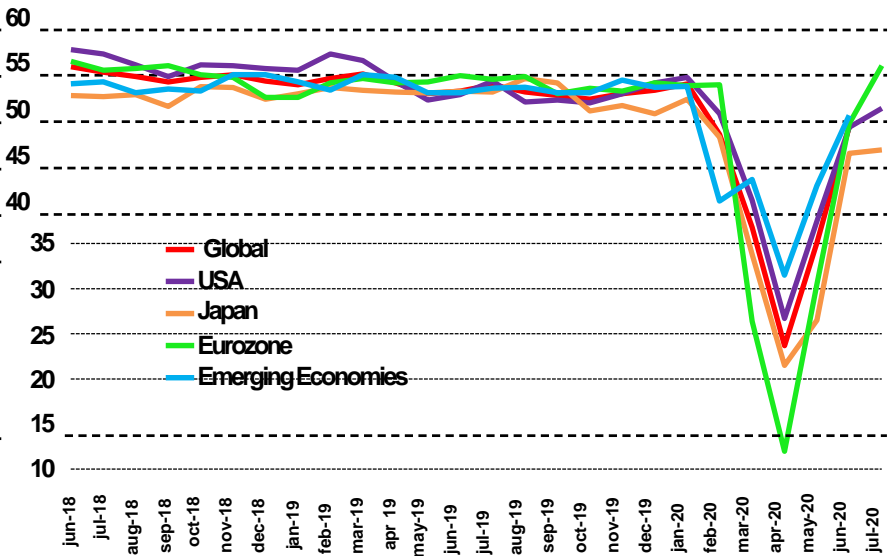


Risks to global economic activity materialized, including a global recession with a partial rebound in the second half of the year.

PMI Manufacturing



PMI Services





In July, metal and oil prices rose in line with a gradual recovery in world economic activity. They continue with the upward trend since April.

International quotation (end of period)

		Dec.19	Mar.20	Jun.20	Jul.20	Aug.20	% change of Jul.20 respect to:		
							Jun.20	Mar.20	Dec.19
Products of exports									
Copper	(US\$ cents per pound)	2.792	2.176	2.739	2.924	2.893	6.8	34.4	4.7
Zinc	(US\$ cents per pound)	1.040	0.847	0.933	1.043	1.078	11.8	23.1	0.3
Gold	(US\$ per troy ounce)	1,514.8	1,609.0	1,768.1	1,964.9	1,944.3	11.1	22.1	29.7
Silver	(US\$ per troy ounce)	17.85	13.97	18.21	24.39	27.15	34.0	74.5	36.6
Products of imports									
Oil	(US\$ per barrel)	61.1	20.5	39.3	40.3	42.2	2.5	96.6	-34.0
Wheat	(US\$ per ton)	177.8	183.0	166.4	170.1	159.8	2.2	-7.0	-4.3
Maize	(US\$ per ton)	148.4	128.7	127.2	117.3	116.9	-7.7	-8.9	-21.0
Soy bean	(US\$ per ton)	756.4	591.5	587.1	671.1	705.3	14.3	13.5	-11.3

* As of August 13.

Source: Bloomberg.

Copper price rose due to supply fears in Chile. **Gold** reached record highs.

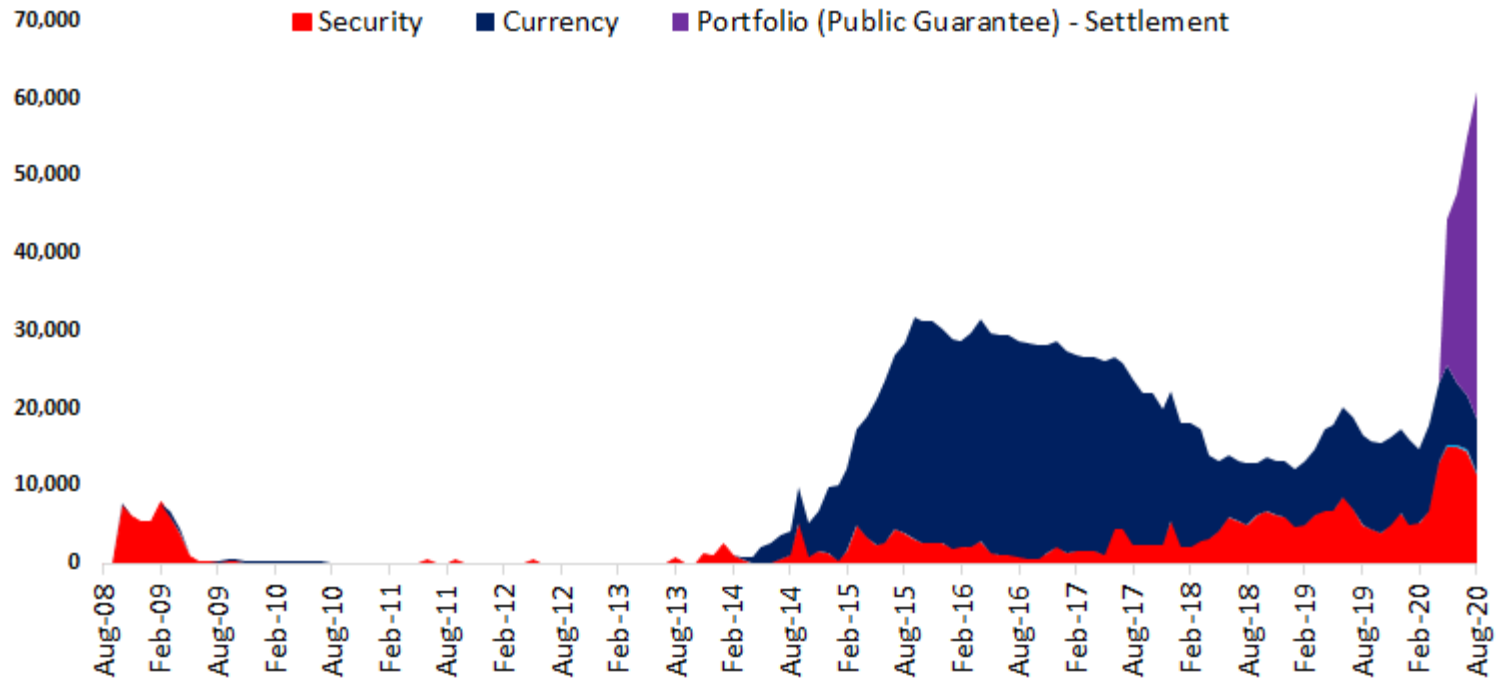


CENTRAL RESERVE BANK OF PERU

The BCRP will continue to take the necessary steps to sustain the payments system and credit flows. As of August 12, the BCRP's liquidity injection operations totaled S/ 56.9 billion, of which S/ 36.4 billion were associated with government-backed repos

Balance of BCRP Repo operations*

(Million S/)



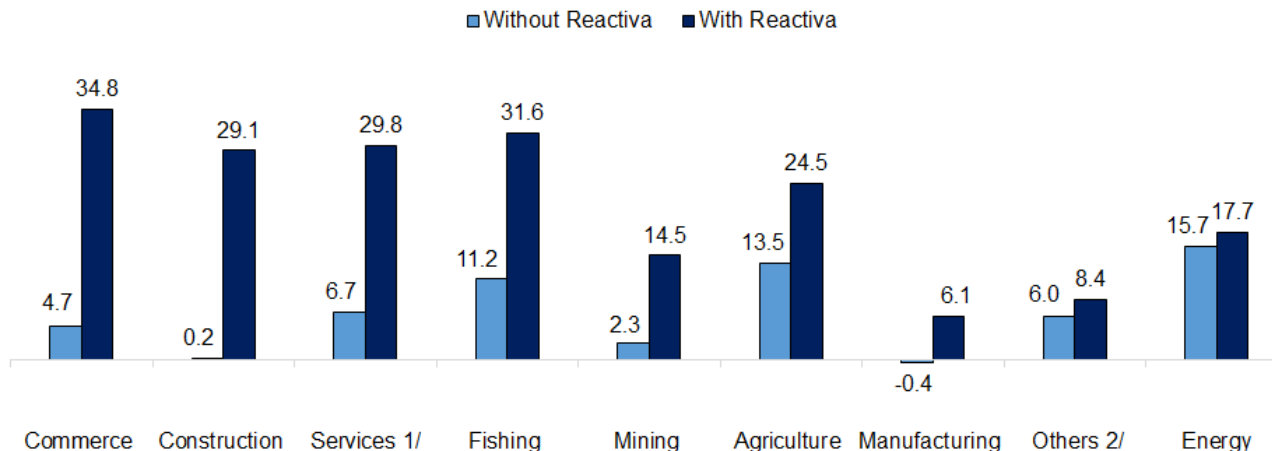
* As of August 12.



In this context, credit to the private sector grew 13.3 percent year-on-year in June.

Growth of Business Loans by Economic Sector

(Annual % change)



1/ Includes hotels and restaurants, transportation, Real estate act., business act., education and social services.

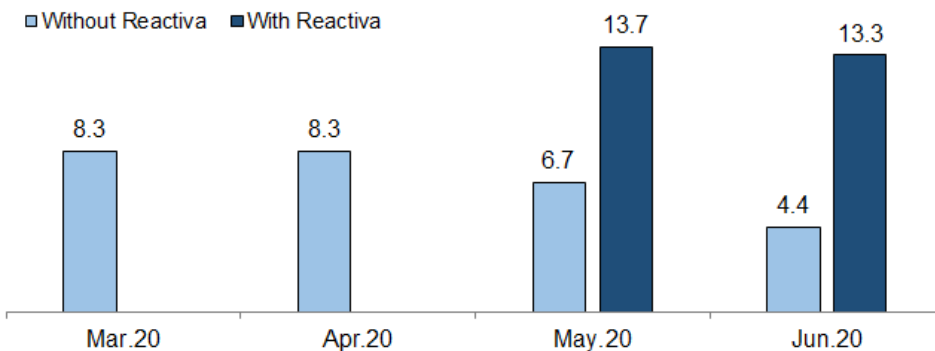
2/ Includes credit to households for business purposes, not sectorized, community serv. and non-profit.

Source: BSI and Datamart

Growth of credit to the private sector

(Annual % change)

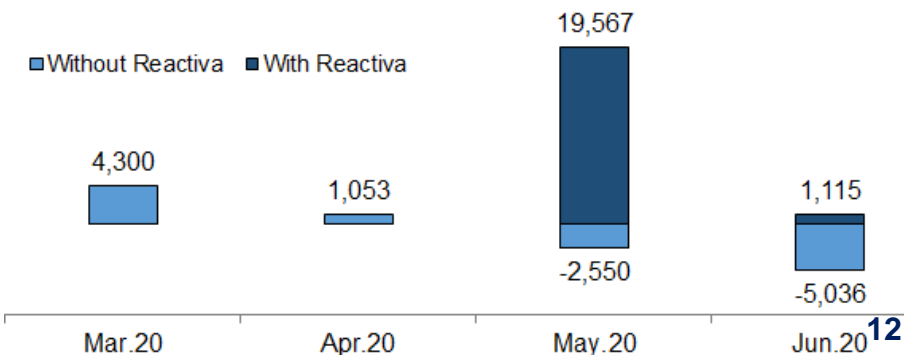
□ Without Reactiva ■ With Reactiva



Monthly flow of credit to the private sector

(Million S/)

□ Without Reactiva ■ With Reactiva





... and interest rates decreased significantly.

Interest rate in domestic currency ^{1/}

(%)

	Dec.19	Mar.20	Apr.20	May.20	Jun.20	Jul.20	Aug.20*	Historical average**	Accum. % respect to Feb.
Reference	2.25	1.25	0.25	0.25	0.25	0.25	0.25	3.47	-2.00
Interbank	2.25	2.03	0.57	0.24	0.21	0.24	0.24	3.51	-2.01
90-day corporate prime	3.29	2.83	1.46	1.29	0.90	1.04	1.11	4.36	-2.12
Corporates	3.80	3.63	4.04	2.94	3.03	2.84	2.56	5.22	-0.56
Large companies	6.01	5.86	5.58	1.98	2.56	3.64	3.26	6.80	-2.45
Medium-sized enterprises	9.28	8.86	8.05	2.41	3.86	3.96	3.07	10.11	-5.61
Small businesses	18.03	18.14	18.16	2.04	4.29	4.94	3.85	20.49	-13.33
Micro businesses	31.32	32.56	33.13	3.22	3.79	4.33	4.60	32.57	-27.03
FTAMN	18.24	16.04	11.22	6.00	8.82	10.32	10.23	20.77	-9.51

1/ Annual rates for operations in the last 30 working days.

* Information as of August 13, 2020.

** Average since September 2010.

Source: SBS and BCRP



In addition, phase two of the “Reactiva Peru” program continued in July, with 14 auction sessions totaling S/ 22.8 billion at an average interest rate of 1.64 percent.

Repos of Portfolio with Government Guarantee Phase 2*:

Guarantee percentage	Auctioned amount (million soles)	Allocated amount* (million soles)	Interest rate for clients (%)			Allocated amount* (%)
			Minimum	Maximum	Average	
80	850	725	1.25	2.15	1.59	3.2
90	11,450	9,771	0.99	2.15	1.35	42.9
95	14,100	6,892	0.60	2.00	1.33	30.6
98	18,700	5,318	0.55	4.00	2.59	23.3
Total	45,100	22,795	0.55	4.00	1.64	100.0

*As of August 12.

Repos of Portfolio with Government Guarantee*

Guarantee percentage	Auctioned amount (million soles)	Allocated amount* (million soles)	Interest rate for clients (%)			Allocated amount* (%)
			Minimum	Maximum	Average	
80	11,100	9,443	0.79	2.15	1.14	17.9
90	29,450	23,777	0.90	2.15	1.19	45.0
95	21,500	13,080	0.54	2.50	1.24	24.8
98	20,329	6,496	0.50	4.00	2.45	12.3
Total	82,379	52,795	0.50	4.00	1.35	100.0

*As of August 12.



In the phase two of the “Reactiva Peru” program, there has been an increase in the participation of the small and micro enterprise segment.

REACTIVA loans by size of companies ^{1/}

	Credit Amount		Number of Enterprises		Average Sale ^{2/}	
	(Million S/)	Participation (%)	(Units)	Participation (%)	(Million S/)	Participation (%)
Corporate and large companies	26,443	54.6	6,235	2.2	33,368	68.9
Medium-sized enterprises	2,499	5.2	1,861	0.7	1,808	3.7
Small businesses and Microbusinesses	19,530	40.3	270,941	97.1	13,245	27.4
Total	48,472	100.0	279,037	100.0	48,421	100.0

1/ With information from COFIDE as of August 12, 2020. For the classification of company size, the amount of annual sales is used according to information from SUNAT.

2/ In the case of microenterprises without sales information, the average sales of that category have been imputed.

Note: The criteria to classify the companies is made according to the information from SUNAT.

Microbusinesses : annual sale between 0 to 150 UIT

Small businesses: annual sale between 150 to 1,700 UIT

Medium-sized enterprises: annual sale between 1,700 to 2,300 UIT

Large companies: annual sale greater than 2,300 UIT



The Board considers it appropriate to maintain a strong expansionary monetary stance for as long as the negative effects of the pandemic on inflation and its determinants persist. The BCRP stands ready to extend monetary stimulus using a range of instruments.

Credit Expansion

Country	% change 12-months		
	2019 - 4Q	2020 - 1Q	2020 - 2Q
Germany	5.1	5.4	5.0
Australia	1.6	2.9	2.1
Brazil	6.5	9.6	9.8
Canada*	4.2	4.7	3.9
Chile	9.4	12.5	11.8
China	12.5	13.5	14.5
Colombia	7.2	10.9	9.7
South Korea	7.4	9.2	10.0
United States	4.3	6.4	8.4
France	5.3	6.2	7.7
Japan*	3.3	2.0	5.7
Mexico*	4.7	9.7	7.5
New Zealand	5.6	6.5	4.2
Peru	6.9	8.3	13.3
Russia	8.2	10.9	8.4

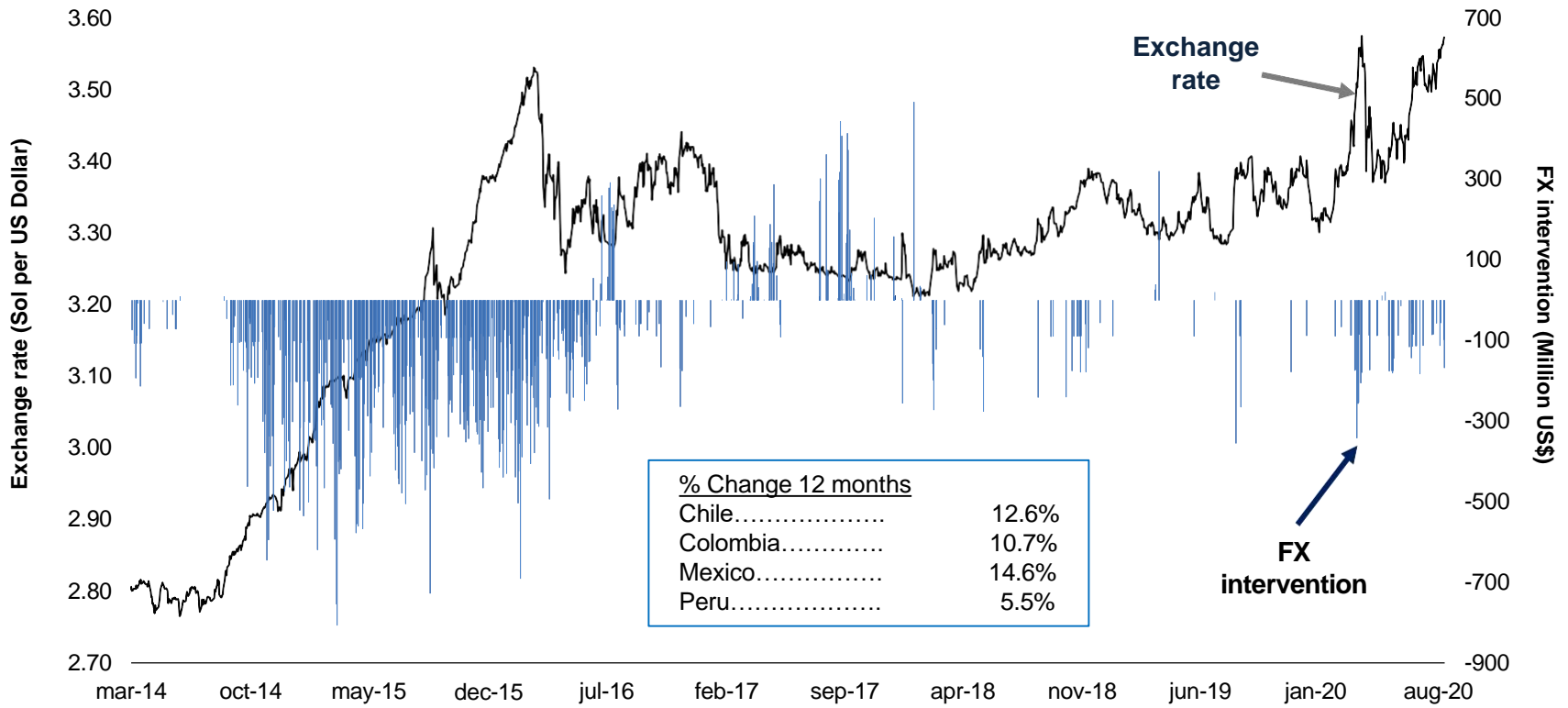
Source: Central Banks

*As of May 2020



The Central Reserve Bank of Peru has intervened in the foreign exchange market to reduce the volatility of the exchange rate.

Exchange rate and FX intervention of BCRP ^{1/}



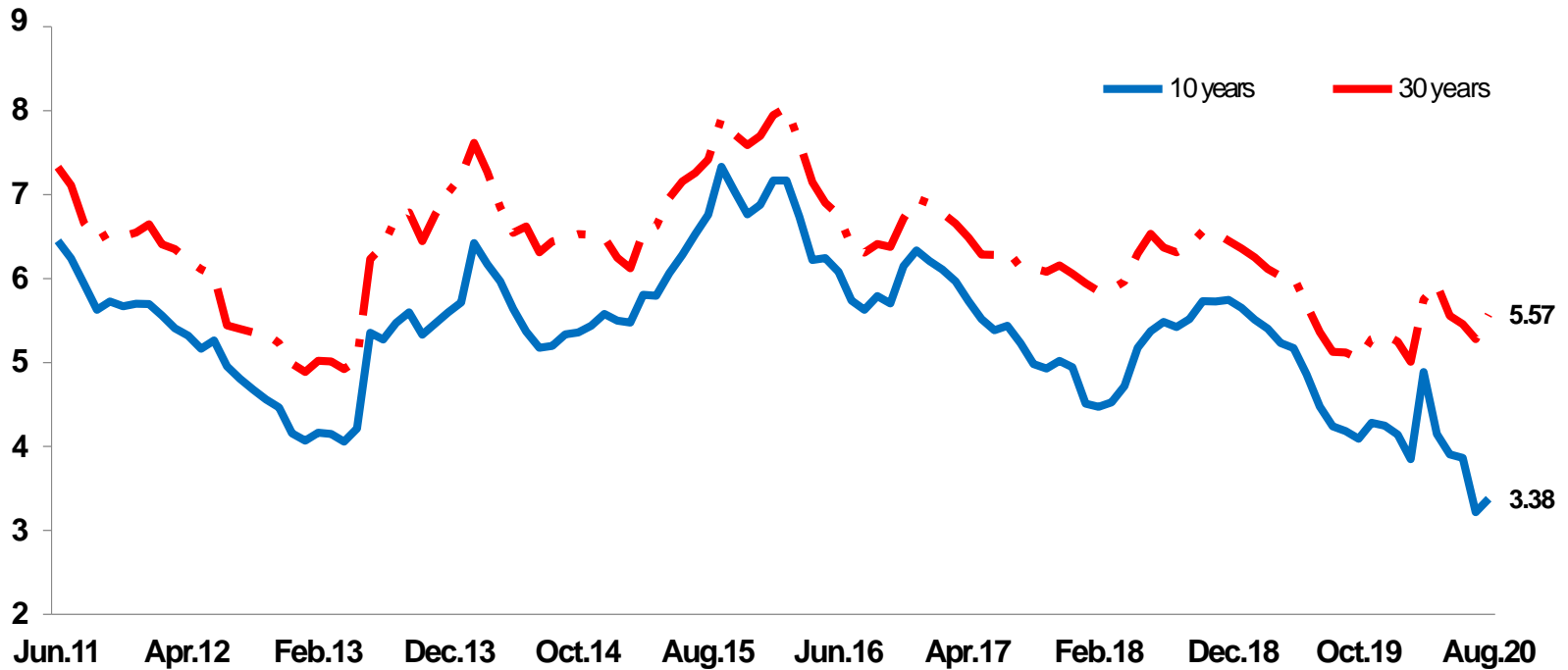
¹ Includes purchases/sales of dollars in the spot market and placements of CDLD BCRP, CDR BCRP and FX-Swaps.

* As of August 13 , 2020.



The long-term interest rate is at historically low levels.

Yield of the Peruvian Sovereign Bonds (In %)



*As of 13 August.
Source: MEF



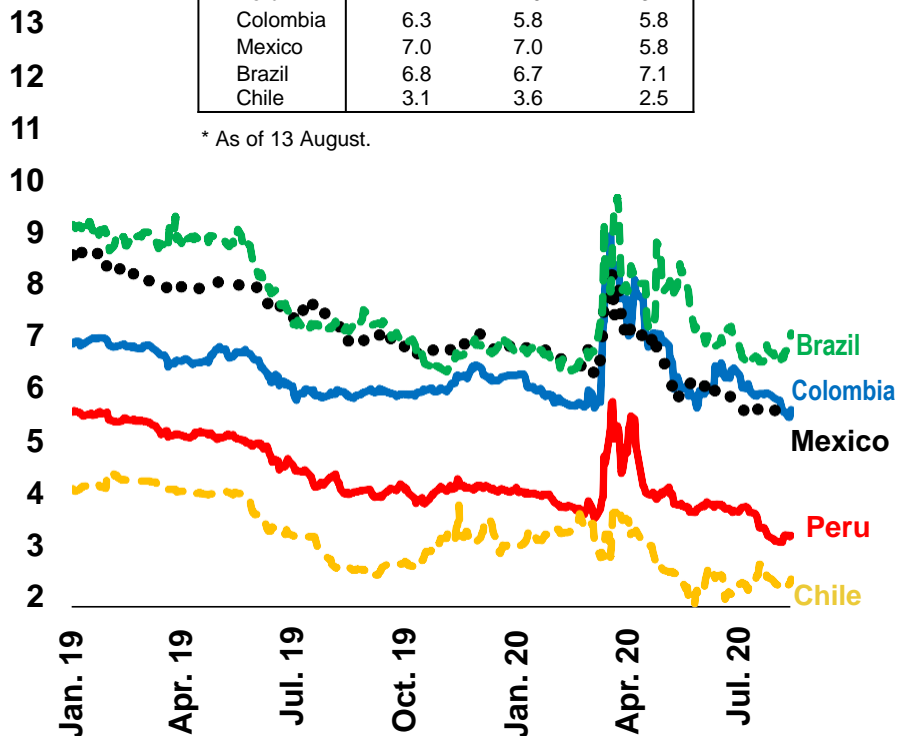
CENTRAL RESERVE BANK OF PERU

Since April, the injection of liquidity from Central Banks have contributed to a significant reduction in interest rates.

Yield of the 10-year Sovereign Bonds
(%. end-of-period)

	Dec. 19	Feb. 20	Aug.20*
Peru	4.2	4.0	3.4
Colombia	6.3	5.8	5.8
Mexico	7.0	7.0	5.8
Brazil	6.8	6.7	7.1
Chile	3.1	3.6	2.5

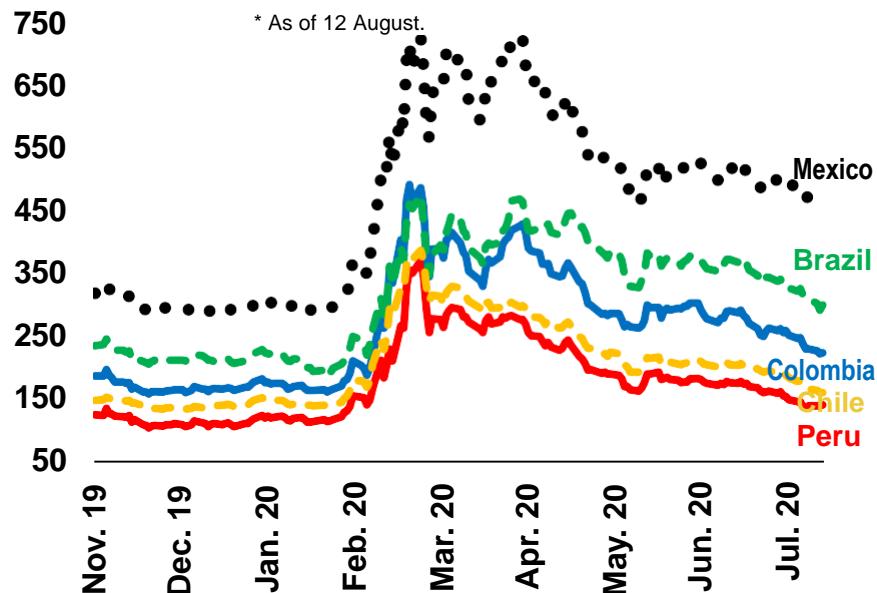
* As of 13 August.



Country risk: EMBI+
(Basis points, end-of-period)

	Dec. 19	Feb. 20	Aug. 20*
Peru	107	156	142
Colombia	161	212	225
Mexico	292	372	456
Brazil	212	251	301
Chile	135	180	161

* As of 12 August.





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