



CENTRAL RESERVE BANK OF PERU

Monetary Policy Statement

July 2020

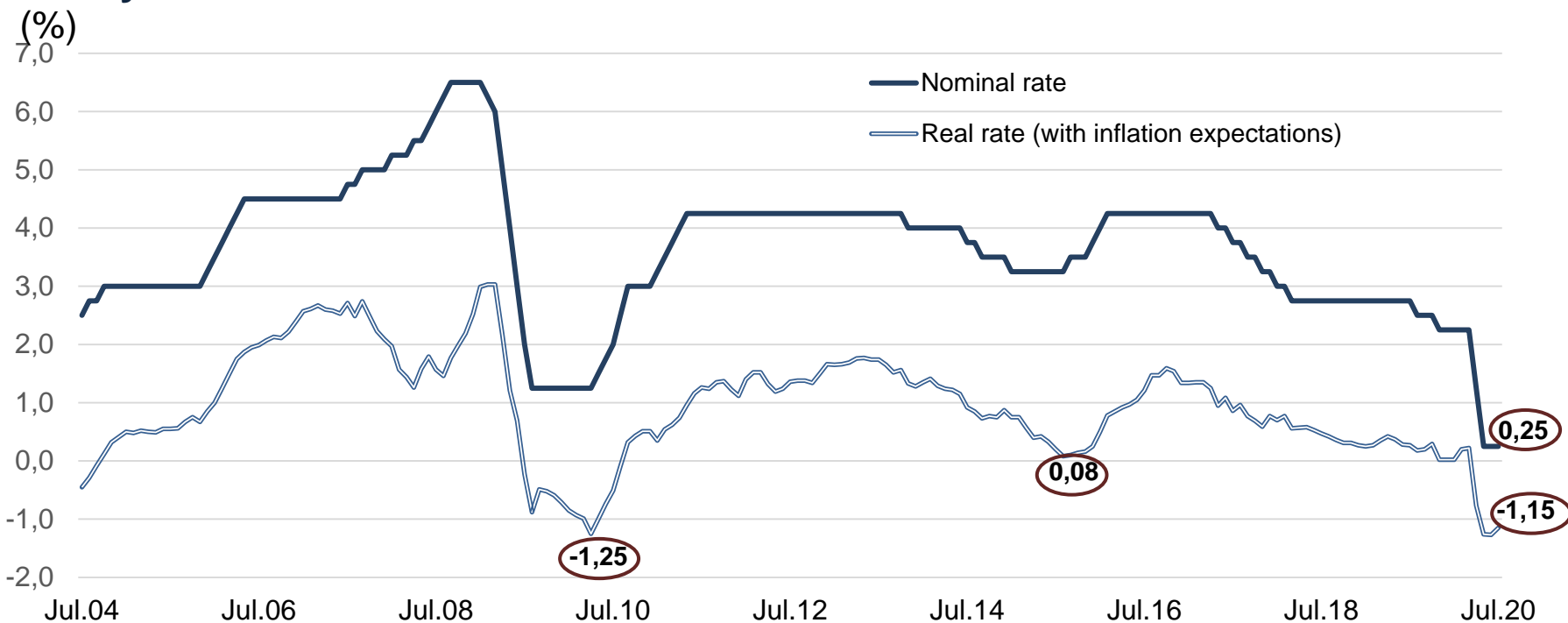
July 10. 2020



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



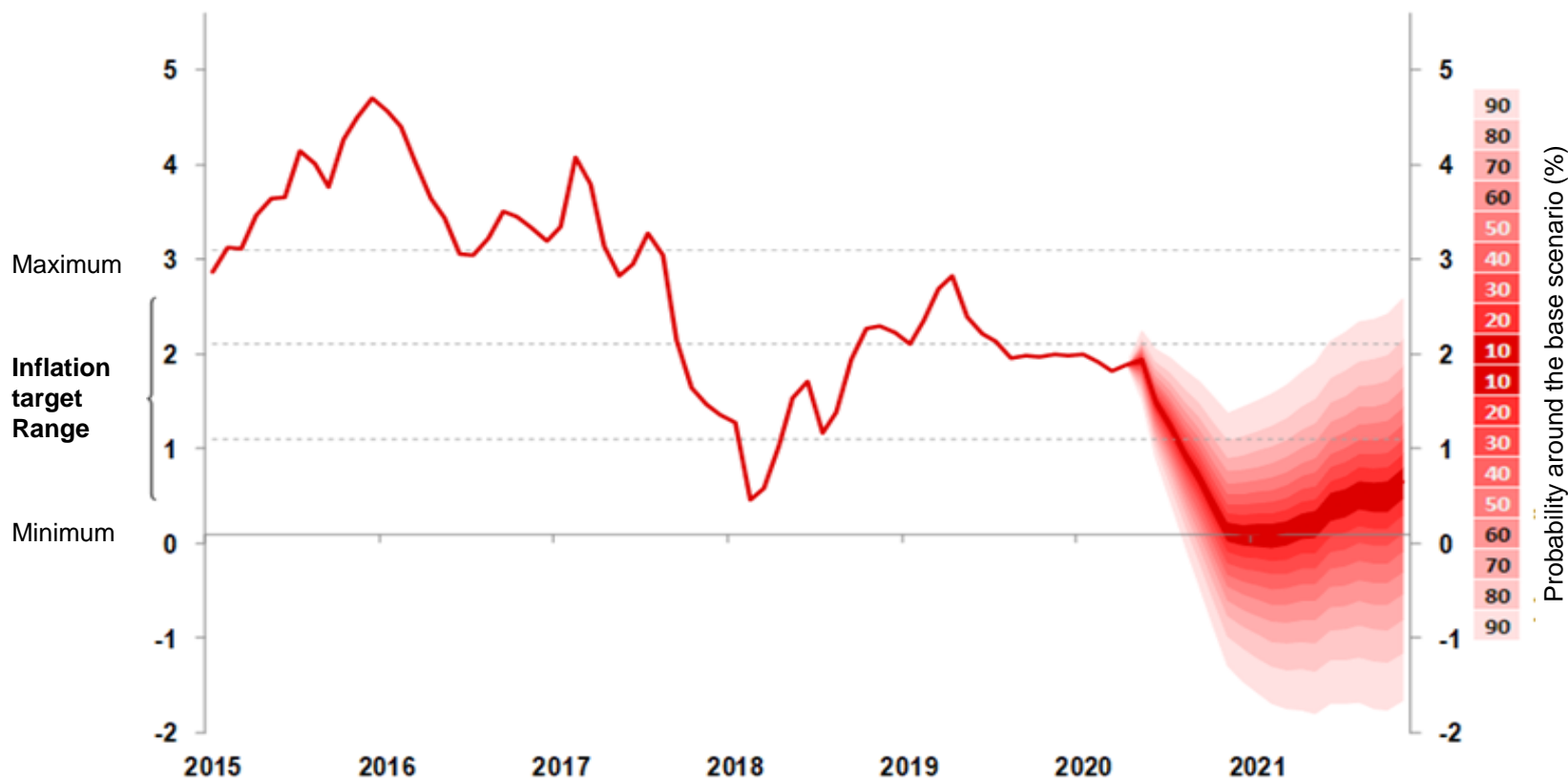
	Dec.16	Apr.17	May.17	Jul.17	Sep.17	Nov.17	Dec.17	Jan.18	Mar.18	Aug.19	Nov.19	Feb.20	Mar.20	Abr.20	May.20	Jun.20	Jul.20
(I) Nominal rate	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.00	2.75	2.50	2.25	2.25	2.25	1.25	0.25	2.25	0.25
(II) Inflation expectations	2.91	3.00	3.05	2.89	2.73	2.66	2.48	2.30	2.19	2.32	2.23	2.05	2.03	2.02	1.51	1.52	1.40
(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	0.20	0.22	-0.77	-1.26	-1.27	-1.15



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 further decreased to 1.4 percent in June.

1-Year ahead inflation expectations* (%)



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

Survey of Macroeconomic Expectations: Inflation (%)

	Survey date:		
	Apr 30	May 29	Jun 30
Economic analysts 1/			
2020	1.45	1.50	1.50
2021	2.00	2.00	2.00
2022	2.00	2.10	2.25
Financial entities 2/			
2020	1.10	1.00	0.60
2021	1.95	1.80	1.50
2022	2.00	2.05	2.00
Non-financial firms 3/			
2020	2.20	2.00	2.00
2021	2.40	2.20	2.20
2022	2.50	2.20	2.23

1/ 12 analysts in April. 19 in May. and 17 in June 2020.

2/ 5 financial entities in April. 20 in May. and 18 in June 2020.

3/ 157 non-financial firms in April. 291 in May. and 278 in June 2020.



Year-on-year inflation decreased from 1.8 percent in May to 1.6 percent in June, while trend inflation remains in the lower part of the target range.

Inflation

(Last 12 months % change)



	Annual average	Annual % change		
	2001-2019	Dec.19	May.20	Jun.20
CPI	2.59	1.9	1.78	1.60
CPI excluding food and energy	2.15	2.3	1.86	1.91

Trend indicators				
Bounded mean	2.58	1.42	1.34	1.28
Percentile 63	2.53	1.47	1.02	0.98
Re-weighted	2.51	1.74	1.55	1.54

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.

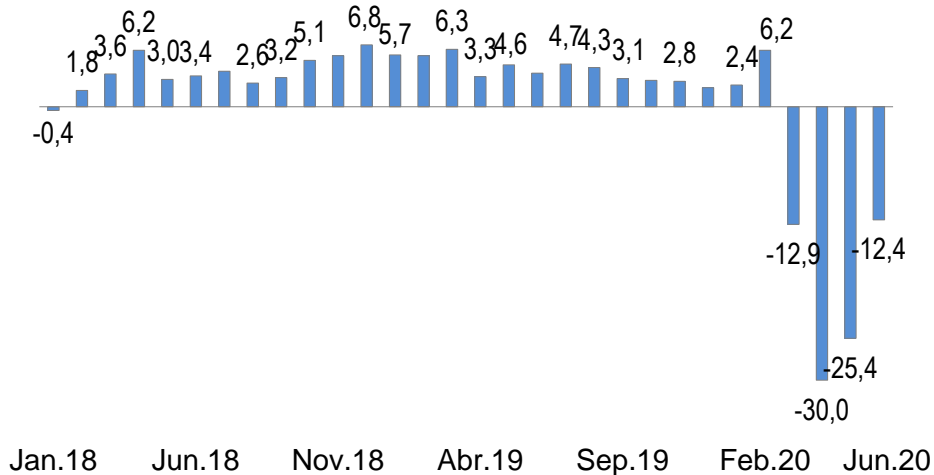
Re-weighted: Reduces the weight of items with greater volatility. considers the original weights of each item between the standard deviation of their monthly percentage changes.



Indicators show recovery since May.

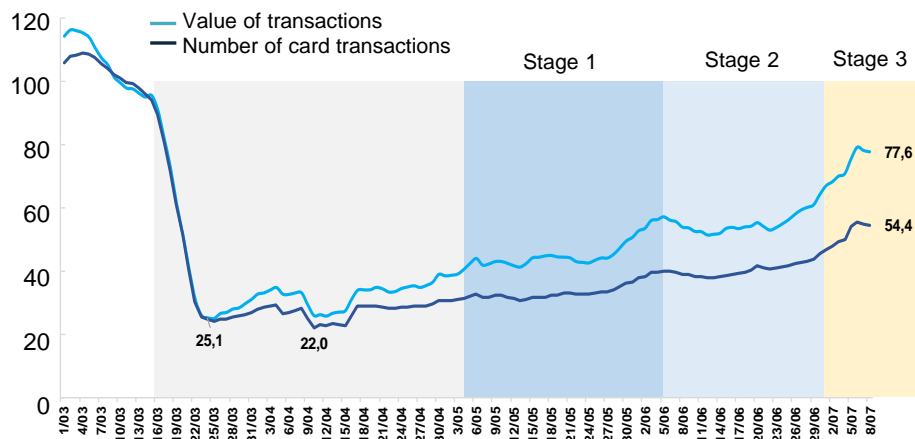
Electricity

(Annual % change)



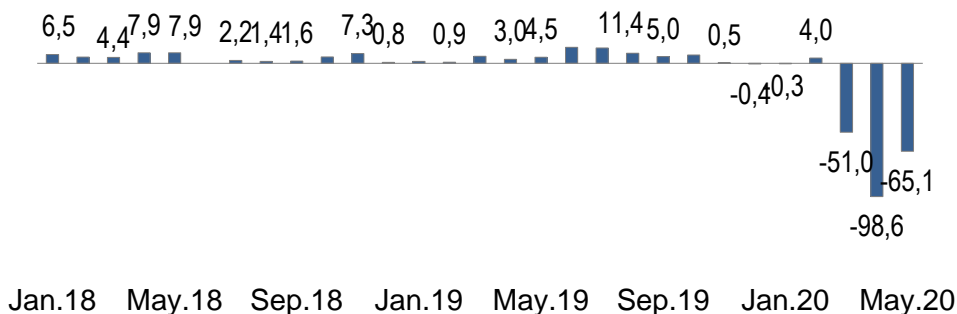
Value and number of card transactions 1/ 2/

(Indices; base period Jan 1- Mar 15. 2020 =100. moving average 7 days)



Domestic consumption of cement

(Annual % change)





Firm's growth expectations continued to recover in June. in line with gradual economic reopening. although they remain at historic lows.

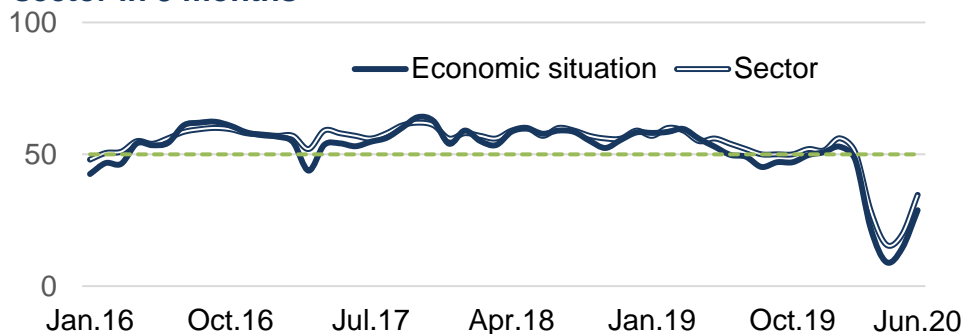
Macroeconomic Expectations: Survey Results

		Mar.2020	Apr.2020			June.2020			Correlation with GDP 1/
EXPECTATION:									
ECONOMIC SITUATION:	IN 3 MONTHS	22.0	9.1	↓	>	28.8	↑	<	0.63
	IN 12 MONTHS	42.0	30.4	↓	>	53.1	↑	>	0.42
SECTOR:	IN 3 MONTHS	29.0	15.7	↓	>	34.6	↑	>	0.67
	IN 12 MONTHS	43.0	35.8	↓	>	54.7	↑	>	0.33
COMPANY'S SITUATION:	IN 3 MONTHS	28.0	16.7	↓	>	36.6	↑	>	0.66
	IN 12 MONTHS	46.0	37.5	↓	>	56.5	↑	>	0.66
ABOUT DEMAND:	IN 3 MONTHS	31.0	17.8	↓	>	38.6	↑	>	0.66
	IN 12 MONTHS	47.0	38.9	↓	>	55.3	↑	>	0.66
NEW PERSONNEL HIRED:	IN 3 MONTHS	36.0	24.1	↓	<	32.9	↑	<	0.66
	IN 12 MONTHS	40.0	32.8	↓	>	45.5	↑	>	0.66
COMPANY'S INVESTMENT:	IN 3 MONTHS	30.0	17.8	↓	>	31.0	↑	>	0.66
	IN 12 MONTHS	40.0	31.9	↓	>	46.0	↑	>	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.

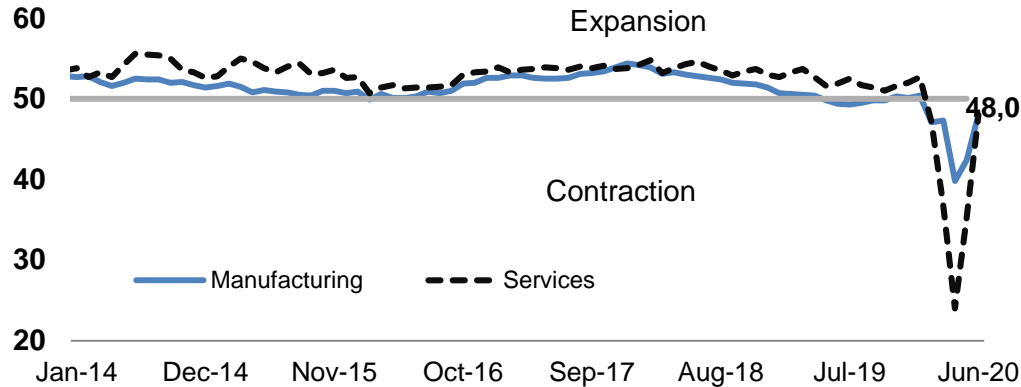
Expectations about the economic situation and sector in 3 months



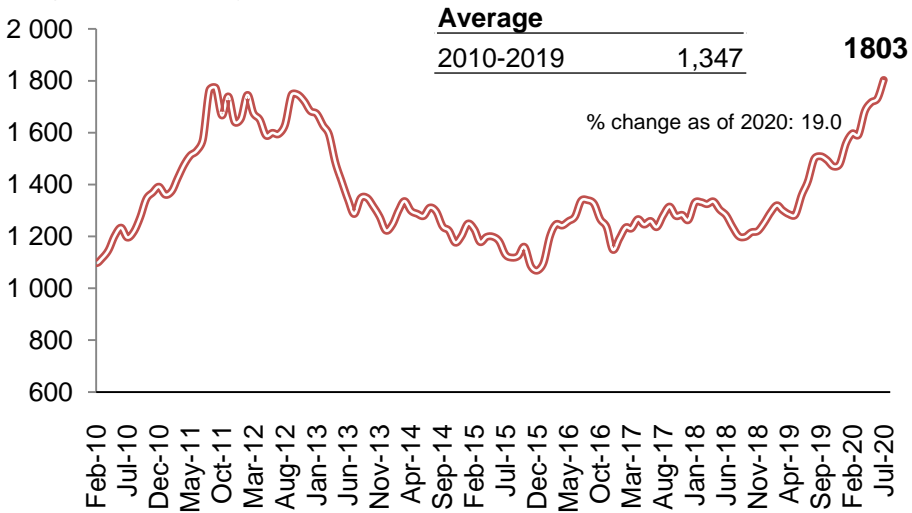


Partial rebound in the second half of the year.

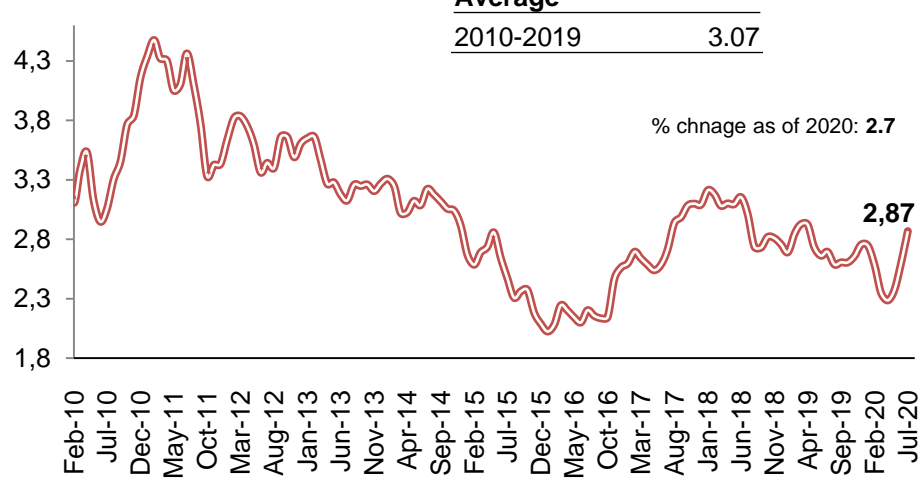
PMI global manufacturing and services
(JP Morgan)



Gold
(US\$/tr. ounce)



Copper
(US\$/pound.)

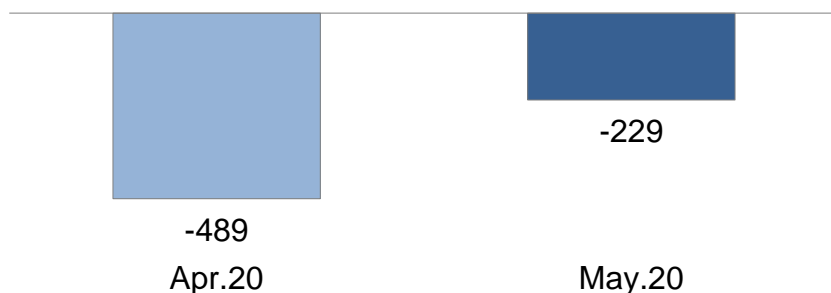




Recovery of non-traditional exports

The trade balance registered a deficit of US \$ 229 million in May. lower than the trade deficit recorded in April (US \$ 489 million). due to the improvement in exports. particularly non-traditional ones.

Trade balance
(Million US\$)



Trade balance
(Million US\$)

	2020			
	April	May	Var. %	Jan-May
1. Exports	1,827	1,969	7.7	13,915
Traditional products	1,269	1,250	-1.5	9,547
Non-traditional products	550	711	29.3	4,313
Other	8	7	-6.3	54
2. Imports	2,316	2,197	-5.1	13,685
Consumer goods	491	553	12.6	3,214
Raw materials and intermediate goods	1,112	1,031	-7.3	6,476
Capital goods	706	609	-13.7	3,960
Other goods	7	5	-38.8	35
3. Trade balance	-489	-229		230

Source: SUNAT and BCRP.



Rise in agricultural exports

Exports by group of product

(Million US\$)

	2020			Jan-May
	April	May	% Chg.	
1. Traditional products	1,269	1,250	-1.5	9,547
Fishing	43	48	11.7	396
Agricultural	11	20	85.2	95
Mining	1,142	1,122	-1.8	8,384
Oil and natural gas	73	61	-17.5	672
2. Non-traditional products	550	711	29.3	4,313
Agricultural	324	425	31.1	2,329
Fishing	58	63	8.0	399
Textiles	13	28	118.3	326
Wood and paper. and its manufacturing	12	14	13.9	91
Chemicals	87	100	14.9	547
Non-metallic minerals	19	23	26.1	152
Iron & steel. and jewelry	22	37	69.7	288
Metal mechanic products	12	17	35.1	151
Others ^{1/}	2	3	54.0	29
3. Others ^{2/}	8	7	-6.3	54
4. TOTAL EXPORS	1,827	1,969	7.7	13,915

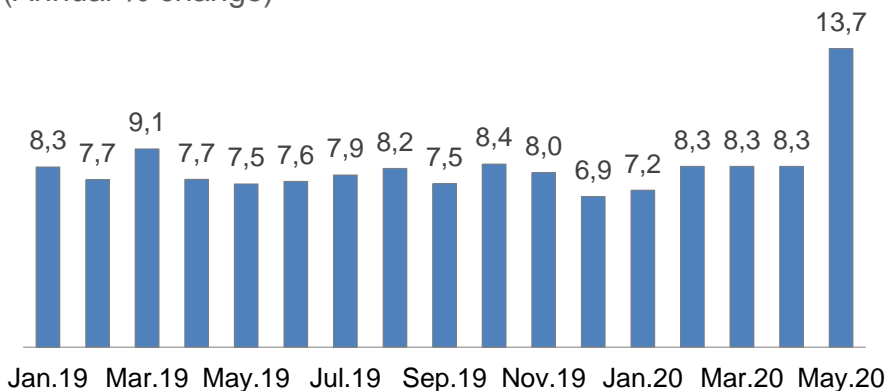
1/ Includes furs. leather. and handcrafts. mainly.

2/ Includes fuels and food sold to foreign ships. and repairs of capital goods.

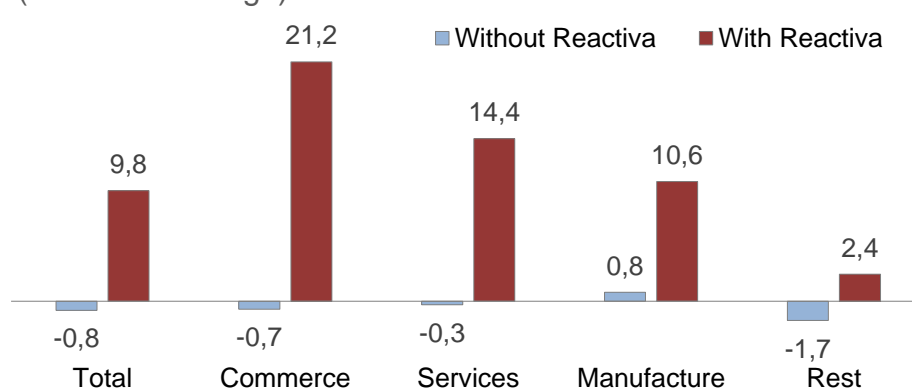


As a consequence of BCRP's liquidity injection operations, the credit to the private sector grew 13.7 percent year-on-year in May...

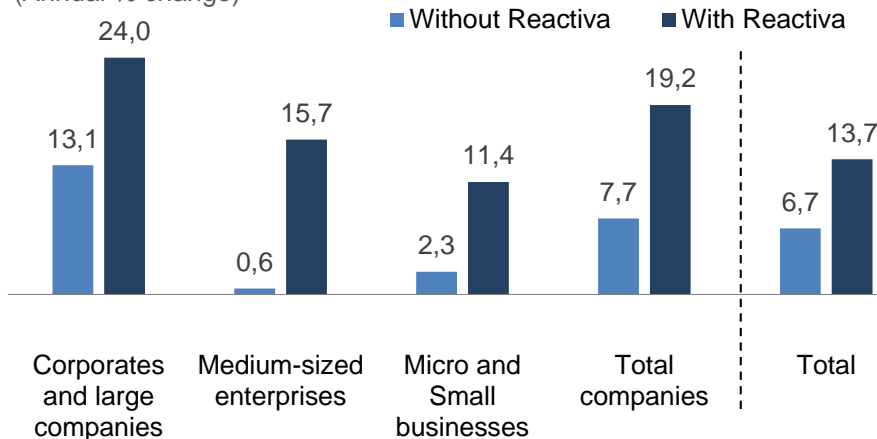
Credit to the private sector
(Annual % change)



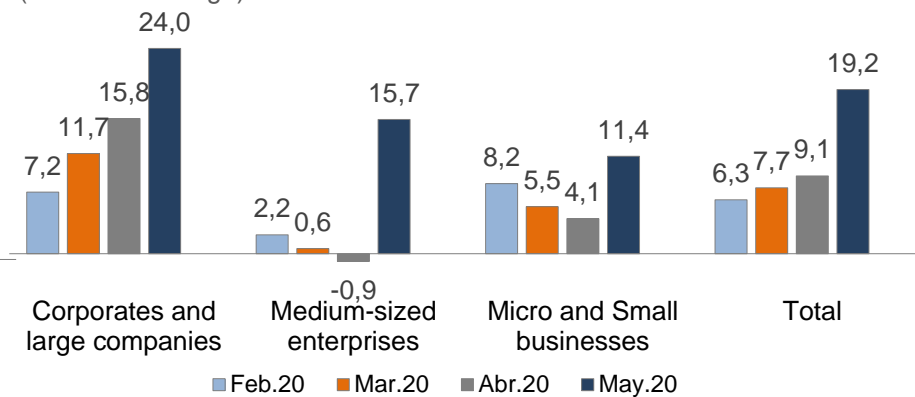
Growth of credit in May 2020
(Annual % change)



Growth of credit in May 2020
(Annual % change)



Credit to bussines by segment
(Annual % change)





... And a significant reduction in interest rates on business loans in the financial system.

Interest rate in domestic currency 1/

(%)

	Dec.19	Feb.20	Mar.20	Apr.20	May.20	Jun.20	Historical average	Accum. % respect to Feb.
Reference	2.25	2.25	1.25	0.25	0.25	0.25	3.52	-2.00
Interbank	2.25	2.24	1.84	0.61	0.24	0.21	3.57	-2.03
90-day corporate prime	3.26	3.20	3.05	2.35	1.29	0.90	4.42	-2.30
Corporate	3.80	3.40	3.63	4.01	2.94	3.03	5.26	-0.37
Large companies	6.01	6.09	5.86	5.48	1.98	2.56	6.85	-3.53
Medium-sized enterprises	9.28	9.57	8.86	8.11	2.42	3.86	10.21	-5.71
Small businesses	18.03	18.27	18.14	18.16	3.17	4.29	20.77	-13.98
Micro businesses	31.32	31.36	32.56	33.13	7.02	3.79	33.10	-27.57
FTAMN	18.24	19.83	16.04	11.22	6.17	8.82		-11.01

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

* Information as of 30 June. 2020.

Source: SBS and BCRP



CENTRAL RESERVE BANK OF PERU

In addition, on June 30th the authorities launched the phase two of the “Reactiva Peru” program, with five auction sessions totaling S/ 17.7 billion at an average interest rate of 1.49 percent.

Auction of Portfolio Repo Operations with National Government Guarantee - Phase 2

Guarantee percentage	Demanded (Million S/)	Allocated amounts* (Million S/)	Interest rates for clients			Allocated amounts* (%)
			Minimum	Maximum	Average	
80	656	325	1.25	1.48	1.37	1.8
90	11,270.1	7,233.5	0.99	1.99	1.22	40.9
95	8,874.2	6,007.6	0.60	2.00	1.27	33.9
98	4,116	4,129.5	0.55	3.99	2.28	23.3
Total	24,915.8	17,695.6	0.55	3.99	1.49	100.0

* As of July 8

Auction of Portfolio Repo Operations with National Government Guarantee

Guarantee percentage	Demanded (Million S/)	Allocated amounts* (Million S/)	Interest rates for clients			Allocated amounts* (%)
			Minimum	Maximum	Average	
80	19,171.1	9,043	0.79	1.49	1.12	19.0
90	41,585.0	21,239.5	0.90	2.00	1.13	44.5
95	22,015	12,105.7	0.54	2.50	1.20	25.4
98	7,329	5,307.4	0.50	3.99	2.17	11.1
Total	90,099.8	47,695.6	0.50	3.99	1.26	100.0

* As of July 8

Of the amount of Repos auctioned in the first stage of the Reactiva Peru Program, S/ 25.809 million have been disbursed to companies, with S/ 1.835 million still pending in Cofide and S/ 2.356 million in financial entities.

On the other hand, of the amount of Repos auctioned in the second stage of the Reactiva Peru Program, no resources have been disbursed due to that amount remains in administrative proceeding at Cofide.



In addition, there was also an increase in the participation of the small and micro business segment.

REACTIVA loans by company size ^{1/}

	Credit Amount		Average Sale		Business Loans ^{2/}	
	(Million S/)	Participation (%)	(Million S/)	Participation (%)	(Million S/)	Participation (%)
Corporate and large companies	14,361	45.1	23,085	61.7	118,639	56.7
Medium-sized enterprises	10,100	31.7	8,494	22.7	44,916	21.5
Small businesses and Microbusinesses	7,409	23.2	5,861	15.7	45,662	21.8
Total	31,871	100.0	37,440	100.0	209,216	100.0

Prepared with the COFIDE report information as of June 30, 2020. For the classification of company size, the definition of the SBS is used according to the Consolidated Credit Report (RCC). For companies that do not appear in the RCC, the classification is based on the amount of REACTIVA debt.

^{2/} Credits from the depository creating companies as of April 2020

Memo: The criteria for classifying the loans to companies by credit segment according to the SBS is as follows:

Corporate companies: Annual sales over S / 200 million.

Large companies: Annual sales between S/ 20 million and S/ 200 million; or maintain issues in the capital market in the last year.

Medium-sized enterprises: Total indebtedness higher than S/ 300 thousand or annual sales not higher than S/ 20 million.

Small businesses: Total indebtedness between S/ 20 thousand and S/ 300 thousand.

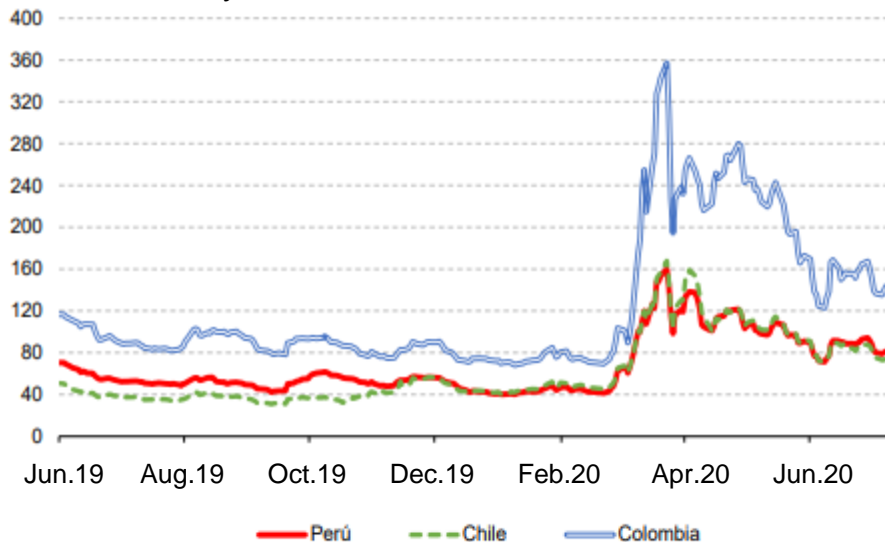
Microbusinesses: Total indebtedness not higher to S/ 20 thousand.



During the week, the 5-year CDS of Peru, Chile and Colombia fell 7, 9 and 7 bps, respectively.

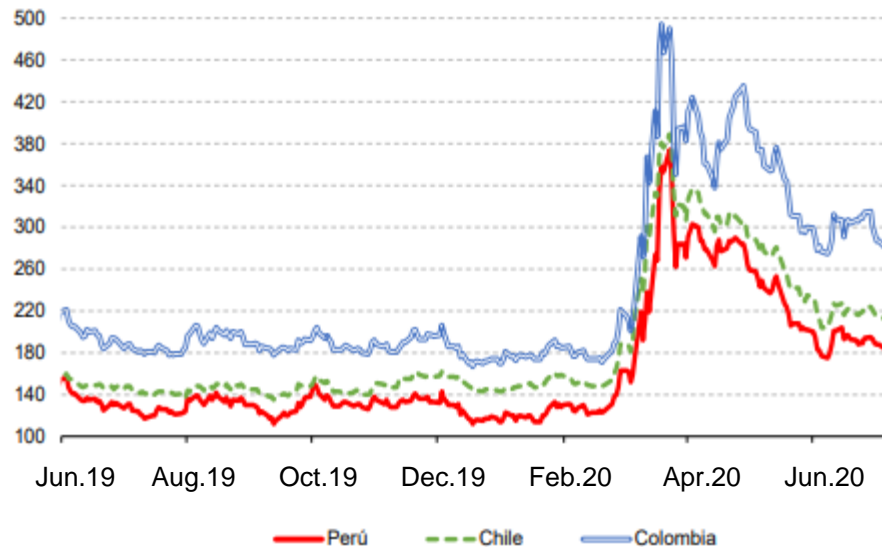
Evolution: CDS Peru vs LATAM

CDS Term 5 years



Evolution: EMBIG Peru vs LATAM

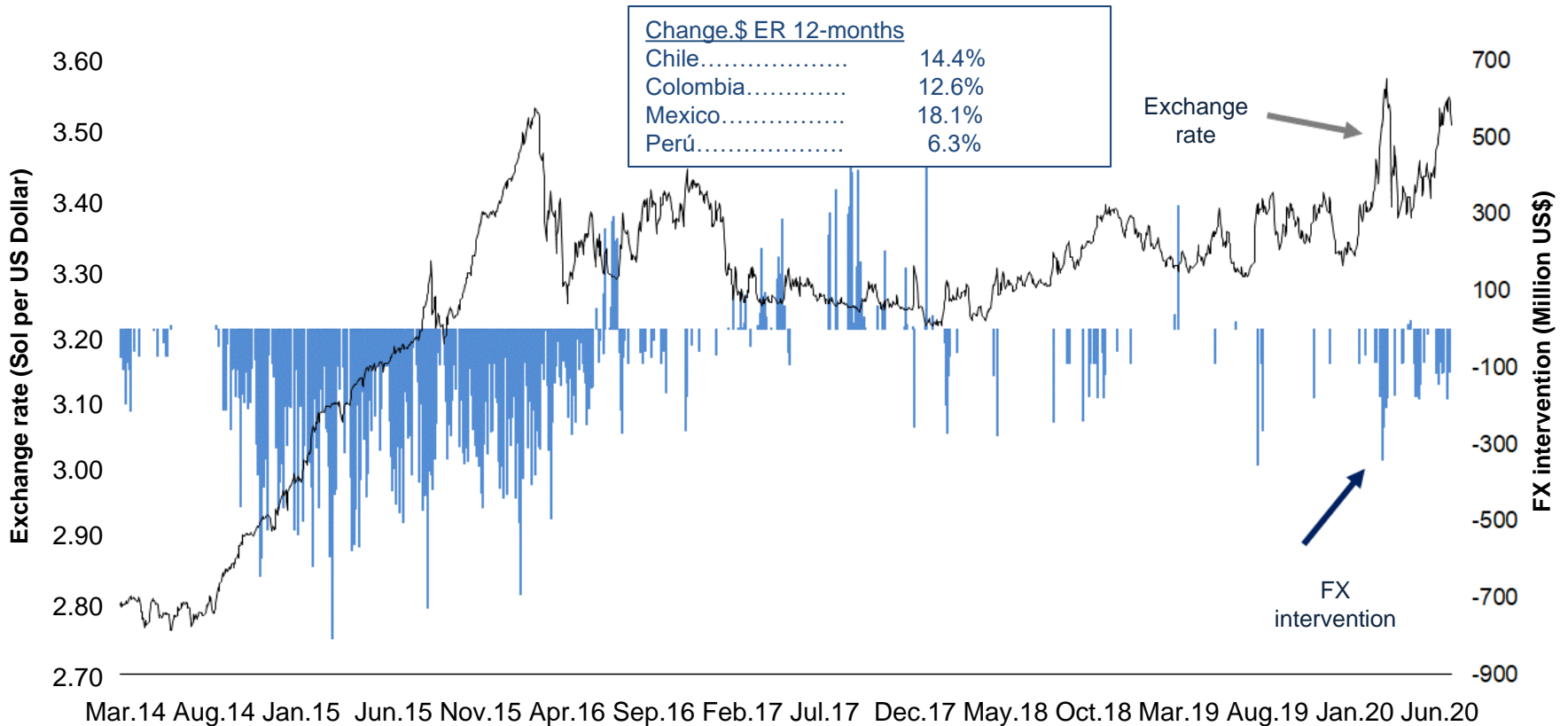
EMBIG diversified spread





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/}



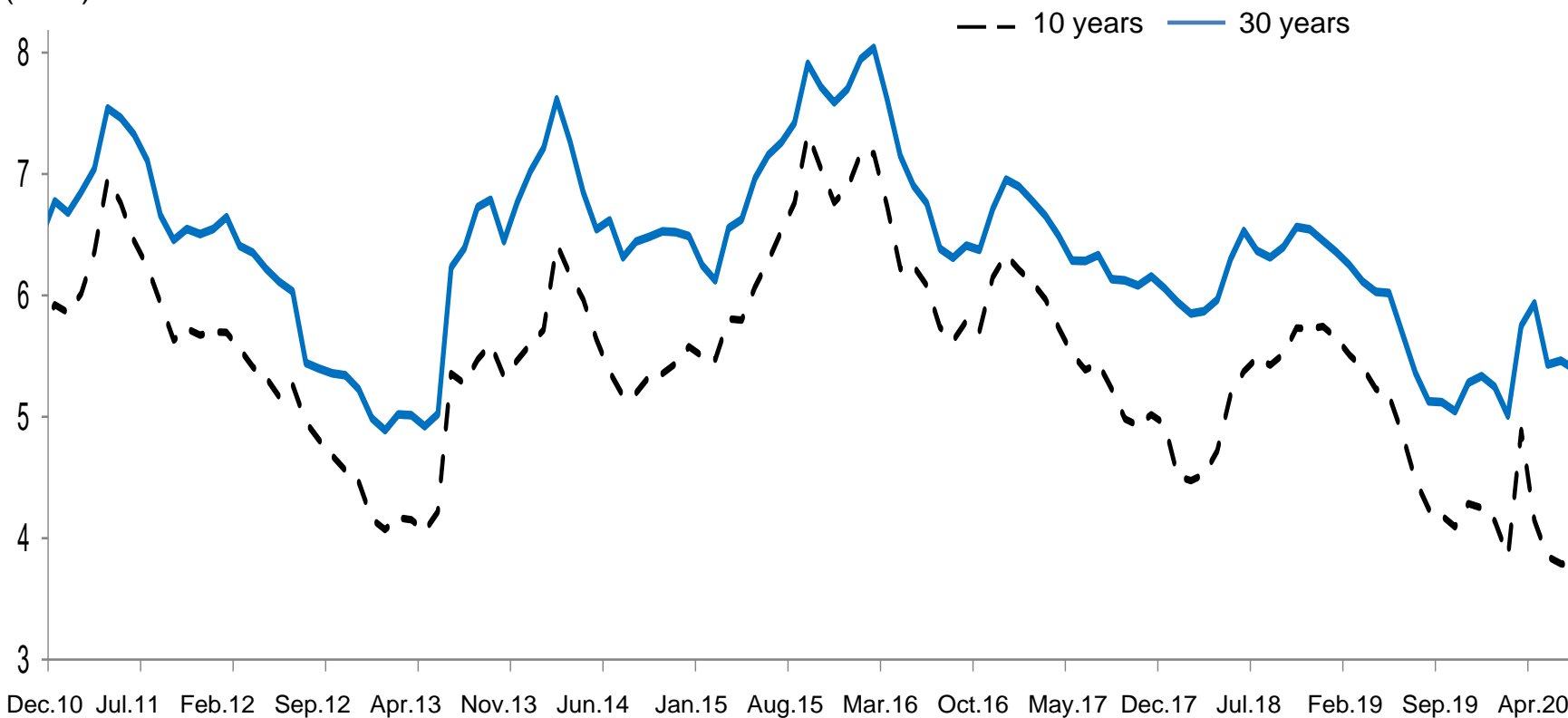
^{1/} Includes sell / purchases of US\$, placements of CDR BCRP and FX-Swaps, and CDLD BCRP.



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

Yield of the Peruvian Sovereign Bonds

(In %)





CENTRAL RESERVE BANK OF PERU

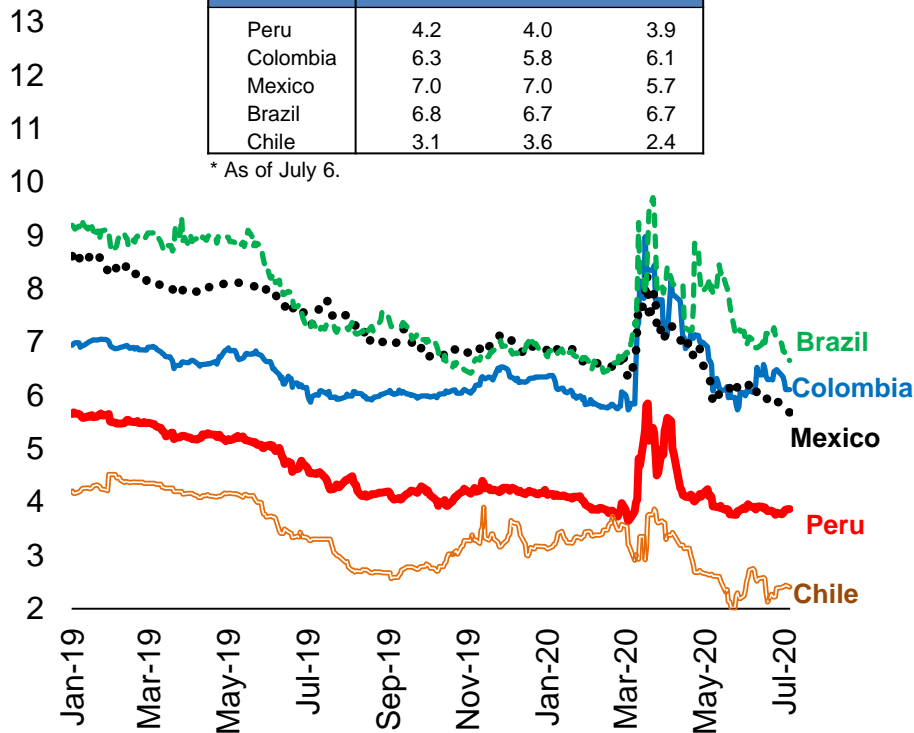
Since April, the injection of liquidity from Central Banks have contributed to a significant reduction in interest rates.

Yield of the 10-year Sovereign Bonds

(%. end-of-period)

	Dec. 19	Feb. 20	Jul.20*
Peru	4.2	4.0	3.9
Colombia	6.3	5.8	6.1
Mexico	7.0	7.0	5.7
Brazil	6.8	6.7	6.7
Chile	3.1	3.6	2.4

* As of July 6.

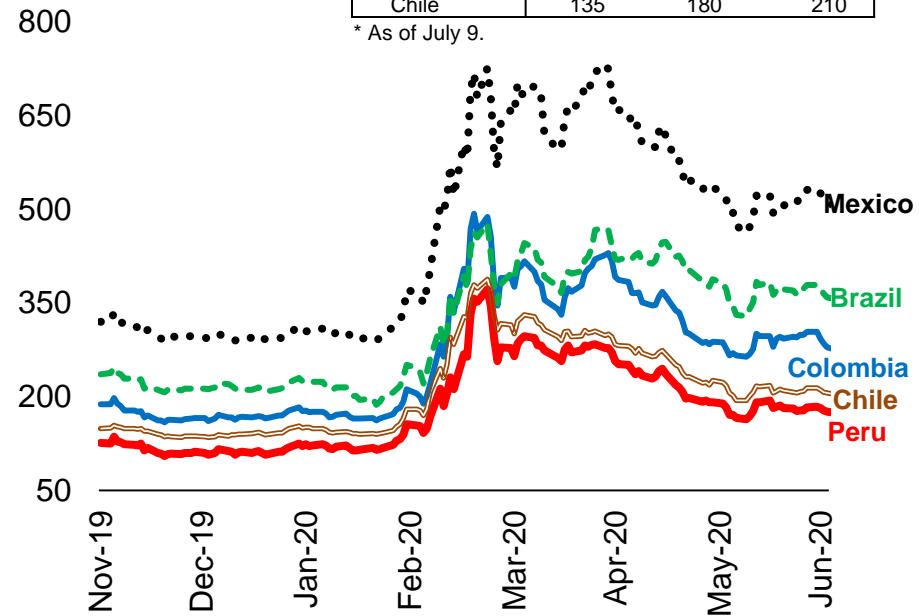


Country risk: EMBI+

(Basis points. end-of-period)

	Dec. 19	Feb. 20	Jul. 20*
Peru	107	156	179
Colombia	161	212	291
Mexico	292	372	522
Brazil	212	251	374
Chile	135	180	210

* As of July 9.





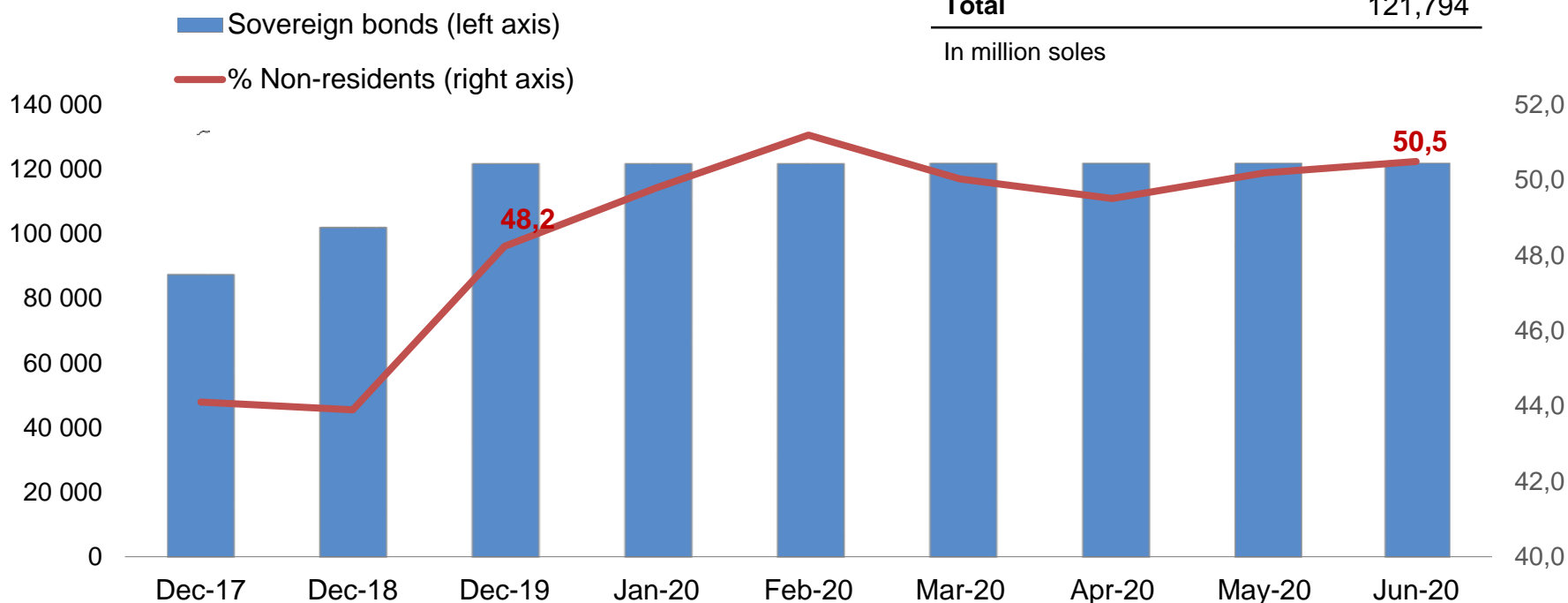
The participation of non-resident investors increased from 48 to 50 percent between the end of 2019 and May of this year. As a result, the temporary reduction in sovereign bond holdings of non-residents was overcome because of the greater aversion to risk that occurred in March.

Sovereign bonds held by non-residents investors

(Amount in mil. S/ and share in %)

Balance of Sovereign bonds	June 2020
Non-residents	61,493
Total	121,794

In million soles



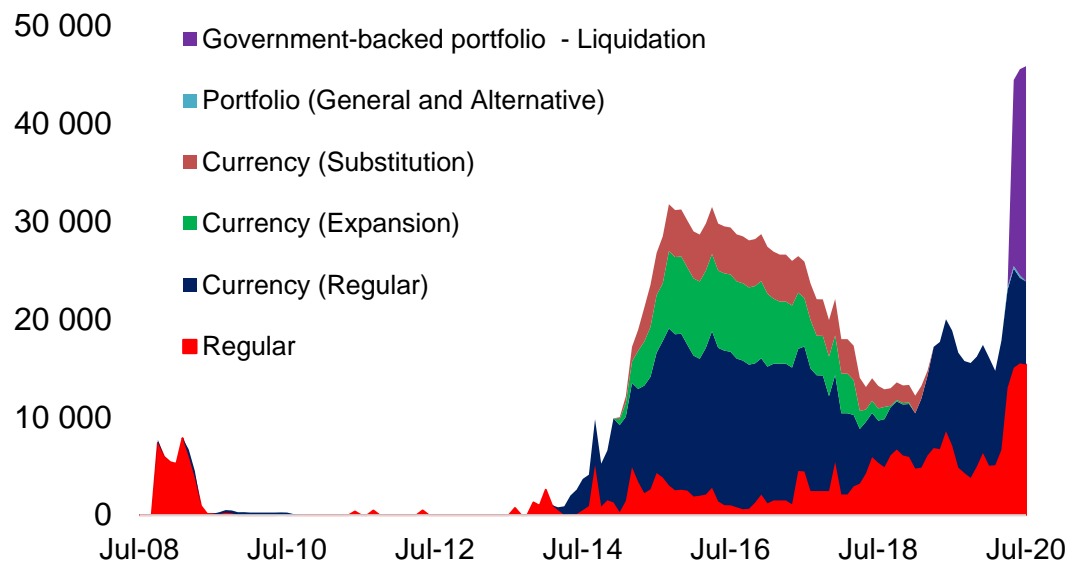


CENTRAL RESERVE BANK OF PERU

The BCRP will continue to take the necessary steps to sustain the payments system and credit flows. As of July 8th, the BCRP's liquidity injection operations totaled S/ 48 billion, of which S/ 25.8 billion were associated with government-backed repos.

Balance of repo operations*

(In mill. S/)



* As of July 8.

Comparative of Monetary aggregates*

Country	% change 12-month	Last disposable data
Australia	7.1	Apr.20
Brazil	23.2	May.20
Canada	13.1	Apr.20
Chile	9.8	May.20
China**	11.1	Apr.20
Colombia	14.6	Mar.20
South Korea	8.1	Mar.20
U.S	18.0	Apr.20
Eurozone	8.4	Apr.20
Japan	3.0	Apr.20
Mexico	14.8	Apr.20
New Zealand	9.9	Apr.20
Peru	22.0	May.20
Russia	12.7	May.20

* Corresponds to the definition of M3.

** Corresponds to the definition of M2.

Source: IMF, central banks and FRED Database.



CENTRAL RESERVE BANK OF PERU

Monetary Policy Statement July 2020

July 10. 2020