



CENTRAL RESERVE BANK OF PERU

Monetary Policy Statement December 2021

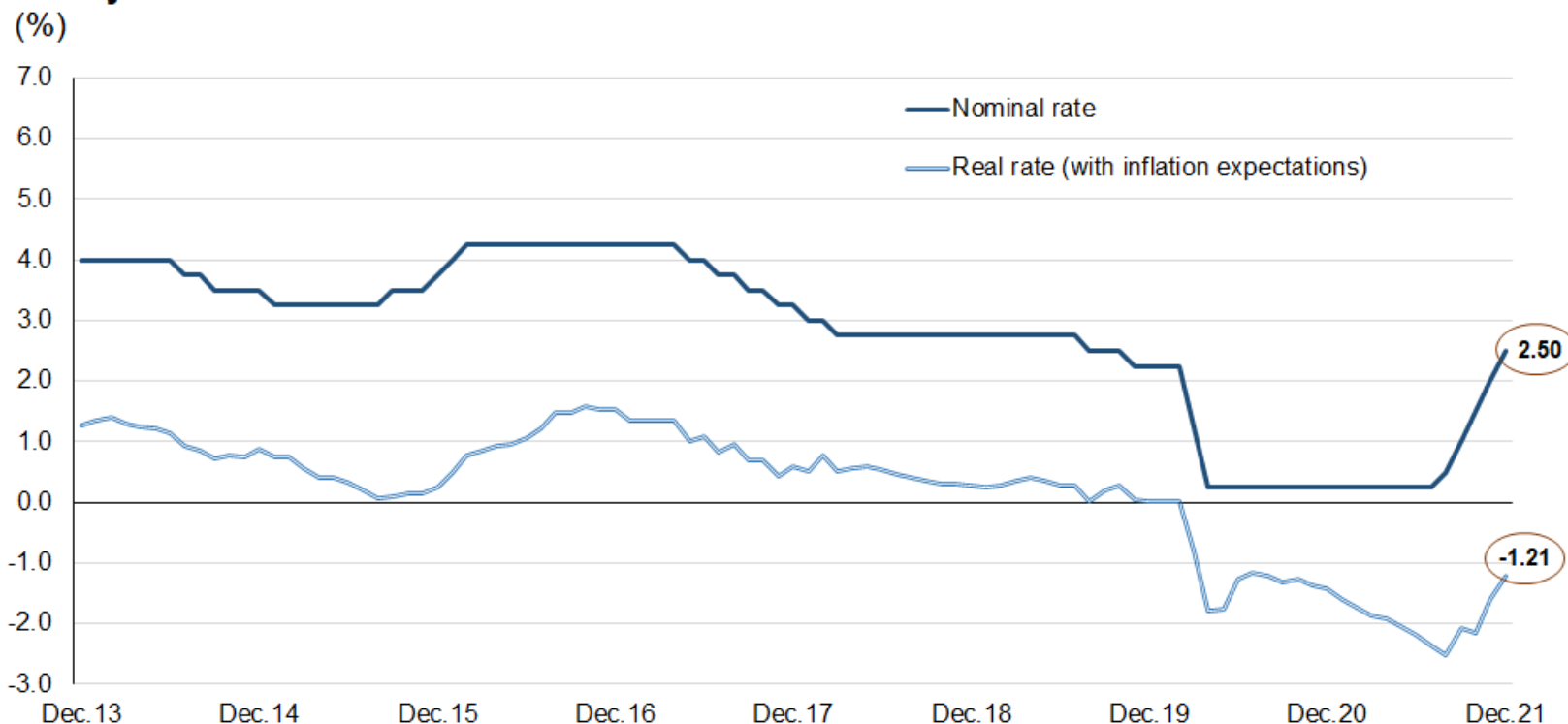
December 10, 2021



CENTRAL RESERVE BANK OF PERU

The Board of Directors of the Central Reserve Bank of Peru (BCRP) decided to raise the reference interest rate by 50 bps to 2.50 percent. Monetary policy is still expansionary, and the current decision does not necessarily imply a cycle of successive increases in the reference rate.

Policy interest rate

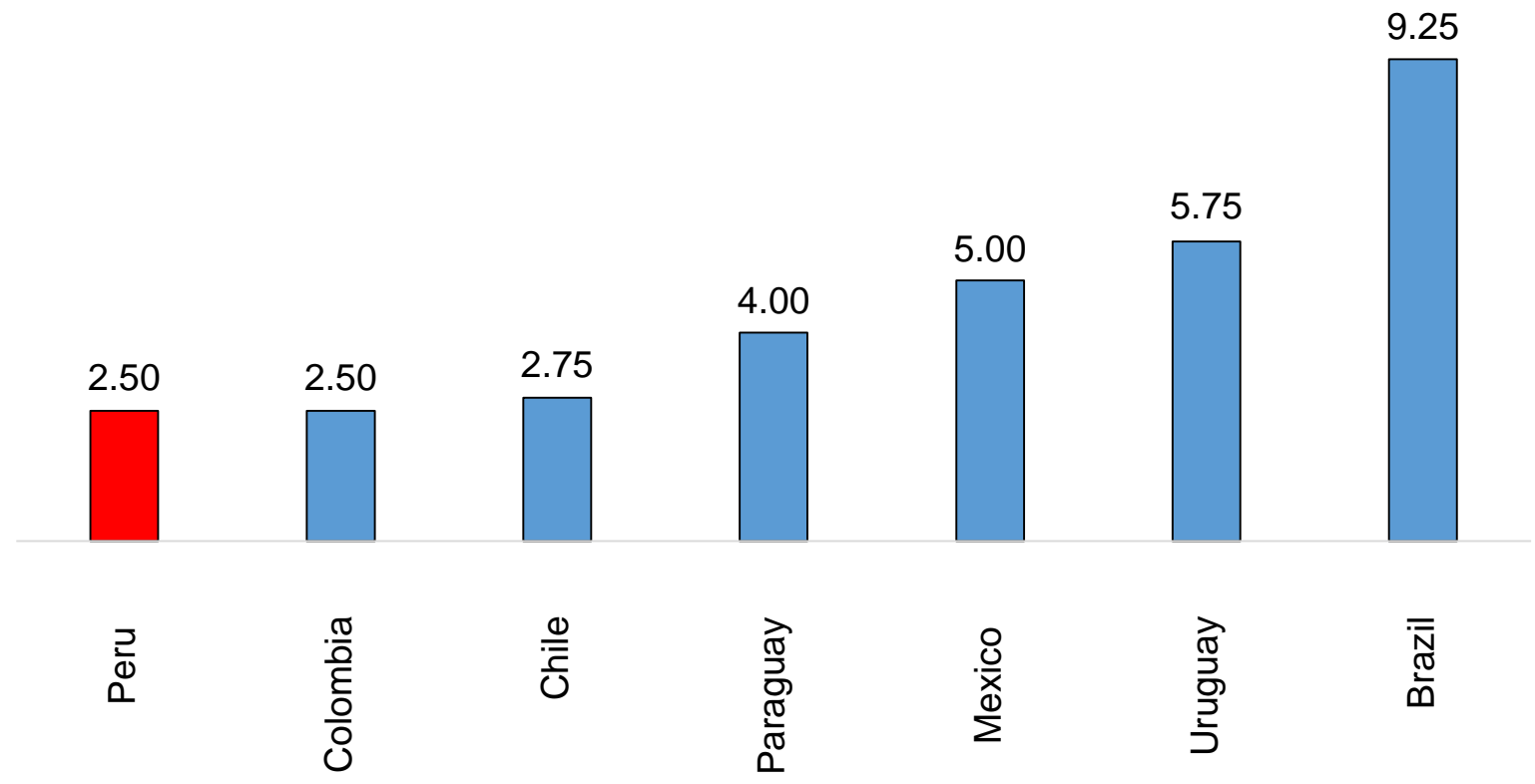


	Jul.20	Aug.20	Sep.20	Oct.20	Nov.20	Dec.20	Jan.21	Feb.21	Mar.21	Apr.21	May.21	Jun.21	Jul.21	Aug.21	Sep.21	Oct.21	Nov.21	Dec.21
(I) Nominal rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50	2.00	2.50
(II) Inflation expectations	1.40	1.46	1.57	1.51	1.62	1.68	1.85	1.98	2.11	2.17	2.30	2.43	2.60	3.03	3.07	3.64	3.61	3.71
(III) Real rate: (I)-(II)	-1.15	-1.21	-1.32	-1.26	-1.37	-1.43	-1.60	-1.73	-1.86	-1.92	-2.05	-2.18	-2.35	-2.53	-2.07	-2.14	-1.61	-1.21



Peru's monetary policy interest rate of 2.5 percent is one of the lowest at the international level.

Monetary Policy Interest Rates in Emerging Economies: December 2021 (%)

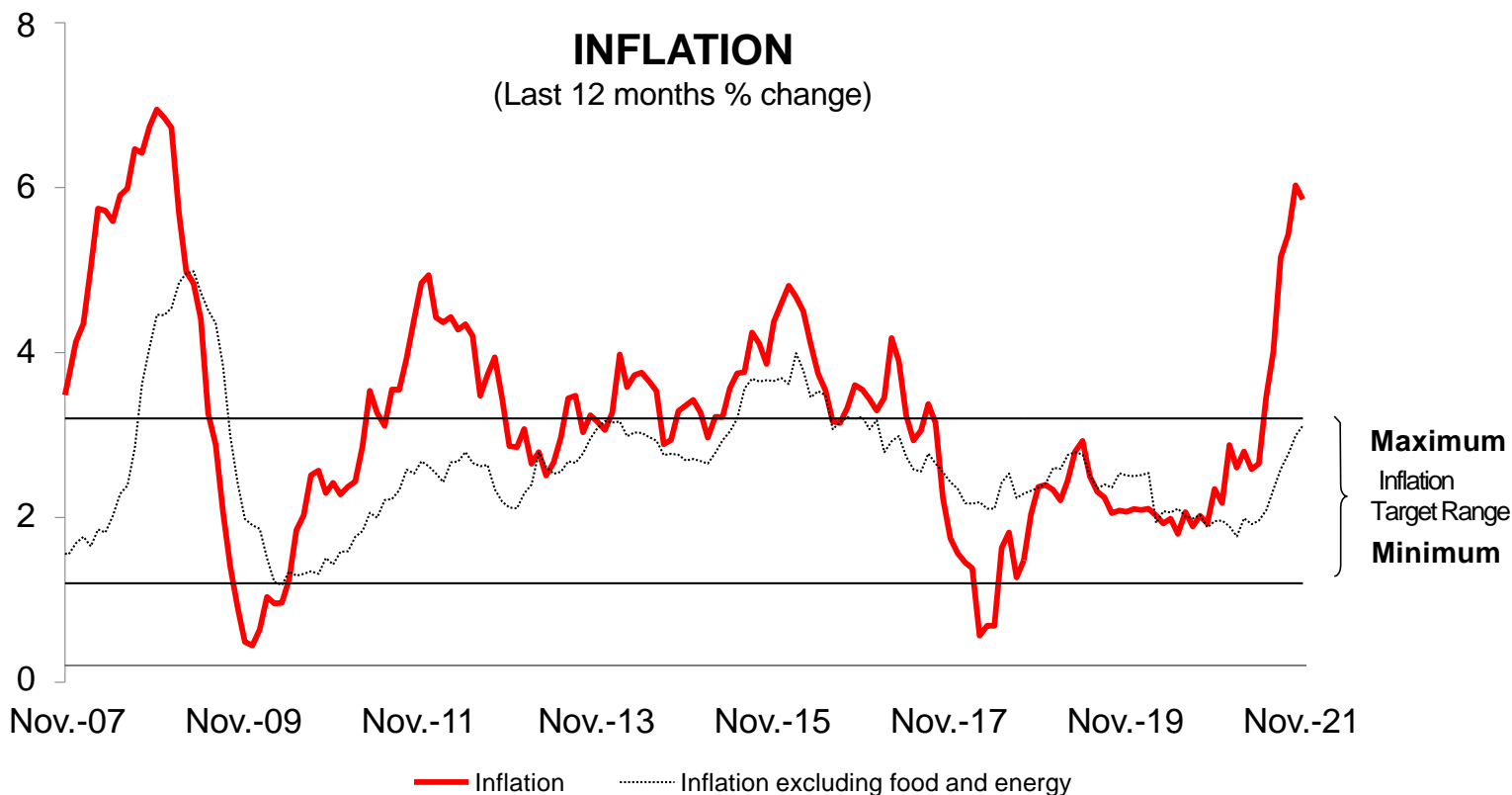


Source: Central Banks.



CENTRAL RESERVE BANK OF PERU

Year-on-year inflation decreased from 5.83 percent in October to 5.66 percent in November, temporarily above the target range due mainly to a surge in international food and fuel prices, as well as exchange rate depreciation.



Last 12 months % change	Jan. 21	Feb. 21	Mar. 21	Apr. 21	May. 21	Jun. 21	Jul. 21	Aug. 21	Sep. 21	Oct. 21	Nov. 21
Inflation	2.68	2.40	2.60	2.38	2.45	3.25	3.81	4.95	5.23	5.83	5.66
Inflation excluding food and energy	1.69	1.57	1.79	1.72	1.76	1.89	2.14	2.39	2.57	2.79	2.91

Source: BCRP



At international level, there is a significant increase in the international prices of commodities, particularly in oil (49 percent so far this year) and in some foods such as wheat (102 percent since December 2019), maize (53 percent since December 2019) and in soybean oil (93 percent since December 2019).

International Food and Fuel Quotes (US\$ per unit of measure)

		Spot				% change ^{1/}		
		Dec.19	Dec.20	Nov.21	Dec 8, 21	Dec.21/Dec.20	Dec.21/Nov.21	Dec.21/Dec.19
WTI Oil	(US\$ per barrel)	61.1	48.5	66.2	72.4	49.1	9.3	18.5
LPG*	(US\$ per barrel)	23.9	31.4	52.4	47.8	52.4	-8.7	100.0
Gasoline*	(US\$ per barrel)	73.8	57.8	87.2	81.8	41.5	-6.2	10.8
Wheat	(US\$ per ton)	177.8	231.1	359.1	359.0	55.3	0.0	101.9
Maize	(US\$ per ton)	148.4	186.6	216.1	226.4	21.3	4.7	52.5
Soybean	(US\$ per ton)	756	977	1,424	1,457	49.0	2.3	92.6
Baltic Index	(US\$ Index)	1,090	1,366	3,018	3,423	150.6	13.4	214.0
Exchange rate	S/ per US\$	3.314	3.620	4.067	4.080	12.7	0.3	23.1

1/ Comparison as of December 21 is with respect to December 8.

* International reference prices published by OSINERGMIN as of December 6, 2021.

Source: Reuters, USDA and OSINERGMIN.



These rises in international prices produced an inflation increase through higher production costs of basic foodstuffs in the family basket such as bread and noodles (due to wheat is its main input), chicken meat (because of maize and soy cake are its main inputs), and vegetable oil (caused by soybean oil, which is its main input). Additionally, the increase in oil prices have had a direct and indirect impact on inflation through higher transportation costs, as well as by the significant increase in the exchange rate (12.7 percent since December 2020).

INFLATION

(% Change)

Item	Weight	2019	2020	November 2021
				% Change 12 months
CPI	100.0	1.90	1.97	5.66
1. CPI excluding food and energy	56.4	2.30	1.76	2.91
2. Food and energy	43.6	1.43	2.22	8.86
i. Food	37.8	1.00	2.24	6.70
Chicken meat	3.0	-7.3	6.6	11.7
Bread	1.9	0.9	0.3	15.0
Oils	0.5	-2.3	4.1	63.2
Potatoes	0.9	12.6	-18.7	9.1
Tomatoes	0.2	-4.6	-11.4	64.1
Meals outside the home	11.7	1.7	1.0	4.0
ii. Energy	5.7	4.32	2.13	22.91
Fuels	2.8	-0.4	-4.2	43.5
Gasoline and lubricants	1.3	0.6	-11.2	49.0
Gas	1.4	-1.7	2.0	41.7
Electricity	2.9	8.0	6.7	9.6

Source: INEI



The price increase in oil and other fuels, as well as the restrictions of the COVID-19 pandemic that limit access to other basic inputs, would have affected the cost of industrial products. It is worth highlighting that the increase in the price of fertilizers and manures puts additional pressure on food inflation as it affects the production costs of perishable agricultural crops.

Import Prices

Item	% Change	
	Nov. 21 / Dec. 20	Nov. 21 / Dec. 19
Industrial inputs	30.7	35.6
Plastics	51.4	61.1
Iron and Steel	55.2	60.2
Textiles	19.8	11.5
Papers	26.6	15.4
Chemical goods	11.9	16.7
Organic chemicals	40.3	45.3
Rest	25.2	32.6
Of Which:		
Fertilizers	71.0	51.9

Source: Sunat.

Elaboration: BCRP.



Year-on- year core inflation was 2.91 percent in November. In addition, inflation trend indicators are above the target range

Inflation and Trend Indicators

(Annual % change)

	Annual average	Annual % change	
	2001-2020	Oct.21	Nov.21
CPI	2.6	5.83	5.66
CPI excluding food and energy	2.1	2.79	2.91
<u>Trend indicators</u>			
Bounded mean	2.5	3.83	4.06
Percentile 63	2.4	3.47	3.73
Re-weighted	2.5	3.56	3.80

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

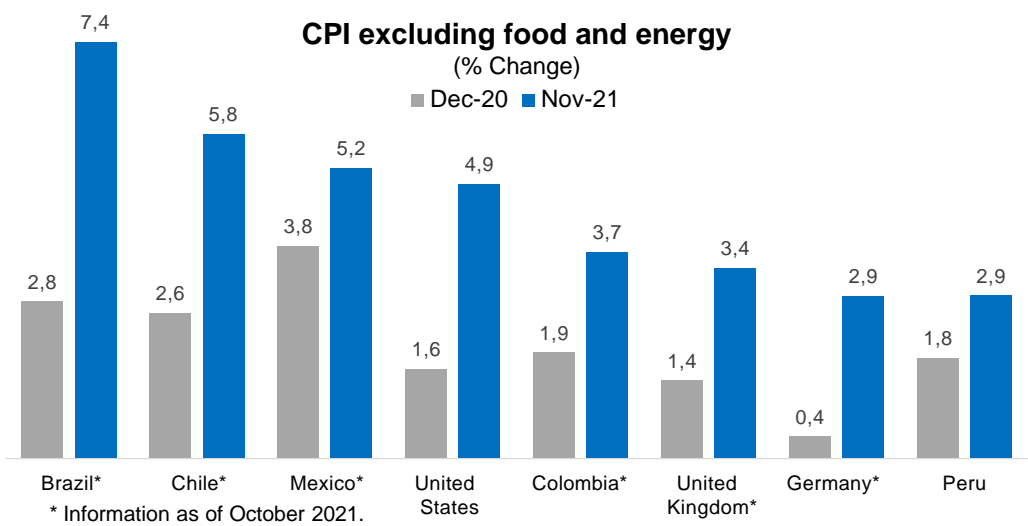
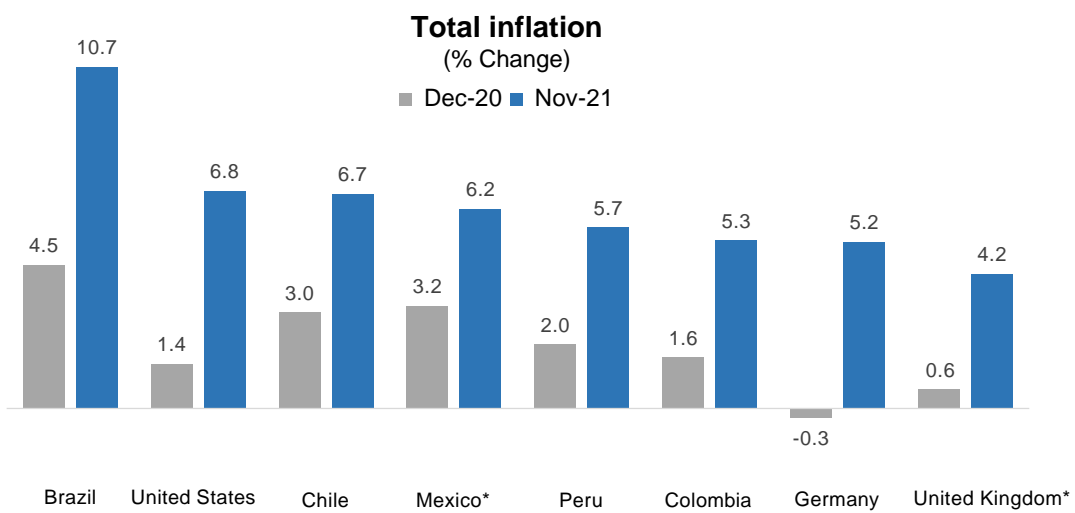
Percentile 63: Corresponds to the percentage changes of the item located in the 63th percentile.

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.



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An acceleration of inflation rates is observed in the world so far this year. In November 2021, total inflation and core inflation in Peru were among the lowest at the international level.



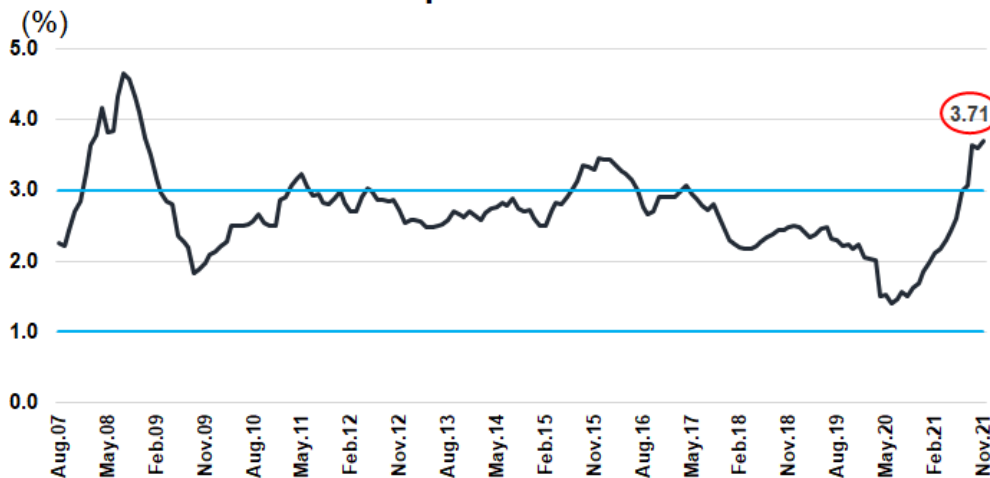
Source: Central Banks and Statistical Institutes.



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One-year-ahead expected inflation increased from 3.6 percent in October to 3.7 percent in November and is forecast at 3.5 percent for 2022, above the upper limit of the inflation target range.

1-Year ahead inflation expectations*



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

Source: BCRP

Survey of Macroeconomic Expectations: Inflation (%)

	Survey date:		
	Sep 30.	Oct 31.	Nov 30.
Economic analysts¹			
2021	4.60	5.10	5.75
2022	3.00	3.15	3.55
2023	2.80	2.90	2.80
Financial entities²			
2021	5.00	5.01	5.80
2022	3.50	3.50	3.50
2023	3.00	3.00	3.00
Non-financial firms³			
2021	3.70	4.00	4.10
2022	3.00	3.00	3.21
2023	3.00	3.00	3.00

¹ 16 analysts in September, 18 in October and 16 in November 2021.

² 13 financial entities in September, 18 in October and 15 in November 2021.

³ 290 non financial firms in September, 284 in October and 287 in November 2021.



Economic activity in the January-September 2021 period is above the pre-pandemic level, although the sectors most intensive in human contact are those most affected by COVID-19.

GROSS DOMESTIC PRODUCT

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

	Weight 2020 ^{1/}	2020	21/20			21/19		
		Year	Q.3	Sep.	Jan.-Sep.	Q.3	Sep.	Jan.-Sep.
Primary GDP	23.1	-7.7	3.0	7.3	8.5	-3.7	-0.4	-2.8
Agriculture and Livestock	6.4	1.4	9.6	11.5	2.7	7.8	14.8	4.3
Fishing	0.5	4.2	-37.8	-39.2	8.4	-28.6	-33.5	-0.6
Mining	8.8	-13.8	6.2	12.3	15.6	-3.9	-0.3	-5.2
Fuel	1.5	-11.0	-6.2	4.0	-6.9	-19.1	-15.9	-16.8
Primary industries	3.6	-2.0	-9.0	-10.9	7.7	-9.8	-10.9	0.8
Non-primary GDP	76.9	-12.0	13.8	10.3	20.2	3.1	3.9	1.4
Non-primary industries	8.5	-16.4	14.5	12.7	32.8	4.4	9.1	3.9
Electricity and water	2.0	-6.1	6.3	6.0	10.6	2.9	4.1	1.6
Construction	5.6	-13.9	23.8	12.6	64.0	18.3	17.8	18.0
Commerce	10.2	-16.0	10.1	7.4	23.8	1.2	0.8	-1.8
Total Services	50.6	-10.3	13.7	10.4	14.0	1.5	2.0	-0.1
Transportation	4.3	-26.8	31.7	24.4	20.7	-5.9	-7.3	-13.9
Lodging and restaurants	1.7	-50.7	99.5	85.1	42.2	-24.7	-12.6	-36.6
Telecommunications	5.7	4.8	7.2	7.6	8.1	13.8	15.7	12.2
Financial and insurance	7.2	13.7	2.3	-1.6	10.6	21.7	19.6	22.5
Business services	4.1	-19.7	14.0	8.8	19.2	-9.9	-9.3	-8.5
Public administration	5.5	4.1	3.1	3.2	4.4	7.2	7.4	8.7
Other services	14.0	-10.0	10.4	7.8	9.4	-2.2	-2.6	-2.4
Taxes	8.1	-12.9	17.9	13.2	24.5	3.8	3.7	3.3
GDP	100.0	-11.0	11.4	9.7	17.5	1.6	3.0	0.5

1/ Implicit weighting for 2020 at 2007 prices.

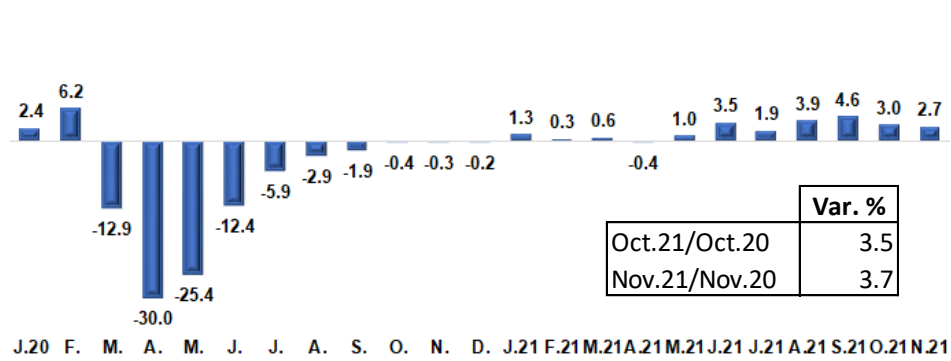
Source: INEI and BCRP



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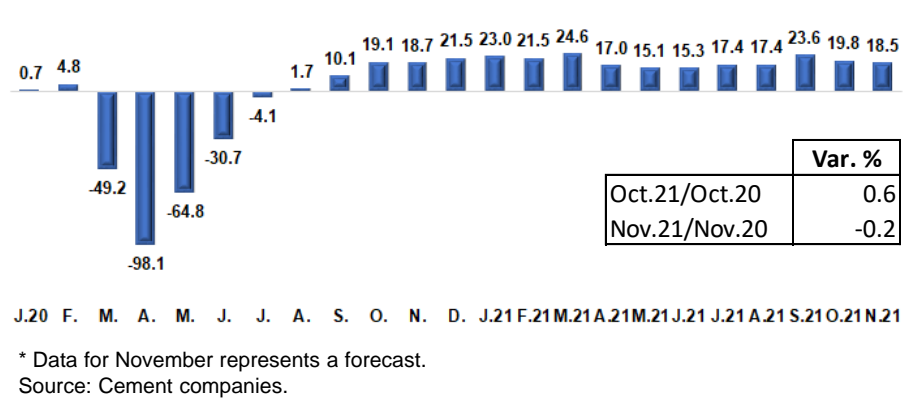
Indicators for October and November show that economic activity would remain above its pre-pandemic level.

Average monthly electricity production (GWh)
(% change respect to the same period in 2019)

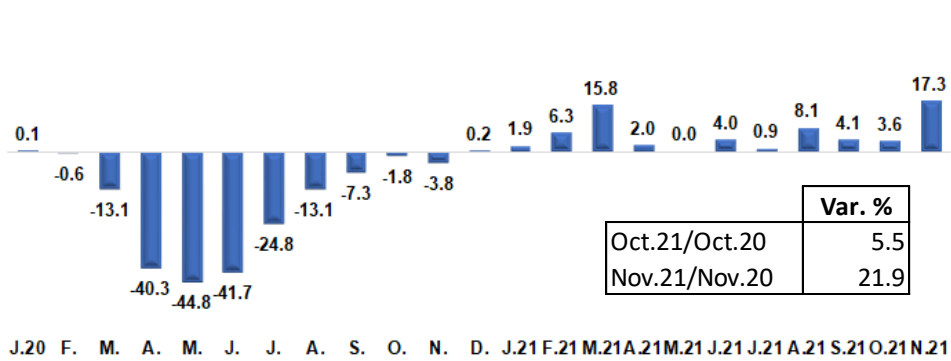


Source: COES.

Domestic consumption of cement*
(% change respect to the same period in 2019)

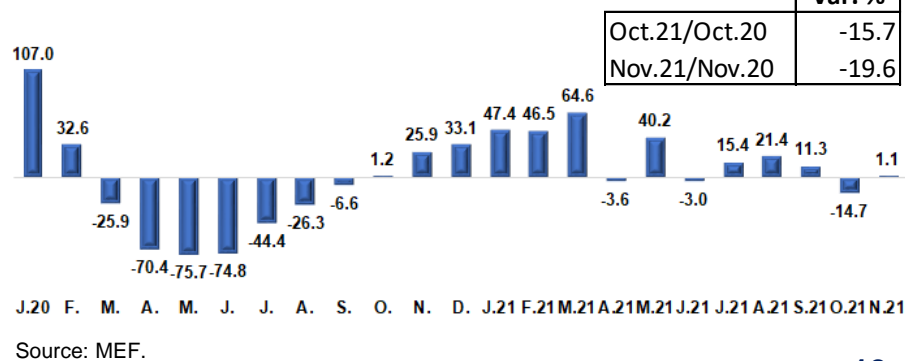


Domestic value-added tax
(Annual real % change)



Source: Sunat.

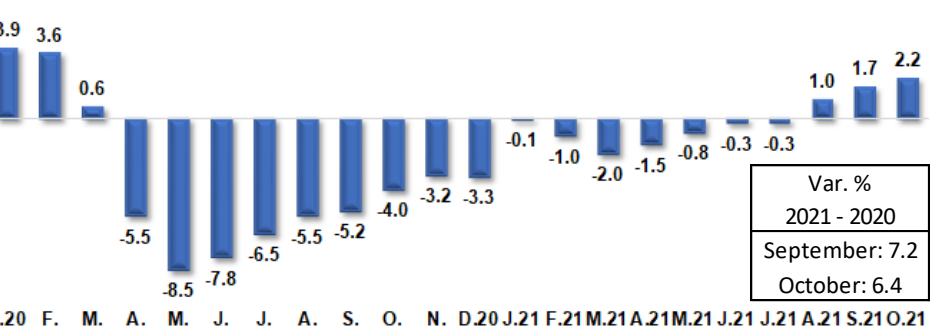
Real Investment of the General Government
(Annual real % change)



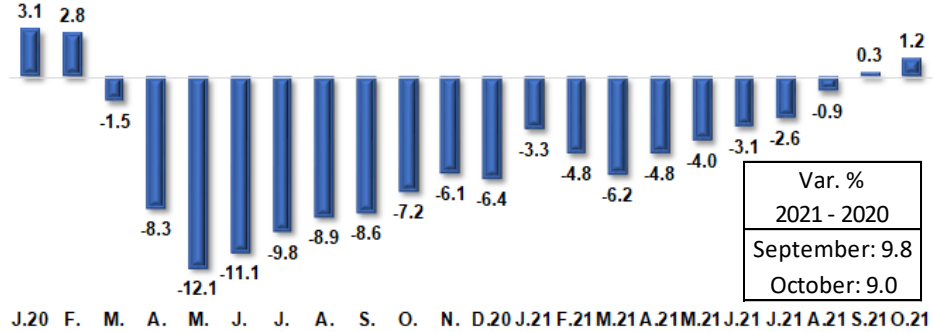


Respect to the same period in 2019, formal jobs (including the private and public sector) rose 2.2 percent in October, while the formal wage bill increased 7.6 percent.

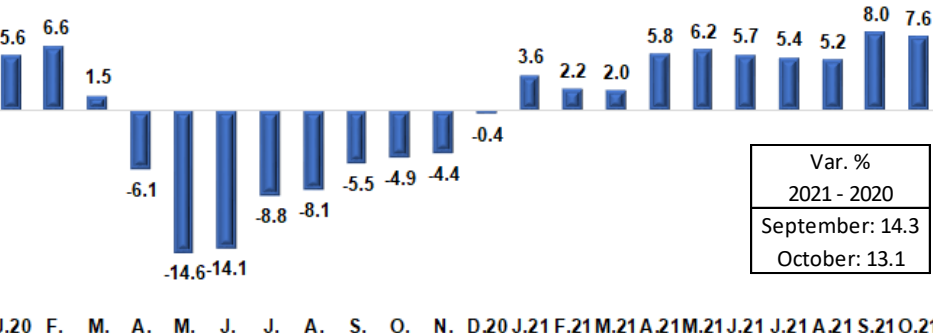
Formal employment - Electronic Payroll
(% change respect to the same period in 2019)



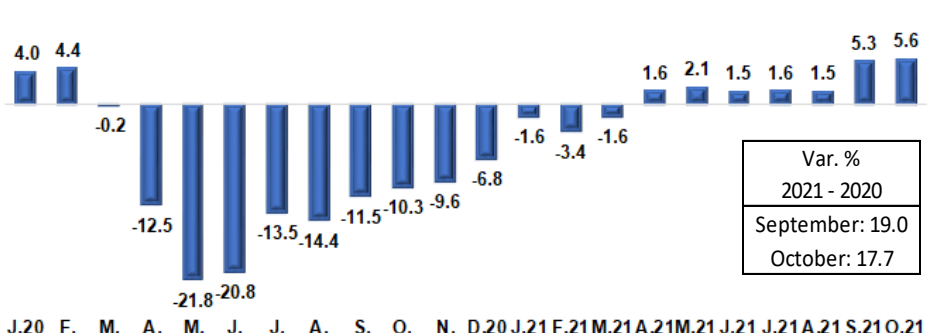
Private sector formal employment - Electronic Payroll
(% change respect to the same period in 2019)



Total formal wage bill - Electronic Payroll
(% change respect to the same period in 2019)



Private sector formal wage bill - Electronic Payroll
(% change respect to the same period in 2019)



Source: SUNAT



In October 2021, 326 thousand formal jobs have increased in the private sector compared to October 2020, with which the level is above the pre-pandemic level.

Formal jobs in the Private Sector - Electronic Payroll

(Thousands of positions)

	October							Jan - Oct	
	2019	2020	2021	Change 2021 / 2020		Change 2021 / 2019		% Chg.	% Chg.
				Thousands	%	Thousands	%	21/20	21/19
Total	3,899	3,620	3,946	326	9.0	47	1.2	3.6	-2.8
Agriculture and Livestock ^{1/}	499	584	621	36	6.2	122	24.4	1.3	8.0
Fishing	20	19	19	0	-0.3	-1	-4.2	3.8	-1.6
Mining	105	101	115	13	13.2	9	9.0	10.1	6.0
Manufacturing	474	439	466	26	6.0	-8	-1.8	3.0	-3.9
Electricity	16	15	16	2	12.2	0	0.2	5.2	-0.3
Construction	246	227	264	37	16.3	18	7.4	29.3	7.2
Commerce	625	585	638	53	9.1	13	2.2	3.1	-1.2
Services	1,910	1,644	1,785	141	8.6	-125	-6.5	0.8	-7.9
Not specified	5	6	23	17	307.4	18	386.5	176.9	440.1

1/ Includes processing and preservation of fruits and vegetables.

Source: SUNAT.



Most indicators of expectations about the economy have deteriorated in November and some are placed in the pessimistic tranche.

Macroeconomic Expectations: Survey Results

		Dec.2019	Mar.2020	Sep.2021	Oct.2021		Nov.2021		Correlation with GDP ^{1/}		
EXPECTATION:											
ECONOMIC SITUATION:	IN 3 MONTHS	50.8	21.8	35.0	42.5	↑	<	40.1	↓	<	0.63
	IN 12 MONTHS	61.5	41.5	44.5	51.0	↑	>	47.3	↓	<	0.42
SECTOR:	IN 3 MONTHS	51.5	28.5	44.8	48.7	↑	<	46.8	↓	<	0.67
	IN 12 MONTHS	61.5	43.4	51.7	56.2	↑	>	53.2	↓	>	0.33
COMPANY'S SITUATION:	IN 3 MONTHS	56.1	28.3	46.6	51.5	↑	>	51.3	↓	>	0.66
	IN 12 MONTHS	66.6	46.4	54.2	57.8	↑	>	56.7	↓	>	0.66
ABOUT DEMAND:	IN 3 MONTHS	55.1	30.7	49.5	53.6	↑	>	52.2	↓	>	0.66
	IN 12 MONTHS	68.0	47.4	56.2	61.5	↑	>	60.5	↓	>	0.66
NEW PERSONNEL HIRED:	IN 3 MONTHS	48.6	35.9	46.3	47.1	↑	<	49.5	↑	<	0.66
	IN 12 MONTHS	54.0	39.6	52.3	52.9	↑	>	53.2	↑	>	0.58
COMPANY'S INVESTMENT:	IN 3 MONTHS ^{3/}	51.3	29.9	40.0	44.7	↑	<	43.3	↓	<	0.65
	IN 12 MONTHS ^{3/}	59.3	40.0	48.6	52.4	↑	>	50.6	↓	>	0.65

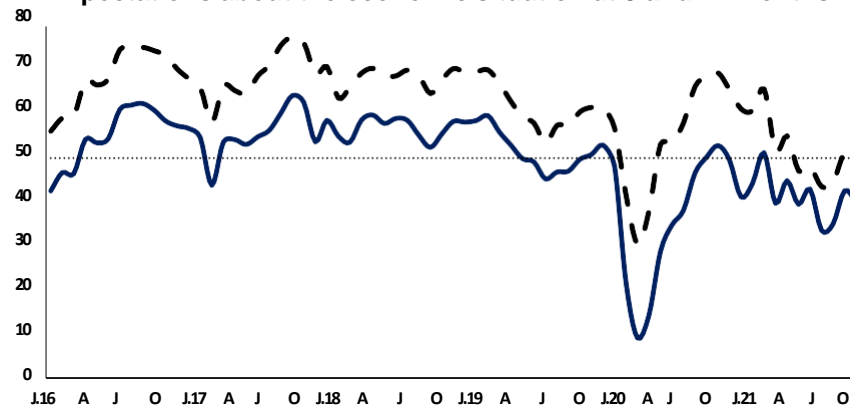
Memo: Greater than 50 points (neutral) means that confidence is on the optimistic tranche and less than 50 points in the pessimistic tranche.

1/ Correlations from December 2007 to December 2019, respectively. For the indicators of current situation and finances, the contemporary correlation is shown, while for the rest of expectations the correlation with three-period advanced GDP is presented.

2/ Days of unwanted inventories show the difference between the days of inventories corresponding to each month minus the days of desired inventories according to the companies.

3/ Correlation with Private Investment from September 2017 to December 2019, considering optimal lag (t=-3 for 3-month investment and t=-6 for 12-month investment).

Expectations about the economic situation at 3 and 12 months

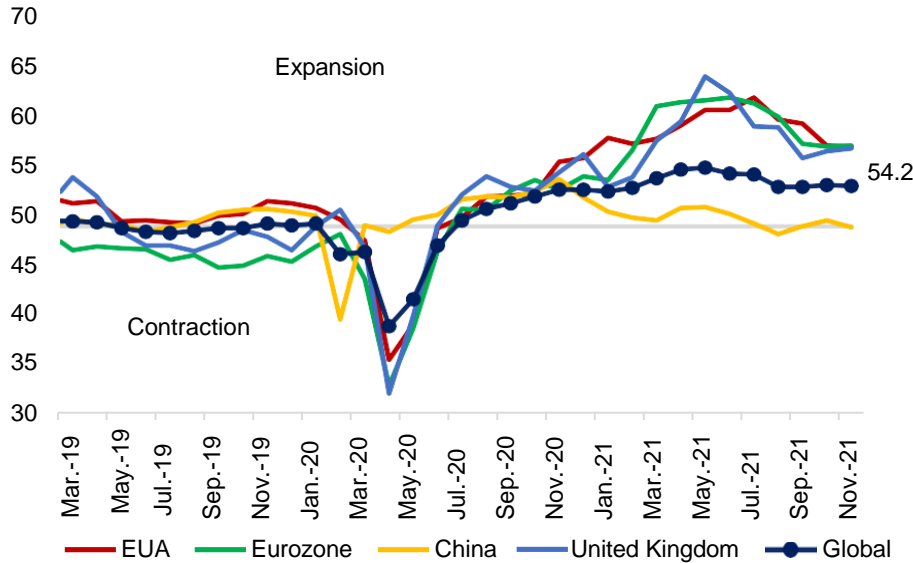




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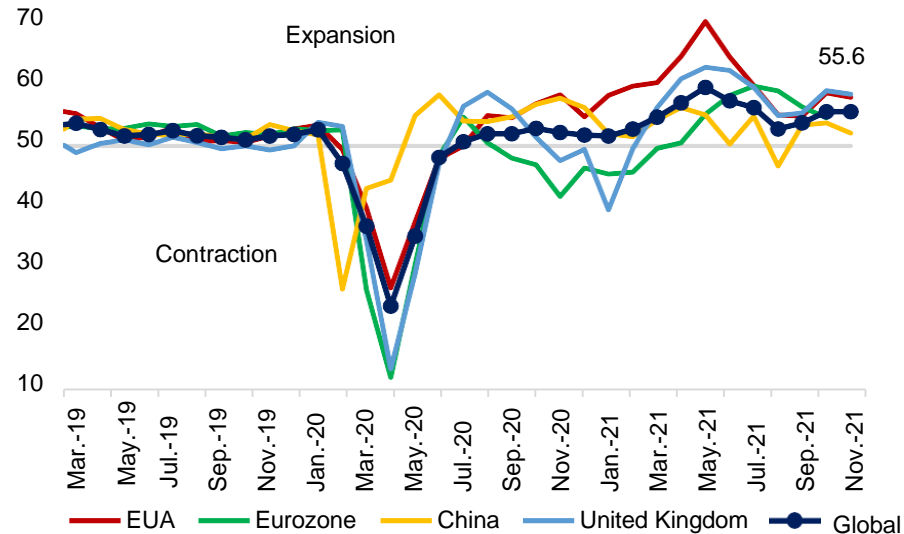
World economic activity has been recovering, although at a slower pace, due to outbreaks of COVID-19 infections and the appearance of new variants and bottlenecks in the global supply of goods and services. The recovery process is expected to continue in the coming quarters as vaccination progresses around the world and significant fiscal stimulus programs in developed countries continue.

PMI Global Manufacturing (Index Value)



Source: Markit Economics.

PMI Global Services (Index Value)



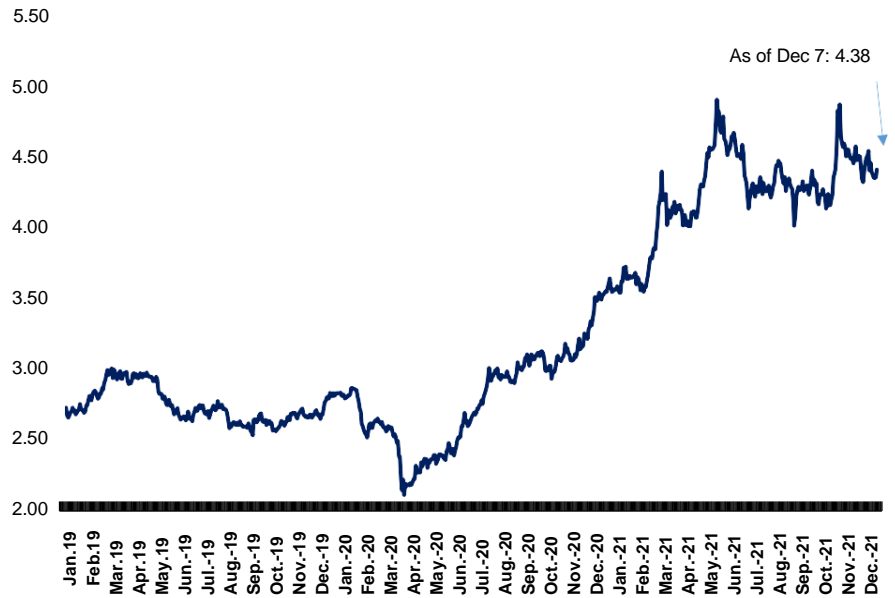
Source: Markit Economics.



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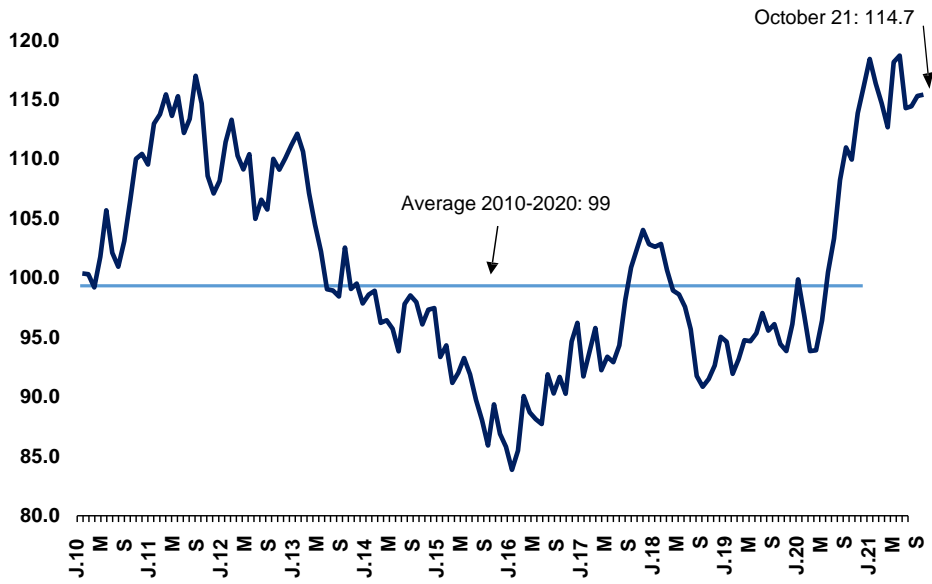
A strong increase in the international price of minerals remains, and especially in copper, gold and zinc. In this regard, the terms of trade continue at a historically high level.

International Copper Price (cUS\$/pound)



Source: Reuters

Terms of Trade: 2010-2021* (2007=100)



* Data for October 2021 represents a forecast.



Financial markets have continued to show high volatility in a context of uncertainty and the BCRP's actions were oriented to mitigate these volatilities. As of December 7, the exchange rate was S/ 4.080 per dollar, recording a depreciation 0.3 percent respect to November 30 (S/ 4.067) and 12.7 percent respect to December 31, 2020 (S/ 3.620).

Exchange Rate

(currency units per dollar)

		End of period				Accumulated change (%)*		
		Dec.19	Dec.20	Nov.21	Dec 07, 21	Nov.21	Dec.20	Dec.19
Dollar Index	Spot	96.39	89.94	95.99	96.37	0.4	7.2	0.0
Eurozone	US\$ per Euro	1.121	1.221	1.134	1.127	-0.6	-7.7	0.5
United Kingdom	US\$ per Pound	1.326	1.367	1.330	1.324	-0.4	-3.2	-0.1
Japan	Yen	108.61	103.24	113.13	113.52	0.3	10.0	4.5
Brazil	Real	4.019	5.194	5.624	5.613	-0.2	8.1	39.7
Colombia	Peso	3,285	3,415	3,992	3,908	-2.1	14.4	18.9
Chile	Peso	752	710	827	839	1.5	18.3	11.7
Mexico	Peso	18.93	19.87	21.44	21.00	-2.1	5.7	10.9
Argentina	Peso	59.86	84.08	100.93	101.41	0.5	20.6	69.4
Peru	Sol	3.315	3.620	4.067	4.080	0.3	12.7	23.1

* An increase in the index implies an appreciation of the dollar, except in the euro and the pound.

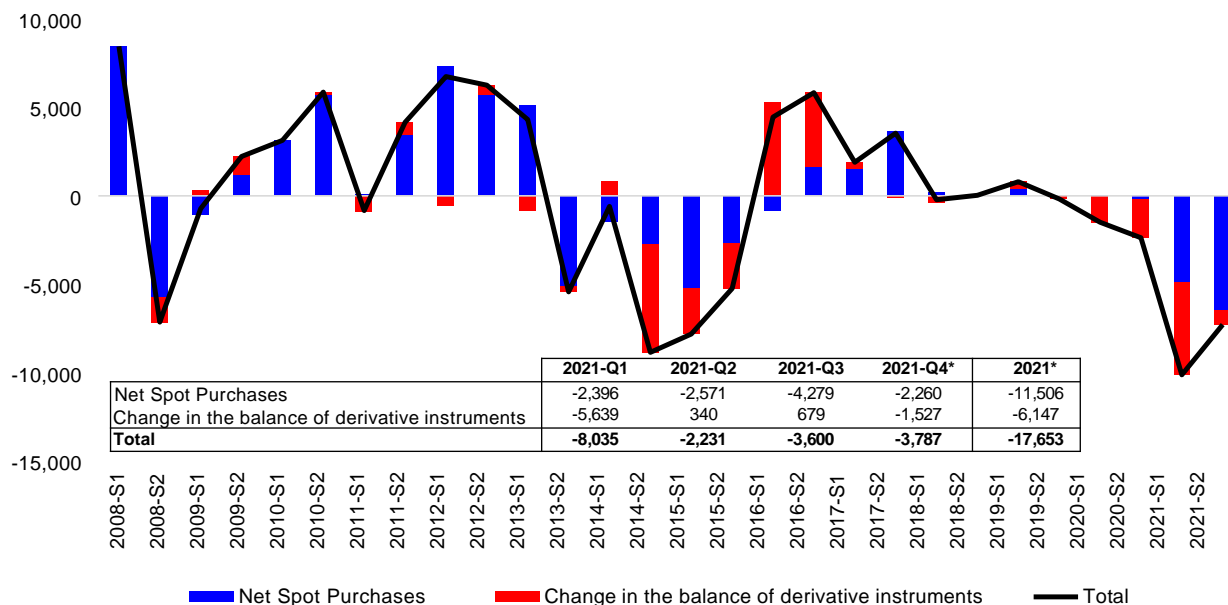
Source: Reuters



Financial markets have continued to show high volatility in a context of uncertainty and the BCRP's actions were oriented to mitigate these volatilities. So far this year, the BCRP has offered US\$ 17.7 billion in the foreign exchange market through sales in the spot market (US\$ 11.5 billion), the net placement of exchange derivatives and the net placement of certificates indexed to the exchange rate (US\$ 6.1 billion).

FX Intervention of the BCRP

(Million US\$)



* Data as of December 07.

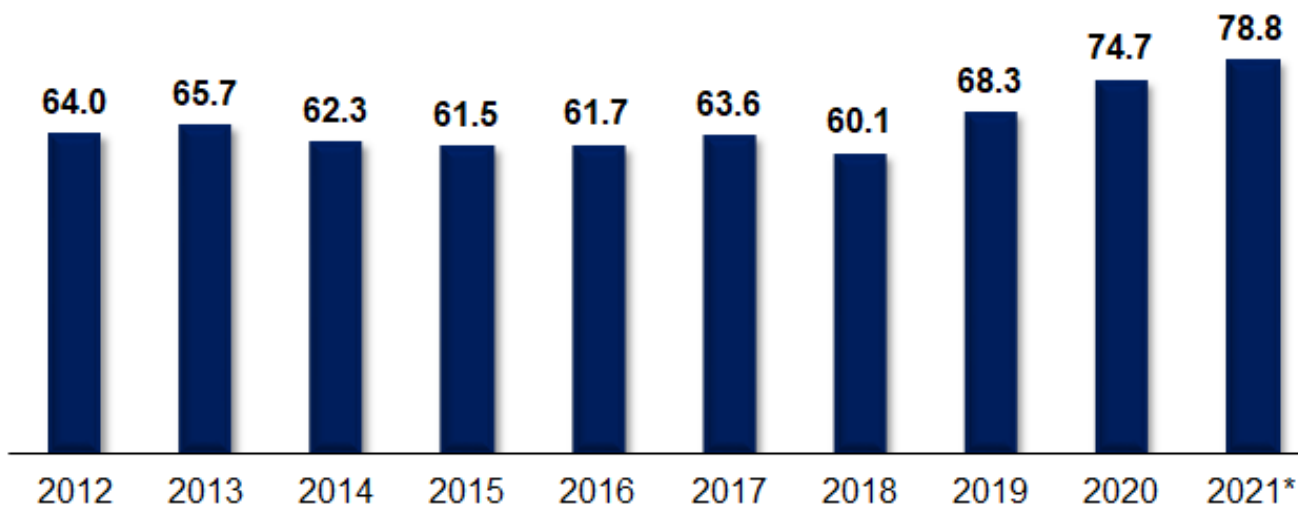
Source: BCRP



The BCRP has a solid external position, reflected in the adequate level of International Reserves, which allows the economy to have a high reaction capacity to continue facing adverse contingencies. Likewise, the NIR level is higher than the one recorded prior to the pandemic (US\$ 67.6 billion as of February 2020). In addition, it is counted since May 2020 with an automatic freely available credit line from the IMF for approximately US\$ 11.5 billion.

Net International Reserves

(Billion US\$)



* As of December 6.

Source: BCRP.



So far this year, the long-term interest rates have recovered worldwide due to global growth expectations and the consequent withdrawal of the monetary stimulus. Despite this, Peru's sovereign bond yield continue to be as one of the lowest in the region.

10-year Sovereign Bond Yield

(%)

	End of Period				Accumulated change as of Dec 7, 2021 (bps)	
	Dec.19	Dec.20	Nov.21	As of Dec 7, 2021	Nov.21	Dec.20
United States	1.92	0.92	1.45	1.48	3	56
Germany	-0.19	-0.57	-0.35	-0.38	-3	20
France	0.12	-0.34	0.01	-0.03	-4	32
Italy	1.41	0.54	0.97	0.92	-5	38
Spain	0.46	0.04	0.40	0.33	-7	29
Greece	1.43	0.62	1.25	1.24	-1	62
United Kingdom	0.82	0.19	0.81	0.73	-8	54
Japan	-0.02	0.02	0.05	0.05	0	3
Brazil	6.79	6.90	11.30	10.96	-33	407
Chile	3.17	2.65	5.72	5.65	-7	300
Colombia	6.34	5.39	8.25	8.02	-23	263
Mexico	6.89	5.53	7.50	7.38	-12	185
Peru	4.64	3.50	5.95	5.91	-4	241

Source: Reuters



Interest rates in soles increased respect to the previous month but remain below the long-term averages. In this regard, the BCRP will continue to take the necessary steps to sustain the payment system and credit flows.

Interest rate in domestic currency^{1/}

(%)

	Dec.18	Dec.19	Dec.20	Mar.21	Jun.21	Sep.21	Oct.21	Nov.21	Dec.21	Historical average ^{2/}
Reference	2.75	2.25	0.25	0.25	0.25	1.00	1.50	2.00	2.50	3.14
TAMN ^{3/}	14.37	14.35	12.10	11.20	10.73	10.49	10.68	10.83	11.00	15.94
90-day corporate prime	4.52	3.29	0.68	0.55	0.88	1.48	1.96	2.62	2.74	3.97
Corporates ^{4/}	4.90	3.80	2.51	2.23	1.44	2.06	2.46	2.81	2.87	4.86
Large companies ^{4/}	6.42	6.01	4.60	3.92	3.70	4.20	4.87	5.35	5.37	6.49
Medium-sized enterprises ^{4/}	9.84	9.28	6.07	7.95	7.28	7.91	8.57	9.00	8.77	9.73
Small business ^{4/}	18.50	18.03	17.23	18.21	17.64	18.09	18.42	19.07	19.22	20.01
Micro business ^{4/}	32.70	31.32	30.09	32.84	32.37	31.58	30.93	31.16	31.45	32.19
Mortgage ^{4/}	7.60	7.00	6.39	5.89	5.87	6.37	6.54	6.88	6.85	8.30
10-year sovereign bond	5.62	4.64	3.50	4.97	5.37	6.44	5.82	5.95	5.91	5.42
TIPMN ^{5/}	2.47	2.25	0.98	0.89	0.81	0.81	0.86	1.00	1.00	2.21
Deposit rate 90-day corporate prime	4.01	2.81	0.19	0.14	0.38	0.93	1.26	1.94	1.96	3.20
Deposits over 1 year to People	3.68	3.47	1.97	1.93	2.03	2.46	2.82	3.09	3.14	4.10

1/ Information as of December 7, with the exception of the reference rate, which is as of December 10. Corresponds to banking companies.

2/ Average since September 2010.

3/ Annual average lending rate in domestic currency.

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

5/ Annual average deposit rate in domestic currency.

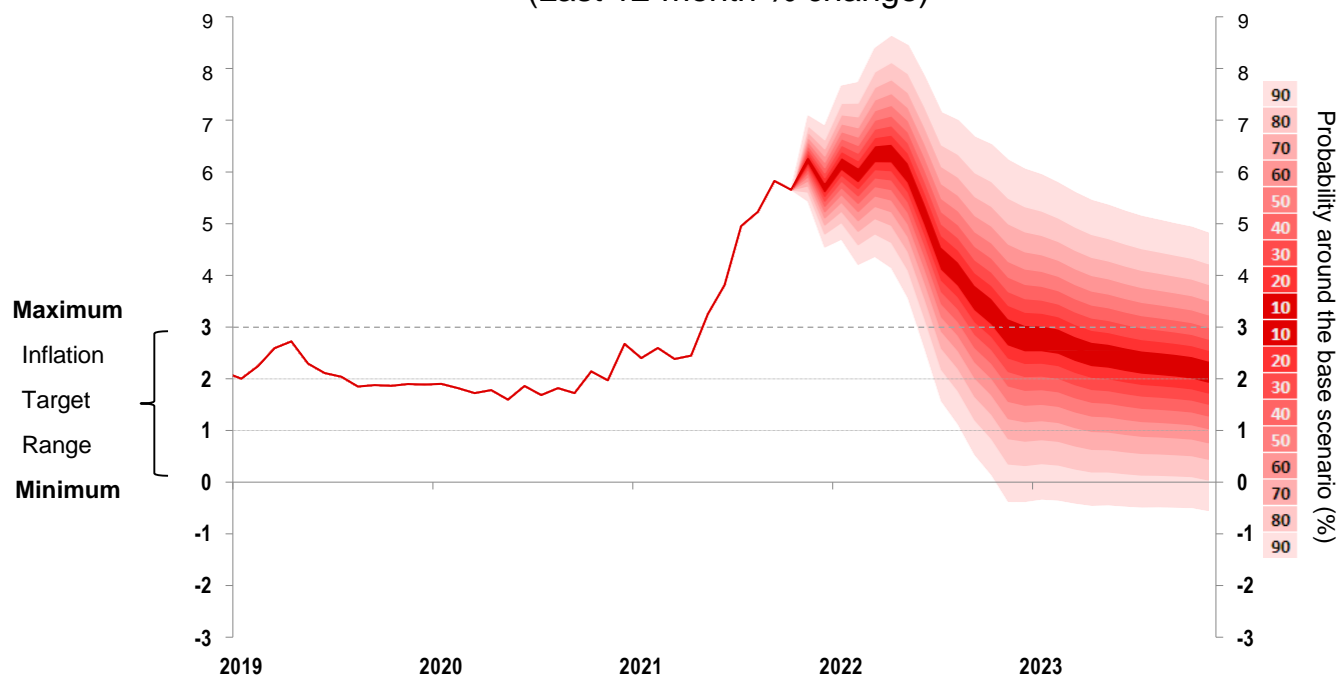
Source: BCRP and SBS.



Inflation is expected to return to the target range in the second half of next year, as transitory pressures (exchange rate and international fuel and grain prices) recede, with economic activity below potential. The Board is particularly attentive to new information on inflation expectations and economic activity, with an aim to consider, if necessary, changes in the monetary stance. Based on the available information, the Board sees the convenience of maintaining an expansionary stance for an extended period through a gradual withdrawal of monetary stimulus.

Inflation Forecast: 2021 – 2023

(Last 12-month % change)



Source: BCRP



CENTRAL RESERVE BANK OF PERU

Monetary Policy Statement December 2021

December 10, 2021