



CENTRAL RESERVE BANK OF PERU

Monetary Policy Statement July 2021

July 9, 2021

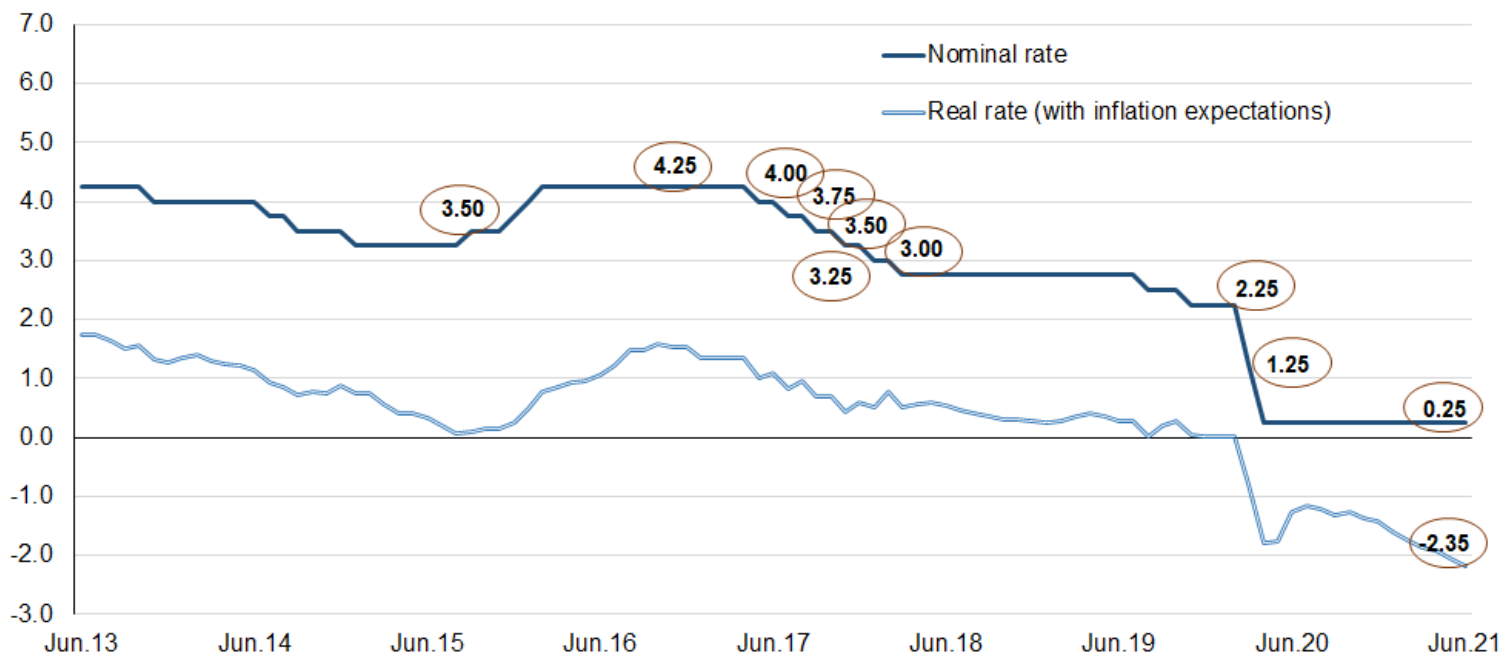


CENTRAL RESERVE BANK OF PERU

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 liquidity injection operations.

Policy interest rate

(%)

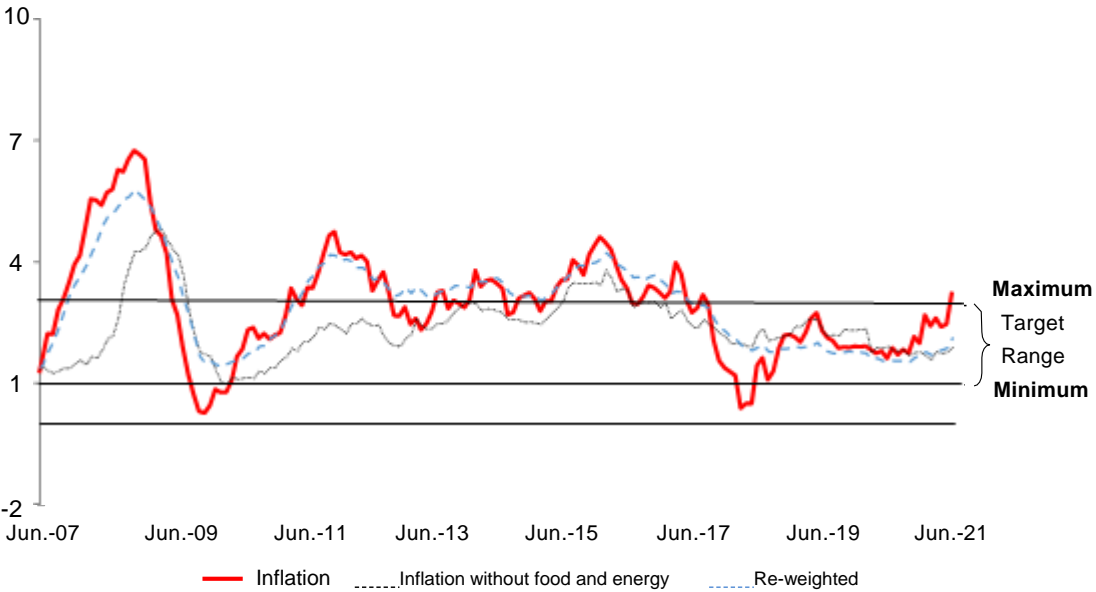


	May.17	Jul.17	Sep.17	Nov.17	Jan.18	Mar.18	Aug.19	Nov.19	Mar.20	Apr.20	Dec.20	Jan.21	Feb.21	Mar.21	Apr.21	May.21	Jun.21	Jul.21
(I) Nominal rate	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.25	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
(II) Inflation expectations	3.00	2.92	2.79	2.81	2.48	2.23	2.48	2.21	2.05	2.03	1.68	1.85	1.98	2.11	2.17	2.30	2.43	2.60
(III) Real rate: (I)-(II)	1.00	0.83	0.71	0.44	0.52	0.52	0.02	0.04	-0.80	-1.78	-1.43	-1.60	-1.73	-1.86	-1.92	-2.05	-2.18	-2.35



Year-on-year inflation increased from 2.45 percent in May to 3.25 percent in June being temporarily above the target range due to supply-side pressures. Trend inflation remains around the center of the target range. Year-on-year core inflation was 1.9 percent in June.

INFLATION (Last 12 months % change)



	Annual average	Annual % change	
	2001-2020	May.21	Jun.21
CPI	2.56	2.45	3.25
CPI excluding food and energy	2.13	1.76	1.89

Trend indicators			
Bounded mean	2.52	1.70	1.98
Percentile 63	2.45	1.41	1.72
Re-weighted	2.46	1.87	2.13

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.

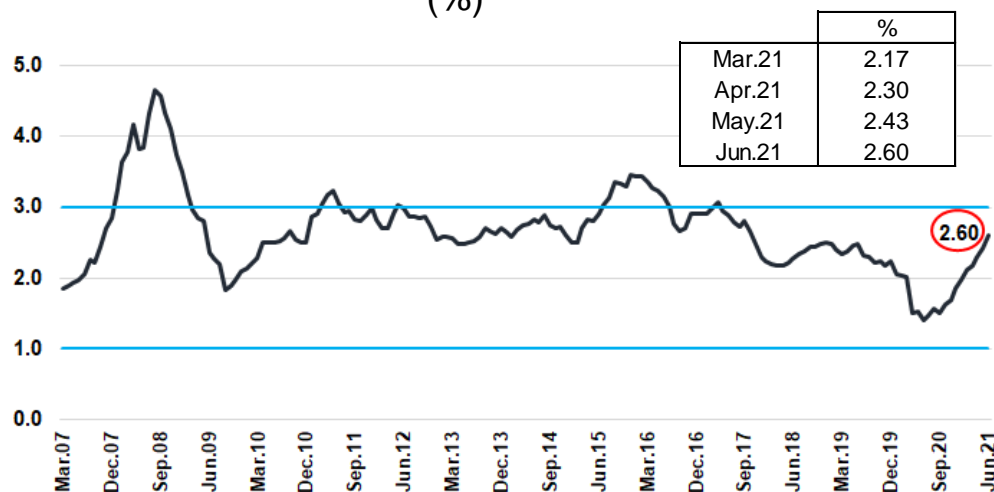
Re-weighted: Reduces the weight of items with greater volatility, considers the original weights of each item between the standard deviation of their monthly percentage changes.

Source: BCRP



One-year-ahead expected inflation increased from 2.43 percent in May to 2.60 in June and hence the real reference rate kept doing down.

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:		
	Apr 30.	May 31.	Jun 30.
Economic analysts¹			
2021	2.50	2.50	2.70
2022	2.20	2.45	2.30
2023	2.00	2.45	2.30
Financial entities²			
2021	2.30	2.50	2.75
2022	2.00	2.20	2.65
2023	2.00	2.00	2.50
Non-financial firms³			
2021	2.20	2.39	2.50
2022	2.30	2.30	2.50
2023	2.30	2.30	2.50

¹ 14 analysts in April, 13 in May and 14 in June 2021.

² 13 financial entities in April, 15 in May and 14 in June 2021.

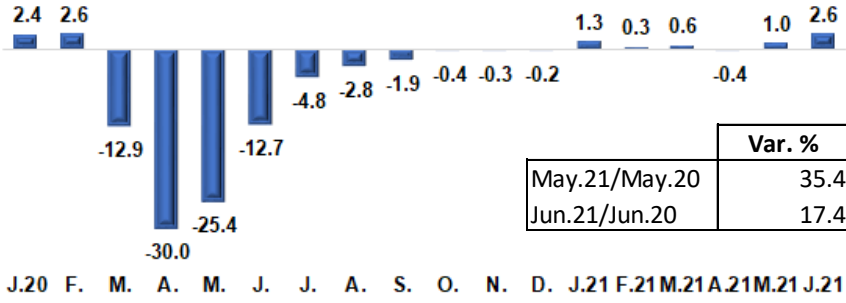
³ 322 non financial firms in April, 315 in May and 274 in June 2021.



Most leading indicators and expectations about the economy deteriorated in June.

Average monthly electricity production (GWh)

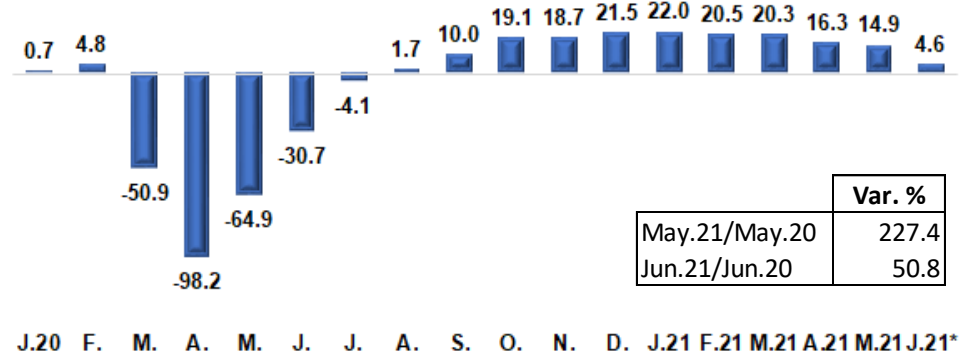
(% change compared to the same period in 2019)



Source: COES.

Domestic consumption of cement

(% change compared to the same period in 2019)

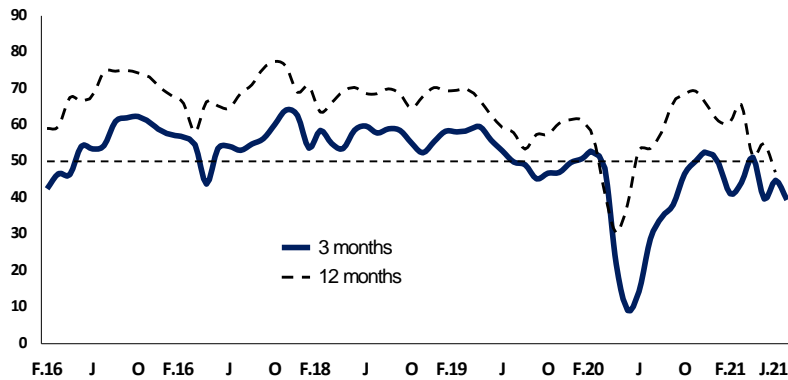


* Data for June represents a forecast.

Source: Cement companies.

Expectations about the economic situation at 3 and 12 months

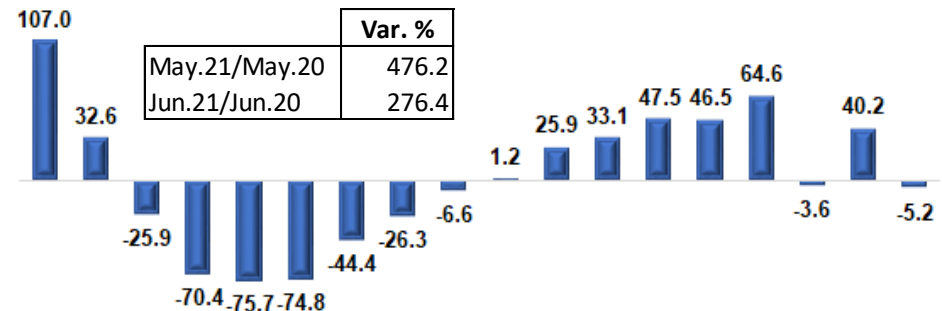
(Expectations index)



Source: BCRP

Real Investment of the General Government

(% change compared to the same period in 2019)



Source: MEF.

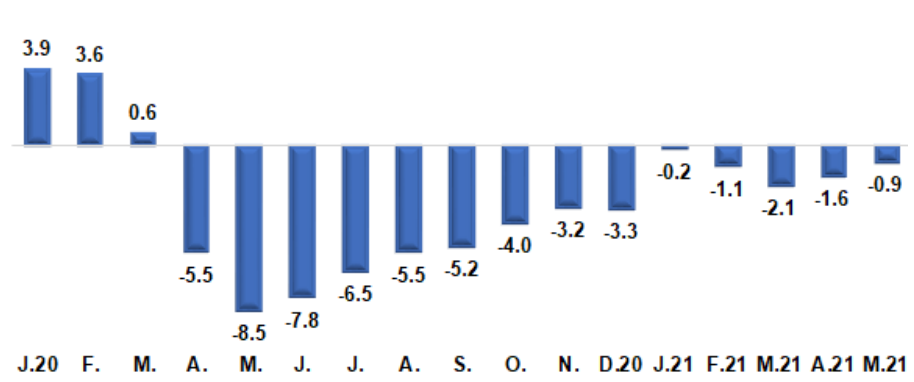


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In comparison with the same period in 2019, formal jobs (including the private sector and the public sector) fell 0.9 percent in May, while formal sector wage bill increased 6.5 percent.

Formal jobs in the private sector - Electronic Payroll

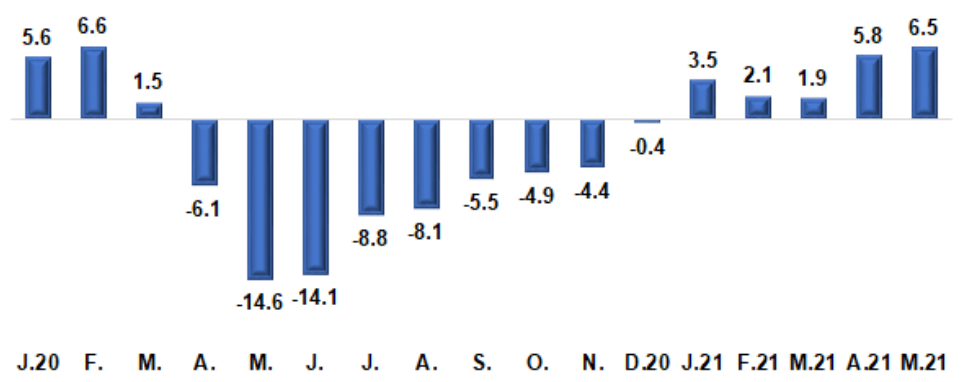
(% change compared to the same period in 2019)



Source: SUNAT

Formal nominal wage mass

(% change compared to the same period in 2019)



Source: SUNAT



In May 2021, 301 thousand formal jobs were increased in the private sector compared to May 2020, but it remains below the pre-pandemic level.

Formal jobs in the Private Sector - Electronic Payroll

(Thousands of positions)

	May							Jan - May	
	2019	2020	2021	Change 2021 / 2020		Change 2021 / 2019		% Chg.	% Chg.
				Thousands	%	Thousands	%	21/20	21/19
Total	3,699	3,253	3,554	301	9.2	-145	-3.9	-1.5	-4.7
Agriculture and Livestock ^{1/}	349	351	354	3	0.9	5	1.4	-0.6	-1.2
Fishing	23	21	23	2	8.8	0	-0.3	6.4	-0.3
Mining	106	98	110	12	12.4	4	4.0	1.7	0.6
Manufacturing	473	418	453	35	8.3	-20	-4.3	-1.0	-5.6
Electricity	16	14	15	1	9.9	-1	-3.7	-4.2	-3.3
Construction	218	128	234	106	82.6	16	7.2	23.9	9.5
Commerce	623	578	608	30	5.1	-15	-2.3	-1.7	-3.2
Services	1,883	1,633	1,719	87	5.3	-164	-8.7	-5.7	-9.0

1/ Includes processing and preservation of fruits and vegetables.

Source: SUNAT.



Global economic recovery is expected to be more pronounced in the next quarters, as the vaccination process continues around the world, and significant stimulus packages are implemented in developed countries.

Global GDP Growth

(Annual % change)

	PPP*	2020	2021 IR Jun	2022 IR Jun
Developed economies	42.5	-4.7	5.4	3.9
Of which				
1. USA	16.0	-3.5	6.7	4.2
2. Europe	12.0	-6.6	4.7	4.3
3. Japan	4.0	-4.8	3.0	2.5
4. United Kingdom	2.3	-9.9	6.0	4.9
5. Canada	1.4	-5.4	6.1	4.1
6. Other	6.8	-4.1	4.9	3.2
Developing economies	57.5	-2.2	6.2	4.5
Of which				
1. China	18.6	2.3	8.7	5.7
2. India	6.7	-8.0	10.5	6.5
3. Russia	3.1	-3.1	3.4	2.7
4. Latin America and the Caribbean	7.3	-6.9	4.3	2.8
Argentina	0.6	-9.9	5.1	2.2
Brazil	2.4	-4.1	3.5	2.1
Chile	0.4	-5.8	5.4	3.5
Colombia	0.6	-6.8	4.9	3.7
Mexico	1.9	-8.2	4.5	3.3
Peru	0.3	-11.1	10.7	4.5
5. Other	17.9	-4.0	4.9	4.5
World Economy	100.0	-3.3	5.9	4.2

* in terms of 2020

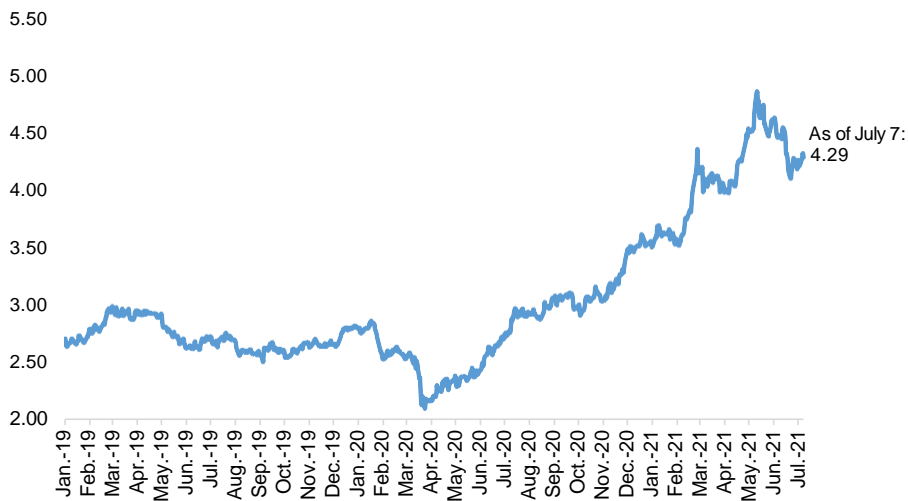
Source: IMF, Consensus Forecast and BCRP



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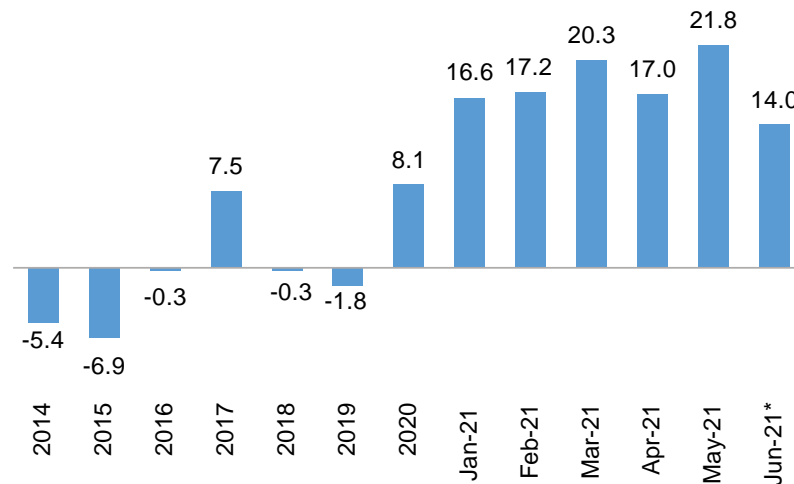
A strong increase in the international price of minerals remains, and especially in copper, gold and zinc. In this regard, an inter-annual growth rate of the Terms of Trade of 14 percent is expected in June 2021.

International Copper Price
(cUS\$/pound)



Source: Reuters

Terms of Trade
(Annual % change)



* Forecast
Source: BCRP.



The impact on inflation of the increase in commodity prices would be reversed by December 2021.

Commodities quotation (US\$ per unit of measure)

	Spot				Forward*	% change:	
	Dec.19	Dec.20	Jun.21	Jul 8, 21	Dec.21	Jul.21/Dec.20	Dec.21/Jul.21
WTI Oil (US\$ per barrel)	61.1	48.5	73.5	72.9	69.4	50.3	-5.5
Wheat (US\$ per ton)	177.8	231.1	238.1	225.2	220.1	-2.5	-7.6
Maize (US\$ per ton)	148.4	186.6	274.4	245.3	205.5	31.4	-25.1
Soybean (US\$ per ton)	756.4	977.3	1,534.6	1,567.9	1,306.7	60.4	-14.9

* As of July 8

Source: Reuters

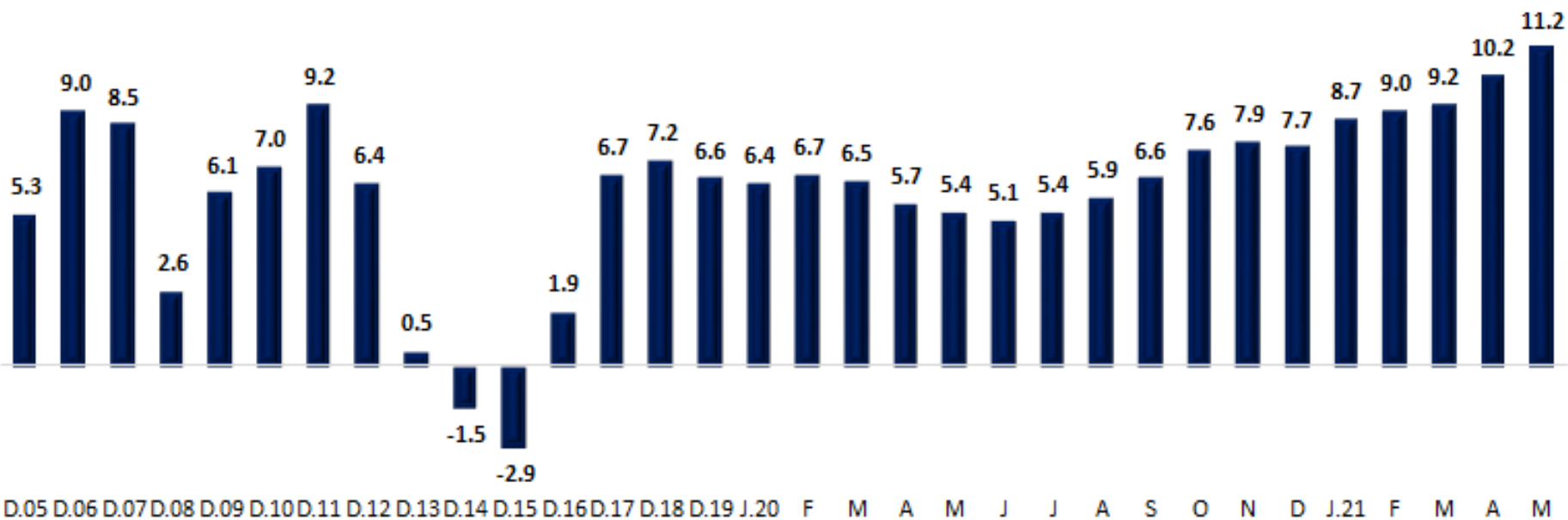


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The trade balance surplus for the last 12 months at the end of May 2021 is the historical maximum.

Trade Balance

(Billion US\$ - Accumulated last 12 months)

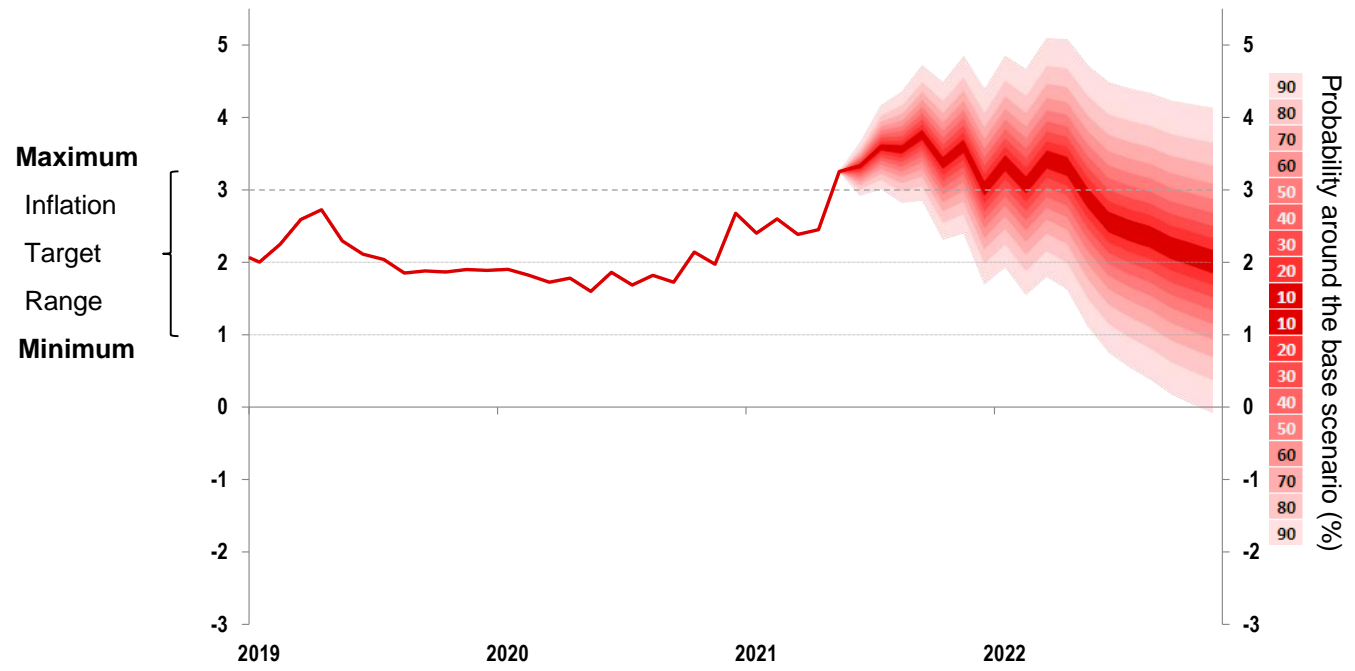


Source: BCRP



Inflation is expected to return to the target range in the next twelve months and remain within that range in 2022, due to the reversal of the effects of transitory factors on the inflation rate (exchange rate, fuel and grain prices in international markets) and that economic activity will remain below its potential level. The Board considers it appropriate to maintain an expansionary stance as long as the negative effects of the pandemic on inflation and its determinants persist and is especially attentive to new information referring to inflation expectations and the evolution of economic activity

Inflation Forecast: 2021 - 2022 (Last 12-month % change)



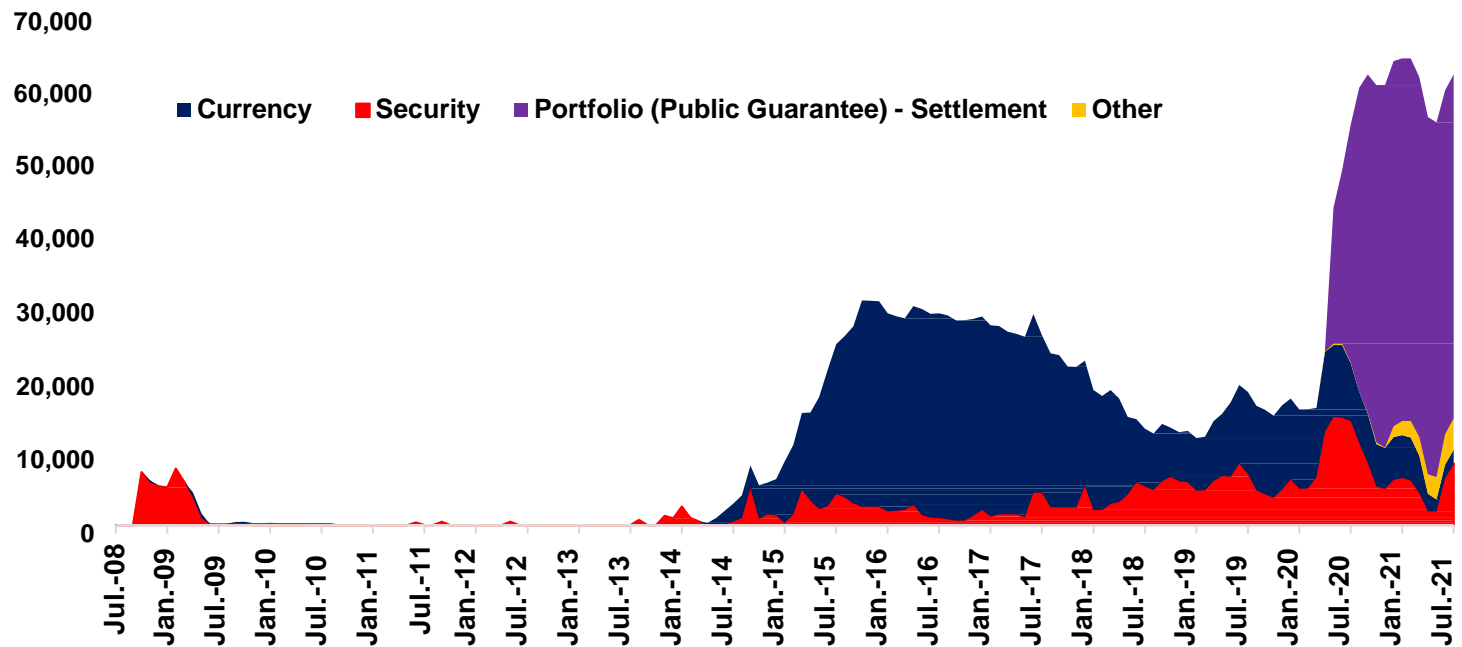
Source: BCRP



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The BCRP will continue to take the necessary steps to sustain the payments system and credit flows. As of July 7, BCRP injection operations totaled S/ 62,758 million, of which S/ 47,654 million were associated with government-backed repos.

Balance of BCRP Repo Operations* (Million S/)



As of July 7. The item "Other" includes the purchase of Public Treasury bonds, in line with article 61 of the BCRP's Organic Law, and loan portfolio reporting operations associated with rescheduling.

Source: BCRP.



Financial markets were highly volatile in a context of electoral uncertainty and the BCRP's actions were intended to mitigate this volatility. As of July 8, the exchange rate was S/ 3.960 per dollar, recording a depreciation of 2.4 percent compared to June 30 (S/ 3.867).

Exchange Rate (currency units per dollar)

		End of period					Accumulated change (%)*		
		Dec.19	Dec.20	Jun.21	Jul 01, 21	Jul 8, 21	Jun.21	Dec.20	Dec.19
Dollar Index	Spot	96.39	89.94	92.44	92.60	92.44	0.0	2.8	-4.1
Eurozone	US\$ per Euro	1.121	1.221	1.186	1.185	1.184	-0.1	-3.1	5.6
United Kingdom	US\$ per Pound	1.326	1.367	1.383	1.377	1.377	-0.4	0.7	3.8
Japan	Yen	108.61	103.24	111.10	111.50	109.81	-1.2	6.4	1.1
Brazil	Real	4.019	5.194	4.969	5.048	5.256	5.8	1.2	30.8
Colombia	Peso	3,285	3,415	3,747	3,776	3,837	2.4	12.4	16.8
Chile	Peso	752	710	732	740	752	2.8	6.0	0.1
Mexico	Peso	18.93	19.87	19.93	19.99	20.00	0.3	0.7	5.7
Argentina	Peso	59.86	84.08	95.70	95.76	95.98	0.3	14.2	60.3
Peru	Sol	3.314	3.620	3.867	3.879	3.960	2.4	9.4	19.5

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

Source: Reuters

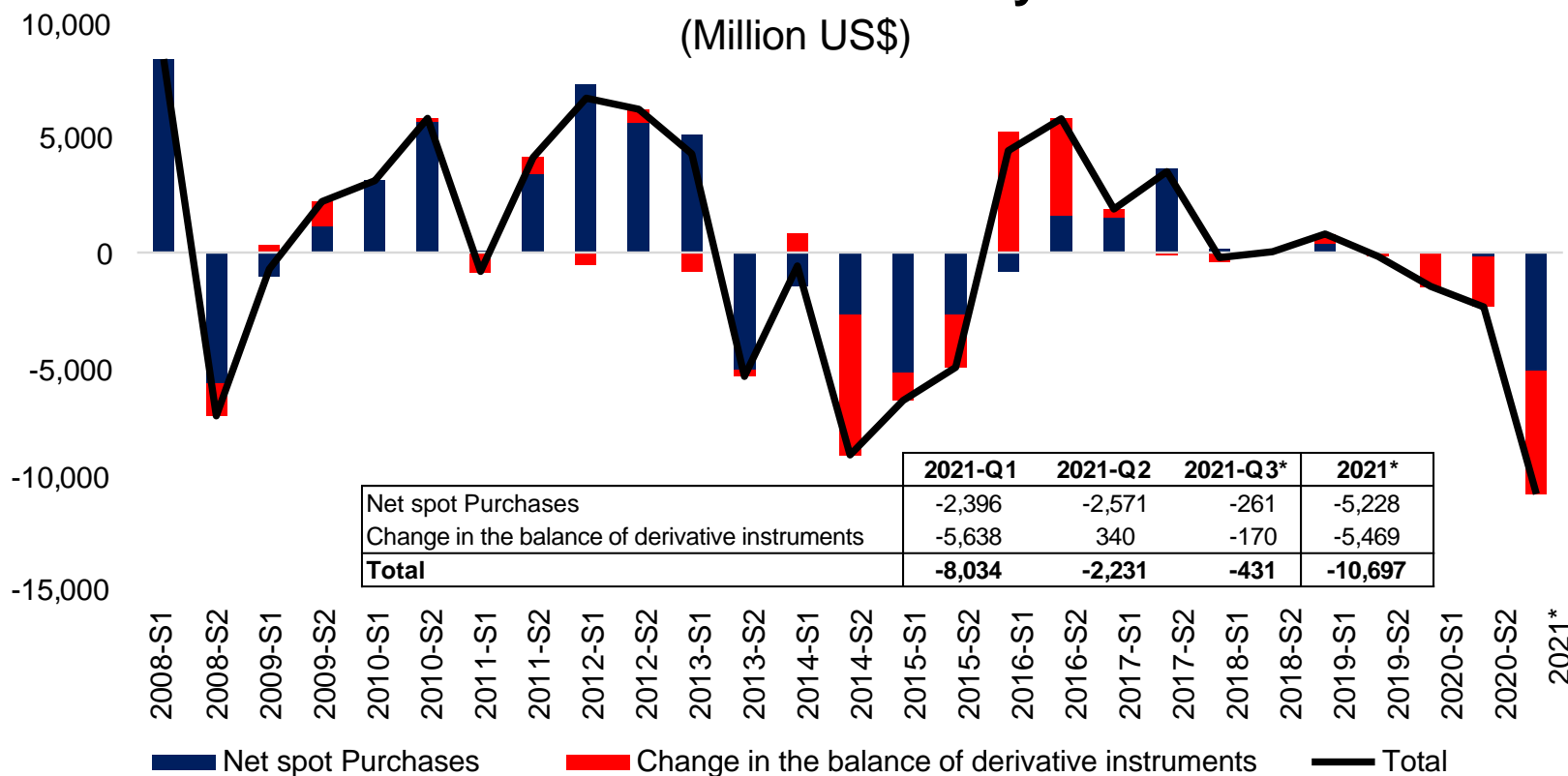


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So far this year, the BCRP has offered US\$ 10.7 billion in the foreign exchange market through sales in the spot market (US\$ 5.2 billion) and net placement of exchange derivatives (US\$ 5.5 billion). With this regards, the largest intervention in the selling position has been registered in the first half of this year.

FX Intervention of the BCRP by semesters

(Million US\$)



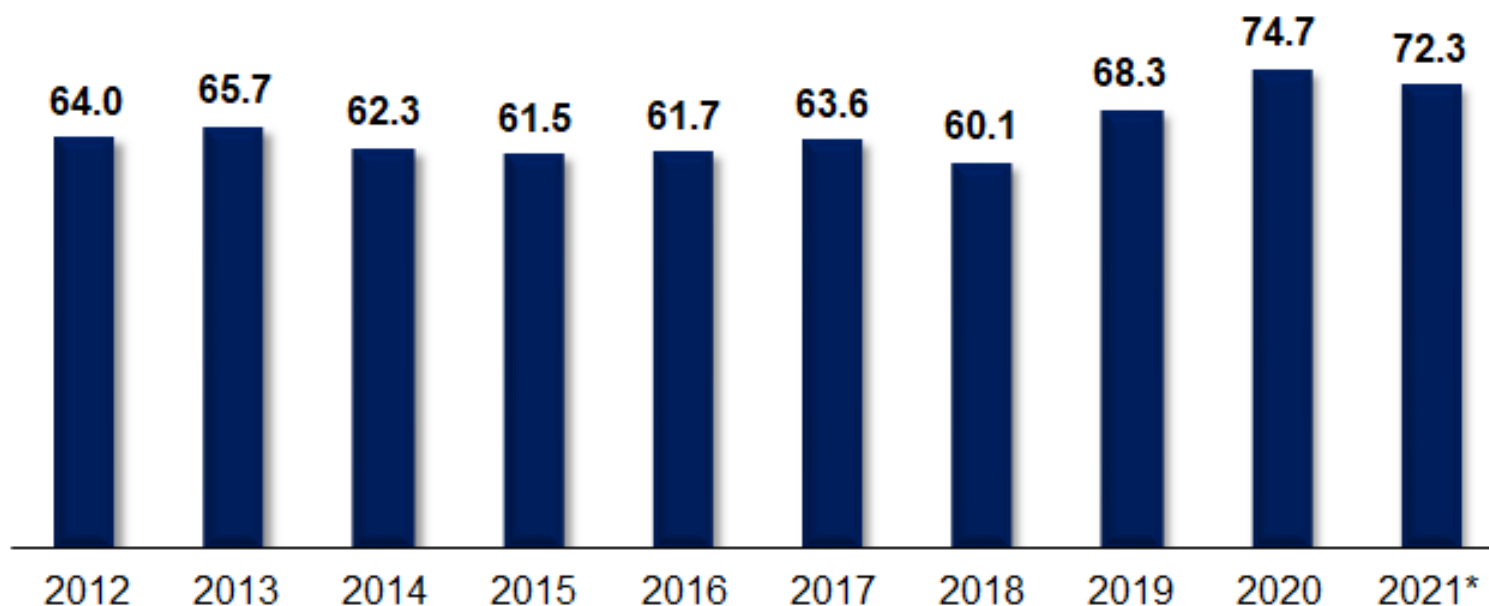
* Accumulated as of July 8, 2021.
Source: BCRP.



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 July 7.
Source: BCRP.



So far this year, the long-term interest rates have recovered worldwide due to hopeful expectations of global growth while in some countries of the region they have recently risen due to idiosyncratic reasons. Despite this, Peru's sovereign bond rates continue to be one of the lowest in the region.

10-year Sovereign Bond Yield

(%)

	End of Period				Accumulated change as of July 7 (bps)	
	Dec.19	Dec.20	Jun.21	As of July 7, 2021	Jun.21	Dec.20
United States	1.92	0.92	1.47	1.32	-15	40
Germany	-0.19	-0.57	-0.21	-0.30	-9	27
France	0.12	-0.34	0.13	0.04	-9	38
Italy	1.41	0.54	0.82	0.74	-8	20
Spain	0.46	0.04	0.41	0.33	-8	29
Greece	1.43	0.62	0.82	0.73	-9	11
United Kingdom	0.82	0.19	0.72	0.60	-12	41
Japan	-0.02	0.02	0.05	0.03	-2	1
Brazil	6.79	6.90	9.09	9.30	21	240
Chile	3.17	2.65	4.58	4.94	36	229
Colombia	6.34	5.39	7.11	7.04	-7	165
Mexico	6.89	5.53	6.97	6.92	-4	139
Peru	4.64	3.50	5.37	5.80	43	230

Source: Reuters



Interest rates in soles are at historically low levels.

Interest rate in domestic currency^{1/}

(%)

	Dec.18	Dec.19	Mar.20	Apr.20	Dec.20	Jan.21	Feb.21	Mar.21	Jun.21	Jul.21*	Historical average ^{2/}
Reference	2.75	2.25	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	3.2
TAMN ^{3/}	14.37	14.35	13.7	13.1	12.1	11.9	12.2	11.2	10.7	10.7	16.1
90-day corporate prime	4.5	3.3	2.8	1.5	0.7	0.6	0.5	0.6	0.9	0.8	4.1
Corporates ^{4/}	4.9	3.8	3.6	4.0	2.5	2.4	2.2	2.2	1.4	1.7	5.0
Large companies ^{4/}	6.4	6.0	5.9	5.6	4.6	4.3	4.4	3.9	3.7	3.9	6.6
Medium-sized enterprises ^{4/}	9.8	9.3	8.9	8.1	6.1	8.1	8.5	8.0	7.3	7.1	9.8
Small business ^{4/}	18.5	18.0	18.1	18.2	17.2	18.6	18.2	18.2	17.6	17.7	20.1
Micro business ^{4/}	32.7	31.3	32.6	33.1	30.1	31.9	32.4	32.8	32.4	32.6	32.2
Mortgage ^{4/}	7.6	7.0	6.7	6.8	6.4	6.3	6.0	5.9	5.9	5.8	8.4
10-year sovereign bond	5.7	4.6	5.3	4.8	3.5	3.7	4.2	5.0	5.4	5.8	5.4
TIPMN ^{5/}	2.5	2.3	2.1	1.9	1.0	0.9	0.9	0.9	0.8	0.8	2.3

1/ Information as of July 7, 2021.

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.



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