



CENTRAL RESERVE BANK OF PERU

Monetary Policy Statement December 2022

December 8, 2022

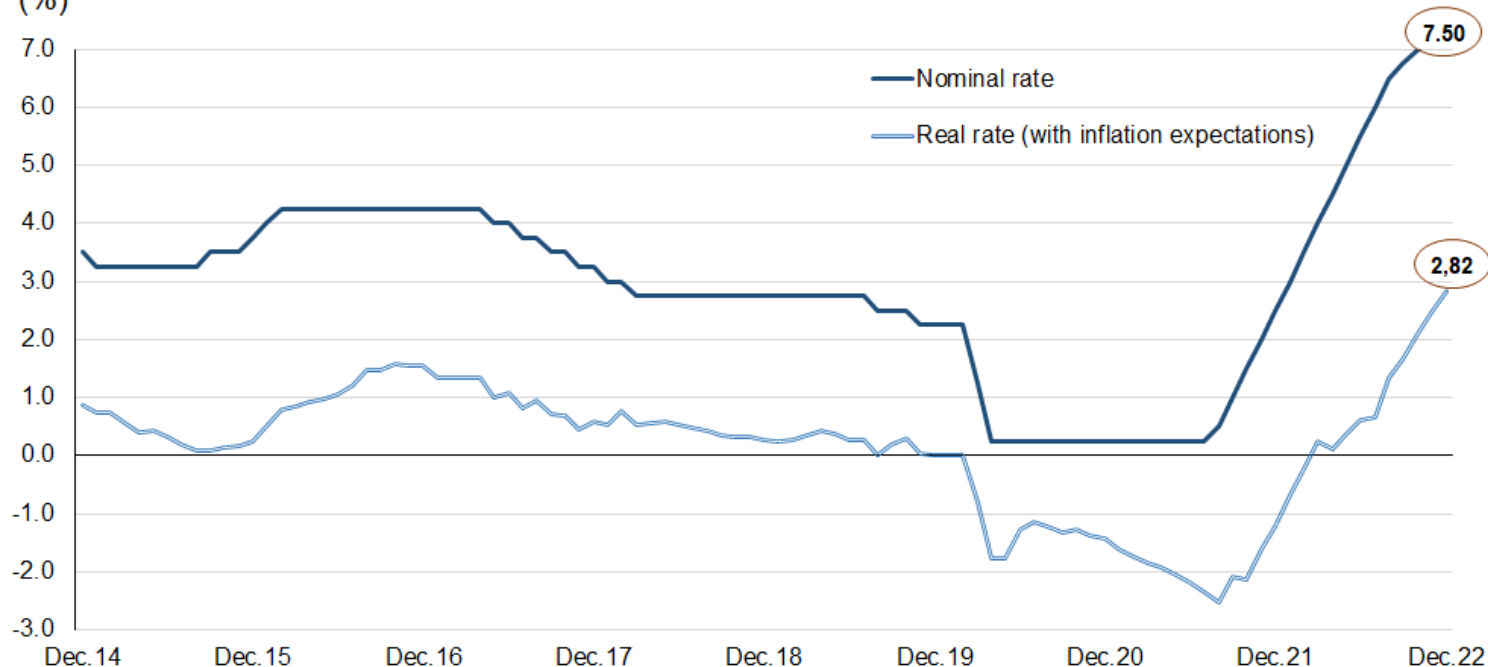


CENTRAL RESERVE BANK OF PERU

The Board of Directors of the Central Reserve Bank of Peru (BCRP) decided to raise the reference interest rate by 25 bps to 7.50 percent, thus continuing to adjust its monetary policy stance.

Policy interest rate

(%)



| | Dec.21 | Jan.22 | Feb.22 | Mar.22 | Apr.22 | May.22 | Jun.22 | Jul.22 | Aug.22 | Sep.22 | Oct.22 | Nov.22 | Dec.22 |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| (I) Nominal rate | 2.50 | 3.00 | 3.50 | 4.00 | 4.50 | 5.00 | 5.50 | 6.00 | 6.50 | 6.75 | 7.00 | 7.25 | 7.50 |
| (II) Inflation expectations | 3.71 | 3.68 | 3.73 | 3.75 | 4.39 | 4.62 | 4.89 | 5.35 | 5.16 | 5.10 | 4.89 | 4.78 | 4.68 |
| (III) Real rate: (I)-(II) | -1.21 | -0.68 | -0.23 | 0.25 | 0.11 | 0.38 | 0.61 | 0.65 | 1.34 | 1.65 | 2.11 | 2.47 | 2.82 |



Inflation is a global phenomenon. Central banks have raised their interest rates since last year, based on their own macroeconomic conditions.

Ex ante Real Monetary Policy Interest Rates in Latin America* (%)

| | MPIR | 1-Year ahead inflation expectations** | Ex ante Real Rate |
|----------|-------------|--|--------------------------|
| Brazil | 13.75 | 5.09 | 8.66 |
| Chile | 11.25 | 5.80 | 5.45 |
| Colombia | 11.00 | 7.67 | 3.33 |
| Mexico | 10.00 | 5.34 | 4.66 |
| Peru | 7.50 | 4.68 | 2.82 |

* Policy rates as of December 7, 2022 and inflation expectations as of November 2022.

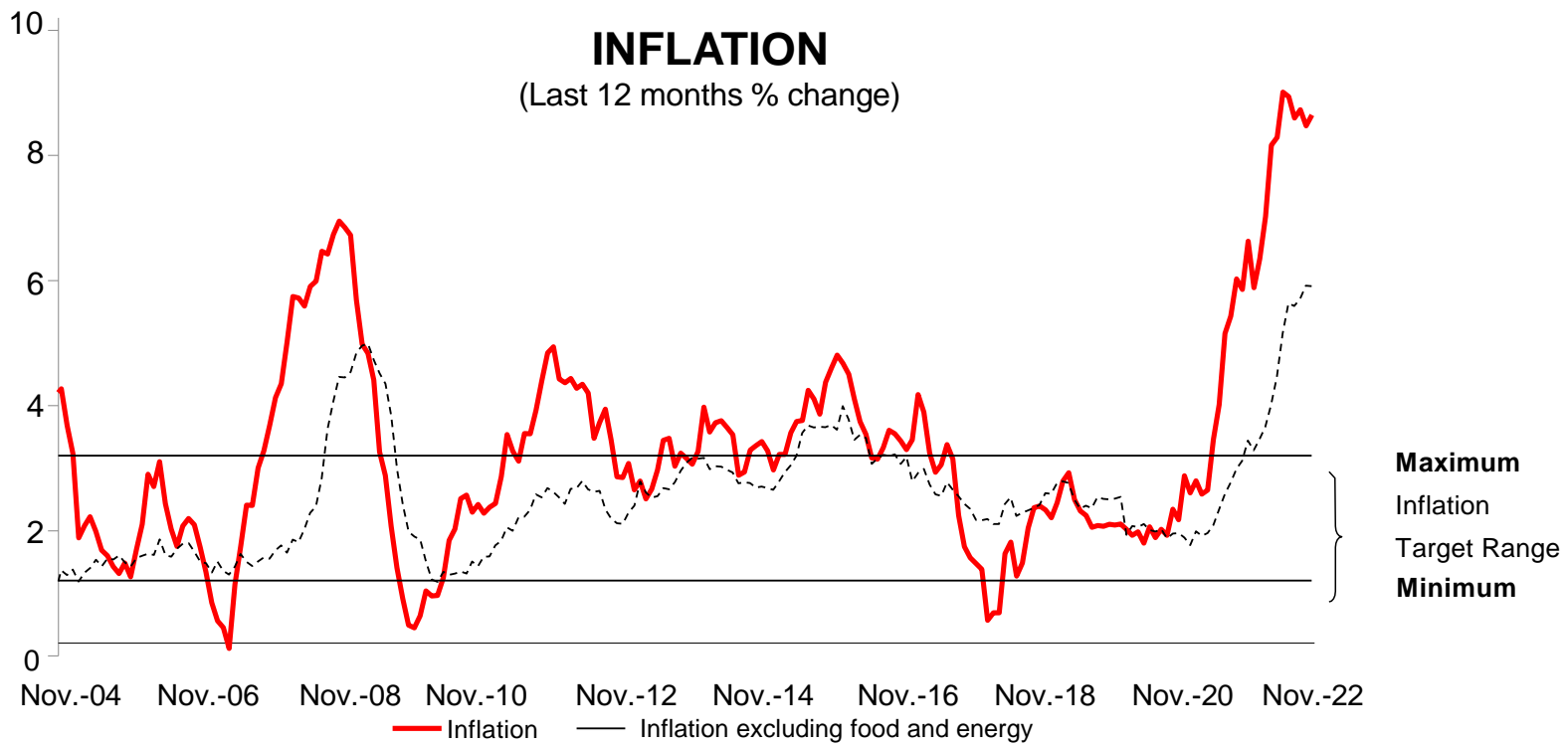
** Obtained by interpolation based on expectations as of December 2022 and 2023 in the cases of Brazil and Mexico (the other central banks publish the data directly).

Source: Central Banks



CENTRAL RESERVE BANK OF PERU

Year-on-year inflation increased from 8.28 percent in October to 8.45 percent in November, while core inflation decreased from 5.72 percent in October to 5.71 percent in November, both above the upper limit of the inflation target range.



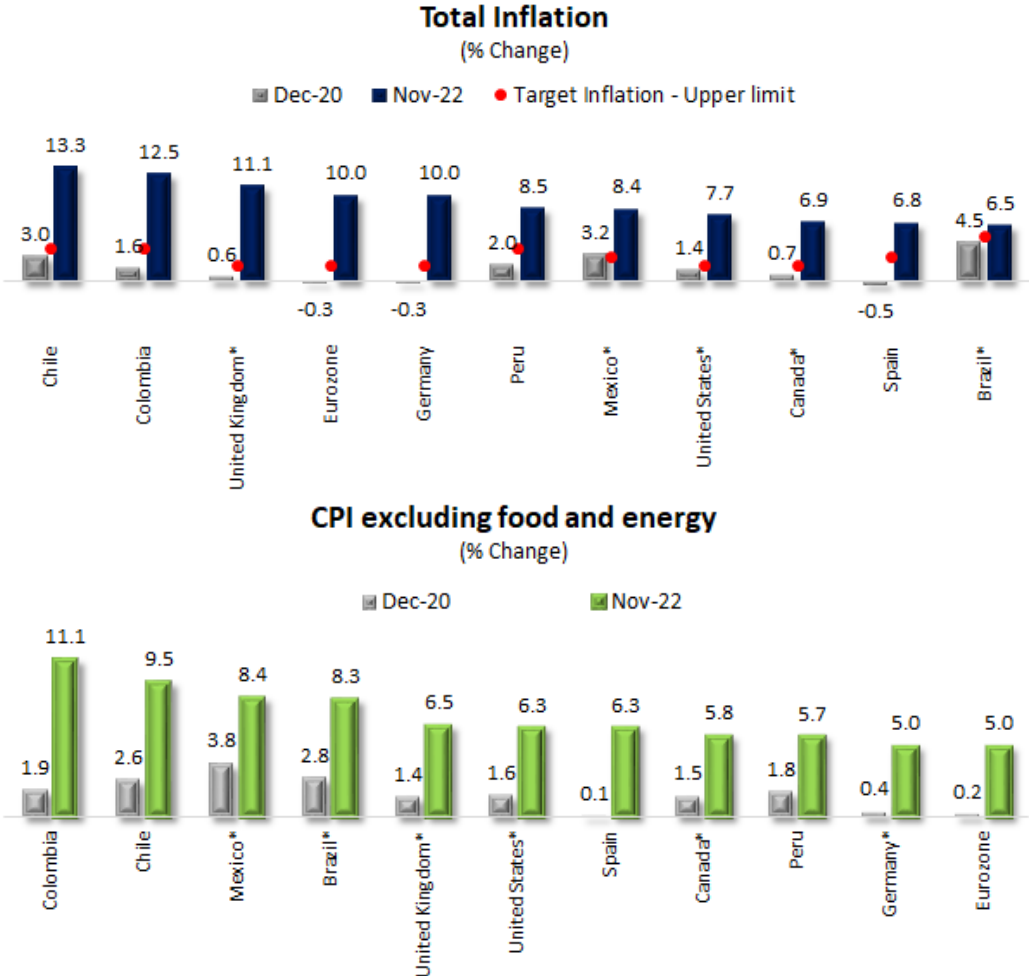
| Last 12 months % change | Jan. 21 | Feb. 21 | Mar. 21 | Apr. 21 | May. 21 | Jun. 21 | Jul. 21 | Aug. 21 | Sep. 21 | Oct. 21 | Nov. 21 | Dec. 21 | Jan. 22 | Feb. 22 | Mar. 22 | Apr. 22 | May. 22 | Jun. 22 | Jul. 22 | Aug. 22 | Sep. 22 | Oct. 22 | Nov. 22 |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Inflation | 2.68 | 2.40 | 2.60 | 2.38 | 2.45 | 3.25 | 3.81 | 4.95 | 5.23 | 5.83 | 5.66 | 6.43 | 5.68 | 6.15 | 6.82 | 7.96 | 8.09 | 8.81 | 8.74 | 8.40 | 8.53 | 8.28 | 8.45 |
| 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 | 3.24 | 3.08 | 3.26 | 3.46 | 3.81 | 4.26 | 4.95 | 5.44 | 5.39 | 5.51 | 5.72 | 5.71 |

Source: BCRP



CENTRAL RESERVE BANK OF PERU

The significant increase in international food and fuel prices since the second half of last year, accentuated by international conflicts, has led to a sharp increase in global inflation in magnitudes not seen in many years and towards levels significantly higher than the inflation targets of central banks, both in advanced and other economies in the region.



* Information as of October 2022. Source: Statistical institutes and central banks.

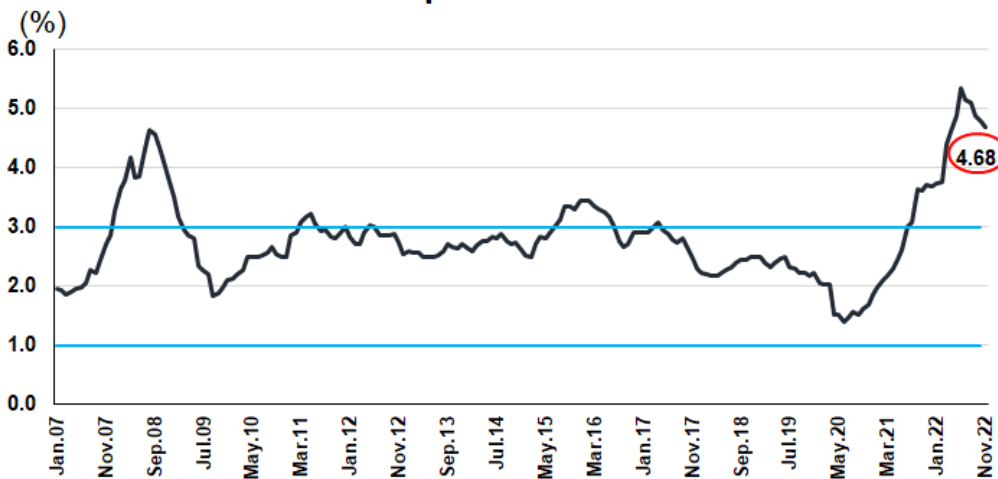


CENTRAL RESERVE BANK OF PERU

One-year-ahead expected inflation decreased from 4.78 percent in October to 4.68 percent in November; and inflation in 2023 is expected at 4.40 percent, above the upper limit of the inflation target range.

Survey of Macroeconomic Expectations: Inflation (%)

1-Year ahead inflation expectations*



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

Source: BCRP

| | Survey date: | | |
|--|--------------|---------|---------|
| | Sep 30. | Oct 31. | Nov 30. |
| Economic analysts¹ | | | |
| 2022 | 7.70 | 8.00 | 7.90 ↓ |
| 2023 | 4.00 | 4.10 | 4.20 ↑ |
| 2024 | 3.00 | 3.00 | 3.00 = |
| Financial entities² | | | |
| 2022 | 7.30 | 7.50 | 7.70 ↑ |
| 2023 | 4.05 | 4.28 | 4.60 ↑ |
| 2024 | 3.50 | 3.50 | 3.50 = |
| Non-financial firms³ | | | |
| 2022 | 7.00 | 7.50 | 7.50 = |
| 2023 | 4.50 | 5.00 | 4.50 ↓ |
| 2024 | 4.00 | 4.00 | 4.00 = |

¹ 20 analysts in September, 15 in October and 19 in November 2022.

² 14 financial entities in September, 16 in October and 15 in November 2022.

³ 318 non financial firms in September, 290 in October and 296 in November 2022.

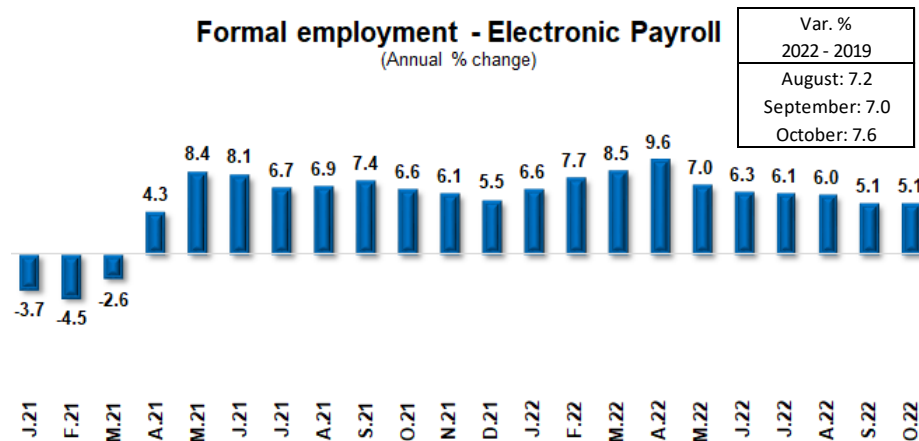


CENTRAL RESERVE BANK OF PERU

In October 2022, total formal employment at the national level increased 5.1 percent compared to October 2021, mainly due to the growth of employment in the private sector (6.4 percent).

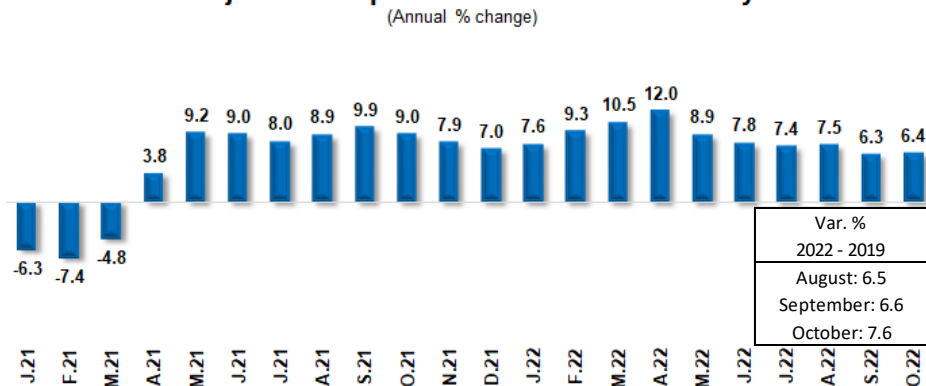
Formal employment - Electronic Payroll

(Annual % change)



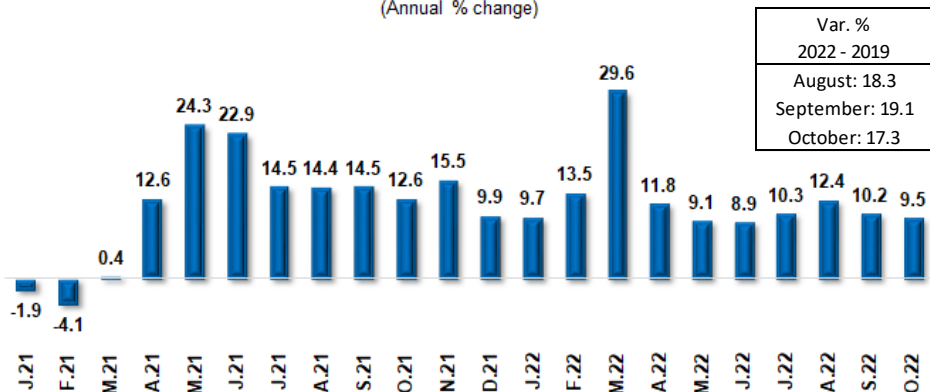
Formal jobs in the private sector - Electronic Payroll

(Annual % change)



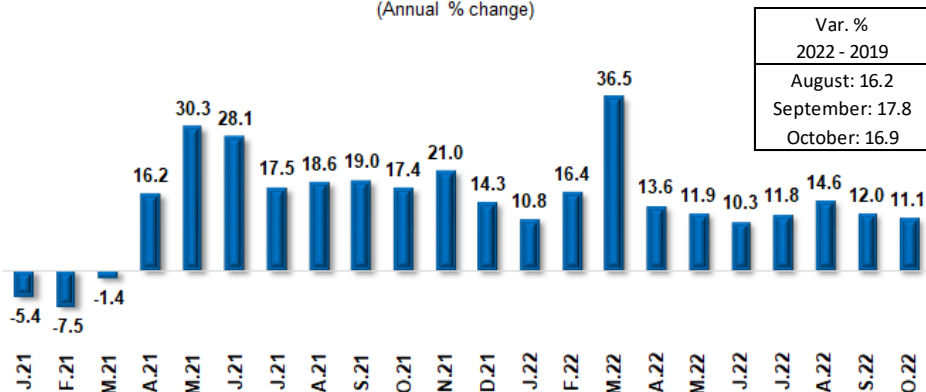
Total formal wage bill - Electronic Payroll

(Annual % change)



Private sector formal wage bill - Electronic Payroll

(Annual % change)





In October 2022, formal jobs in the private sector increased 6.4 percent compared to October 2021, mainly due to growth in the electricity and services sectors.

Formal jobs in the Private Sector - Electronic Payroll

(Thousands of positions)

| | October | | | | | | | | Jan - Oct | |
|---|--------------|--------------|--------------|--------------|--------------------|------------|--------------------|------------|------------|------------|
| | 2019 | 2020 | 2021 | 2022 | Change 2022 / 2021 | | Change 2022 / 2019 | | % Chg. | % Chg. |
| | | | | | Thousands | % | Thousands | % | 22/21 | 22/19 |
| Total | 3,897 | 3,616 | 3,942 | 4,195 | 253 | 6.4 | 298 | 7.6 | 8.3 | 5.2 |
| Agriculture and Livestock ^{1/} | 499 | 584 | 624 | 628 | 3 | 0.5 | 129 | 25.9 | 7.7 | 16.4 |
| Fishing | 20 | 19 | 19 | 19 | 0 | 0.6 | -1 | -3.6 | -0.7 | -2.2 |
| Mining | 102 | 99 | 113 | 115 | 2 | 1.9 | 13 | 12.5 | 6.3 | 14.2 |
| Manufacturing | 476 | 441 | 465 | 483 | 17 | 3.7 | 7 | 1.4 | 4.2 | 0.4 |
| Electricity | 14 | 14 | 15 | 17 | 2 | 10.6 | 2 | 17.2 | 10.1 | 20.0 |
| Construction | 245 | 226 | 263 | 249 | -14 | -5.4 | 4 | 1.5 | -1.9 | 5.0 |
| Commerce | 627 | 587 | 639 | 677 | 38 | 6.0 | 50 | 8.0 | 7.7 | 6.1 |
| Services | 1,912 | 1,644 | 1,794 | 1,974 | 180 | 10.0 | 62 | 3.3 | 11.0 | 2.3 |
| Not specified | 2 | 3 | 10 | 34 | 24 | n.a. | 31 | n.a. | n.a. | n.a. |

1/ Includes processing and preservation of fruits and vegetables.

Source: SUNAT



Most of the leading indicators and expectations about economic activity remain in the pessimistic tranche.

Macroeconomic Expectations: Survey Results

| | | Dec.2019 | Mar.2020 | Sep.2022 | Oct.2022 | | | Nov.2022 | | Correlation with GDP ^{1/} | |
|--|----------------------------|----------|----------|----------|----------|---|---|----------|---|---------------------------------------|-------|
| <u>CURRENT SITUATION:</u> | | | | | | | | | | | |
| BUSINESS SITUATION | | 53.4 | 41.1 | 48.4 | 48.7 | ↑ | < | 48.6 | ↓ | < | 0.56 |
| LEVEL OF SALES | | 54.2 | 30.3 | 49.3 | 45.8 | ↓ | < | 46.3 | ↑ | < | 0.49 |
| PRODUCTION LEVEL | | 50.0 | 23.5 | 47.0 | 45.4 | ↓ | < | 46.5 | ↑ | < | 0.44 |
| DEMAND COMPARED TO THE EXPECTED DEMAND | | 40.0 | 23.0 | 38.1 | 36.9 | ↓ | < | 36.7 | ↓ | < | 0.68 |
| PURCHASING ORDERS COMPARED TO THE PREVIOUS MONTH | | 51.2 | 27.5 | 48.7 | 43.4 | ↓ | < | 43.6 | ↑ | < | 0.52 |
| UNWANTED INVENTORY DAYS ^{2/} | | 8.9 | 5.9 | 13.9 | 11.8 | ↓ | < | 12.7 | ↑ | < | -0.36 |
| <u>EXPECTATION:</u> | | | | | | | | | | | |
| ECONOMIC SITUATION: | IN 3 MONTHS | 50.8 | 21.8 | 36.5 | 35.7 | ↓ | < | 37.9 | ↑ | < | 0.63 |
| | IN 12 MONTHS | 61.5 | 41.5 | 42.9 | 43.5 | ↑ | < | 43.3 | ↓ | < | 0.42 |
| SECTOR: | IN 3 MONTHS | 51.5 | 28.5 | 44.8 | 43.9 | ↓ | < | 42.8 | ↓ | < | 0.67 |
| | IN 12 MONTHS | 61.5 | 43.4 | 51.0 | 51.6 | ↑ | > | 49.5 | ↓ | < | 0.33 |
| COMPANY'S SITUATION: | IN 3 MONTHS | 56.1 | 28.3 | 48.7 | 48.4 | ↓ | < | 46.4 | ↓ | < | 0.66 |
| | IN 12 MONTHS | 66.6 | 46.4 | 54.9 | 57.4 | ↑ | > | 54.3 | ↓ | > | 0.66 |
| ABOUT DEMAND: | IN 3 MONTHS | 55.1 | 30.7 | 51.3 | 48.0 | ↓ | < | 49.3 | ↑ | < | 0.66 |
| | IN 12 MONTHS | 68.0 | 47.4 | 55.9 | 58.8 | ↑ | > | 56.3 | ↓ | > | 0.66 |
| NEW PERSONNEL HIRED: | IN 3 MONTHS | 48.6 | 35.9 | 48.7 | 47.9 | ↓ | < | 45.0 | ↓ | < | 0.66 |
| | IN 12 MONTHS | 54.0 | 39.6 | 52.4 | 53.3 | ↑ | > | 48.2 | ↓ | < | 0.58 |
| COMPANY'S INVESTMENT: | IN 3 MONTHS ^{3/} | 51.3 | 29.9 | 46.0 | 44.3 | ↓ | < | 46.5 | ↑ | < | 0.65 |
| | IN 12 MONTHS ^{3/} | 59.3 | 40.0 | 51.9 | 53.6 | ↑ | > | 51.9 | ↓ | > | 0.65 |
| <u>EXPECTATION OF THE AVERAGE PRICE:</u> | | | | | | | | | | | |
| SUPPLIES IN 3 MONTHS | | 51.5 | 52.9 | 61.8 | 61.0 | ↓ | > | 57.1 | ↓ | > | 0.63 |
| SALE IN 3 MONTHS | | 56.4 | 49.7 | 60.5 | 56.3 | ↓ | > | 57.0 | ↑ | > | 0.59 |

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, recording an optimal lag (t=-3 for 3-month investment and t=-6 for 12-month investment).

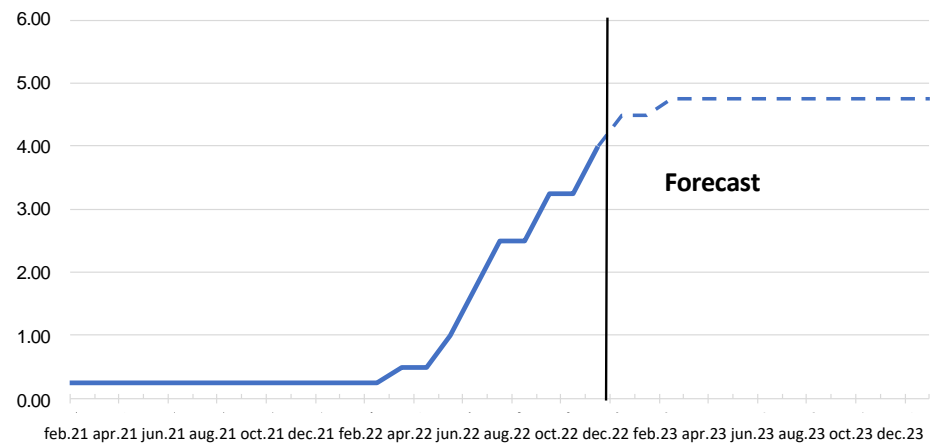
Source: BCRP



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The outlook for global economic activity have been diminishing due to the effects of restrictive monetary policy in advanced economies, the impact of inflation on consumption, lower growth in China, and international conflicts.

Fed rate and Market Expectation*
(%)



*Forecast uses implicit rate of the futures market as of December 6, 2022.
Source: Fed and Reuters

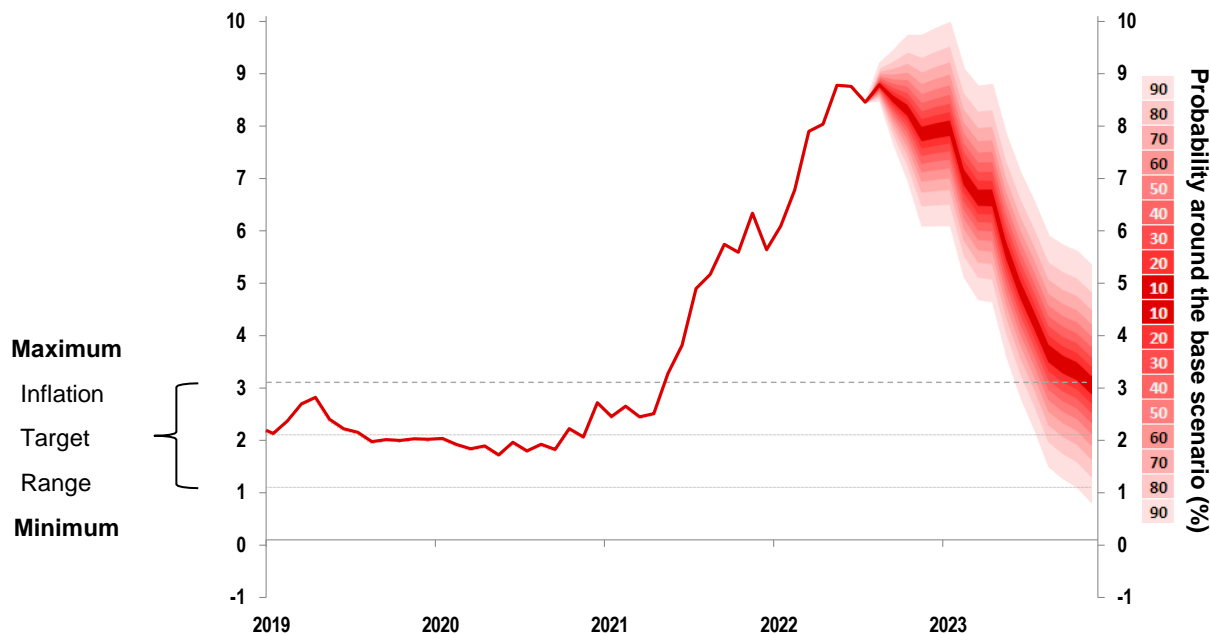


A downward trend in year-on-year inflation is forecast, with a return to the target range in the fourth quarter of next year, due to a moderation of the impact of international food and fuel prices, and to a reduction in inflation expectations.

The Board is particularly attentive to new information on inflation and its determinants, including the evolution of inflation expectations and economic activity, to consider changes in the monetary stance. The Board reaffirms its commitment to adopt necessary actions to ensure the return of inflation to the target range over the forecast horizon.

Inflation Forecast: 2022 – 2023

(Last 12-month % change)



Source: BCRP – IR Sep 2022



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