



CENTRAL RESERVE BANK OF PERU

Monetary Policy Statement

January 2022

January 07, 2022

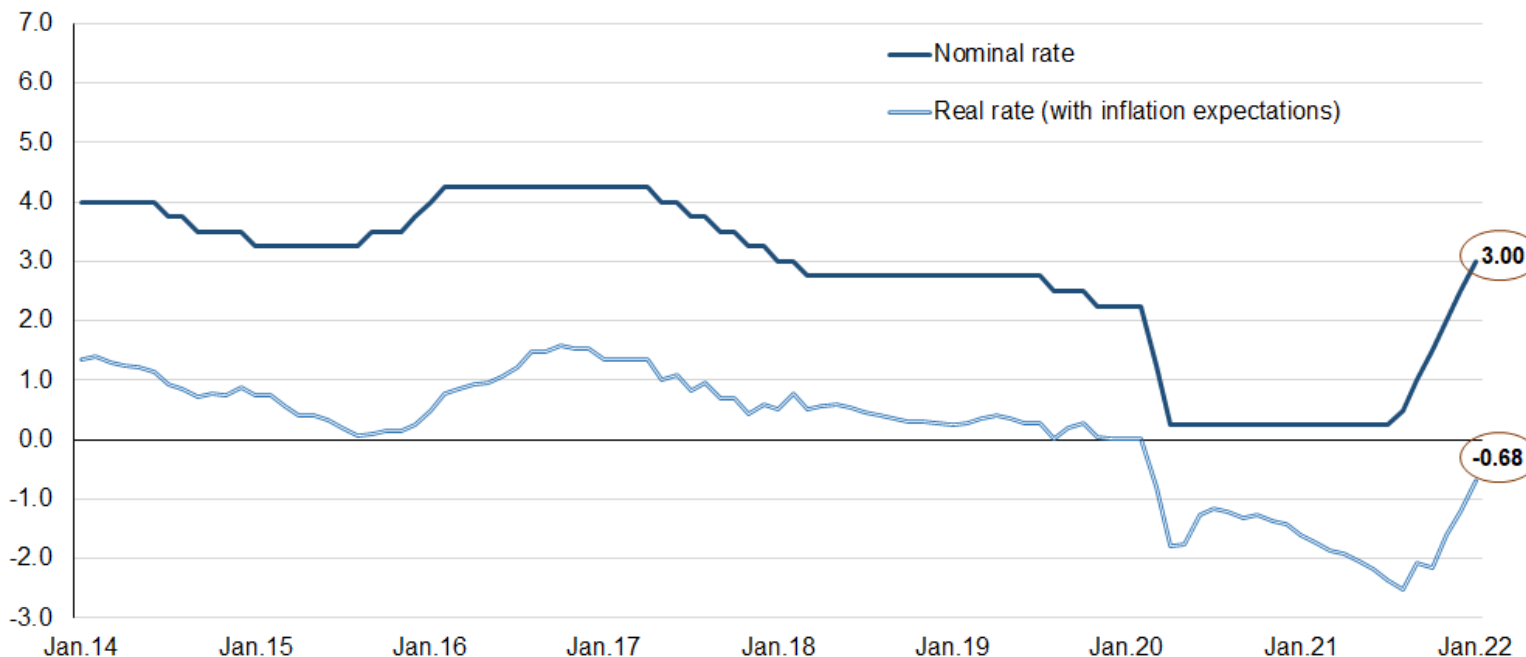


CENTRAL RESERVE BANK OF PERU

The Board of Directors of the Central Reserve Bank of Peru (BCRP) decided to raise the reference interest rate by 50 bps to 3.0 percent, continuing the normalization of the stance of monetary policy.

Policy interest rate

(%)

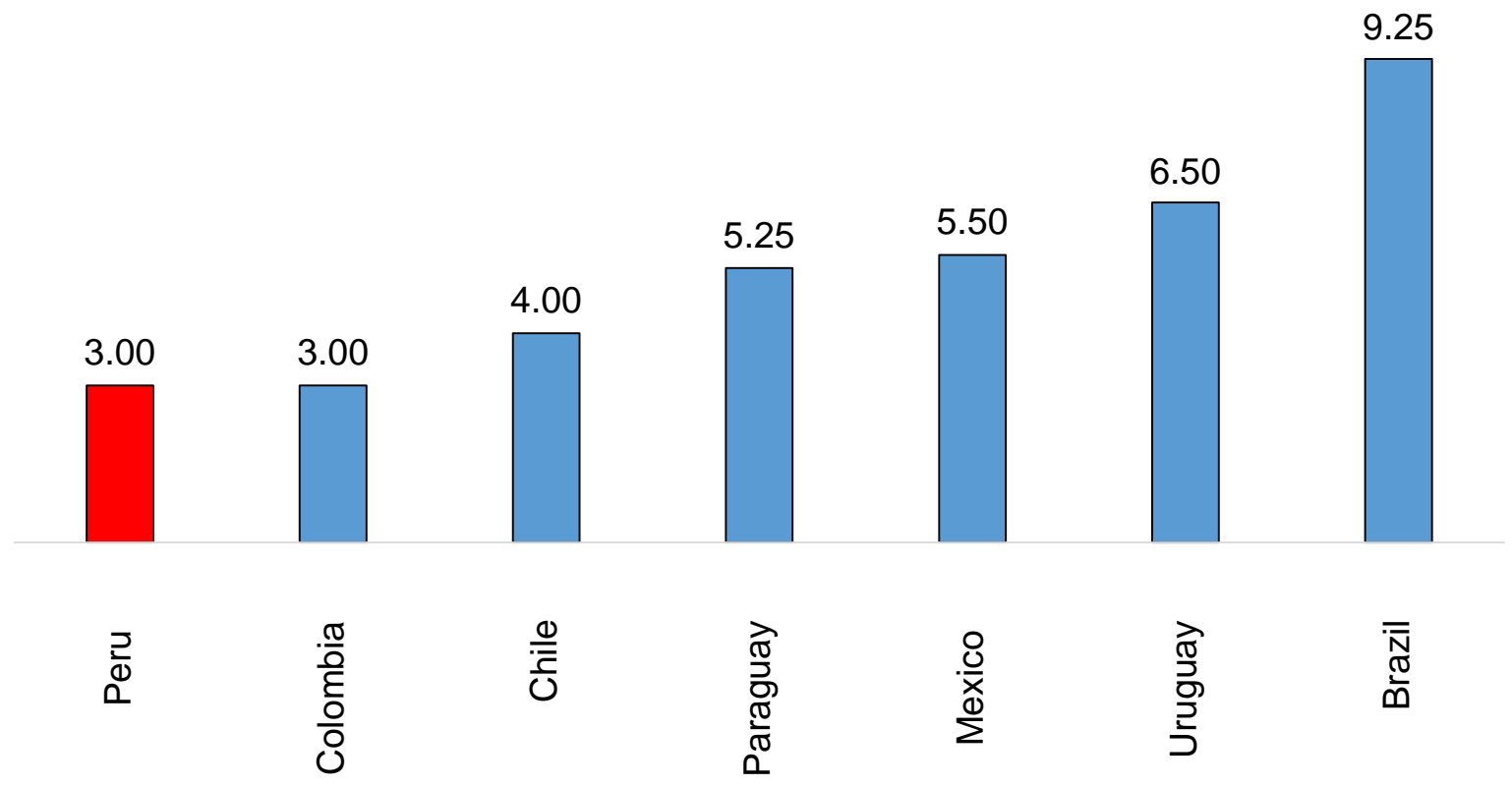


	Jul.20	Aug.20	Sep.20	Oct.20	Nov.20	Dec.20	Jan.21	Feb.21	Mar.21	Apr.21	May.21	Jun.21	Jul.21	Aug.21	Sep.21	Oct.21	Nov.21	Dec.21	Jan.22
(I) Nominal rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50	2.00	2.50	3.00
(II) Inflation expectations	1.40	1.46	1.57	1.51	1.62	1.68	1.85	1.98	2.11	2.17	2.30	2.43	2.60	3.03	3.07	3.64	3.61	3.71	3.68
(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	-0.68



Peru's monetary policy interest rate of 3.0 percent is one of the lowest at the international level.

Monetary Policy Interest Rates in Emerging Economies: January 2022 (%)

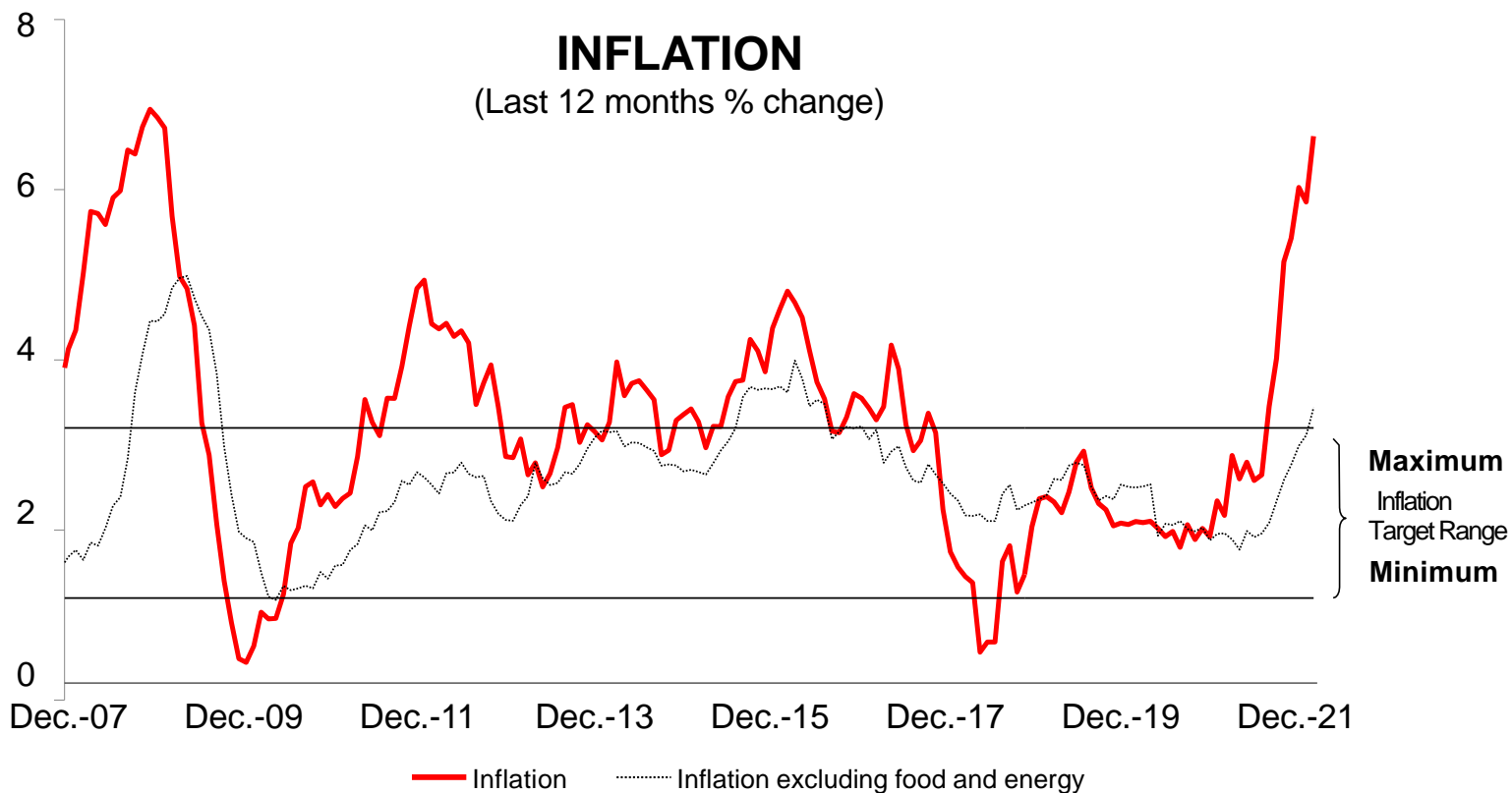


Source: Central Banks.



CENTRAL RESERVE BANK OF PERU

Year-on-year inflation increased from 5.66 percent in November to 6.43 percent in December, 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	Dec. 21
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
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

Source: BCRP



At international level, there is a significant increase in the international prices of commodities, particularly in oil (58.7 percent in 2021 and 3.2 percent so far this year) and in some foods such as wheat (27.4 percent in 2021 and -4.1 percent so far this year) and in soybean oil (46.7 percent in 2021 and -5.0 percent so far this year).

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

		Spot				% change ^{1/}	
		Dec.19	Dec.20	Dec.21	Jan 6, 22	Dec.21/Dec.20	Jan.22/Dec.21
WTI Oil	(US\$ per barrel)	61.1	48.5	77.0	79.5	58.7	3.2
LPG*	(US\$ per barrel)	23.9	31.4	46.5	46.1	48.3	-0.9
Gasoline*	(US\$ per barrel)	73.8	57.8	82.2	84.2	42.3	2.4
Wheat	(US\$ per ton)	177.8	231.1	294.5	282.4	27.4	-4.1
Maize	(US\$ per ton)	148.4	186.6	227.9	231.5	22.2	1.6
Soybean	(US\$ per ton)	756	977	1,434	1,363	46.7	-5.0
Baltic Index	(US\$ Index)	1,090	1,366	2,217	2,296	62.3	3.6
Exchange rate	S/ per US\$	3.314	3.620	3.991	3.970	10.2	-0.5

1/ Comparison as of January 22 is with respect to January 6.

* International reference prices published by OSINERGMIN as of January 3, 2022.

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 (9.7 percent since December 2020).

INFLATION

(% Change)

Item	Weight	2019	2020	2021
CPI	100.0	1.90	1.97	6.43
<u>1. CPI excluding food and energy</u>	<u>56.4</u>	<u>2.30</u>	<u>1.76</u>	<u>3.24</u>
<u>2. Food and energy</u>	<u>43.6</u>	<u>1.43</u>	<u>2.22</u>	<u>10.18</u>
i. Food	37.8	1.00	2.24	7.97
Chicken meat	3.0	-7.3	6.6	23.4
Bread	1.9	0.9	0.3	15.5
Oils	0.5	-2.3	4.1	63.5
Potatoes	0.9	12.6	-18.7	11.9
Tomatoes	0.2	-4.6	-11.4	33.9
Meals outside the home	11.7	1.7	1.0	4.5
ii. Energy	5.7	4.32	2.13	24.41
Fuels	2.8	-0.4	-4.2	47.2
Gasoline and lubricants	1.3	0.6	-11.2	46.4
Gas	1.4	-1.7	2.0	51.0
Electricity	2.9	8.0	6.7	9.5

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	
	Dec. 20 / Dec. 19	Dec. 21 / Dec. 20
Industrial inputs	3.7	33.0
Plastics	6.4	51.3
Iron and Steel	3.2	56.8
Textiles	-6.9	20.9
Papers	-8.8	30.2
Chemical goods	4.3	14.4
Organic chemicals	3.6	45.4
Rest	5.9	27.9
Of Which:		
Fertilizers	-11.2	84.0

Source: Sunat.

Elaboration: BCRP.



Year-on-year core inflation was 3.24 percent in December, above the upper limit of the target range.

Inflation and Trend Indicators

(Annual % change)

	Annual average	Annual % change		
	2001-2020	Oct.21	Nov.21	Dec.21
CPI	2.6	5.83	5.66	6.43
CPI excluding food and energy	2.1	2.79	2.91	3.24
<u>Trend indicators</u>				
Bounded mean	2.5	3.83	4.06	4.53
Percentile 63	2.4	3.47	3.73	4.23
Re-weighted	2.5	3.55	3.80	4.26

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

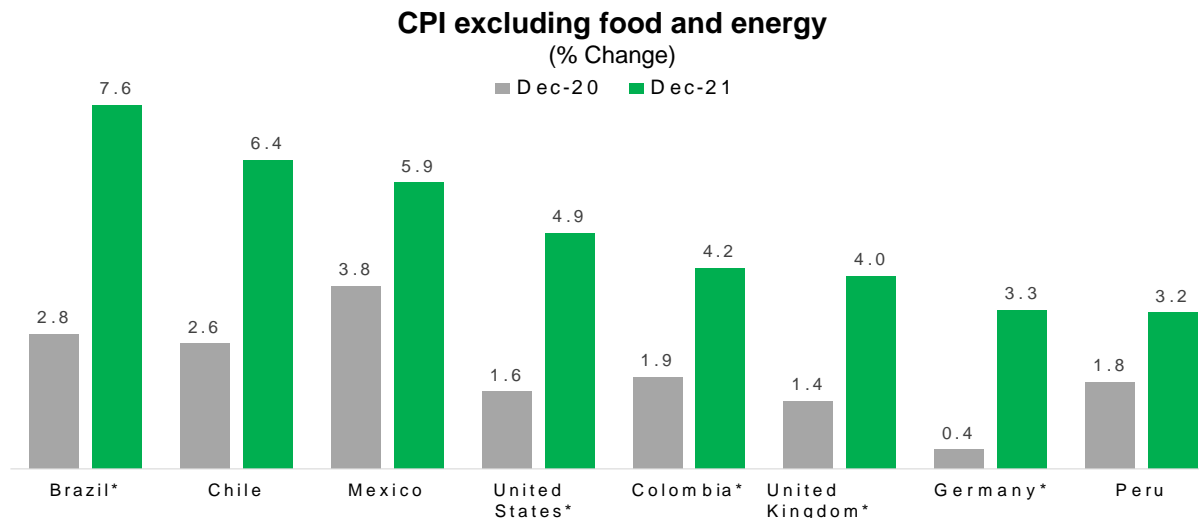
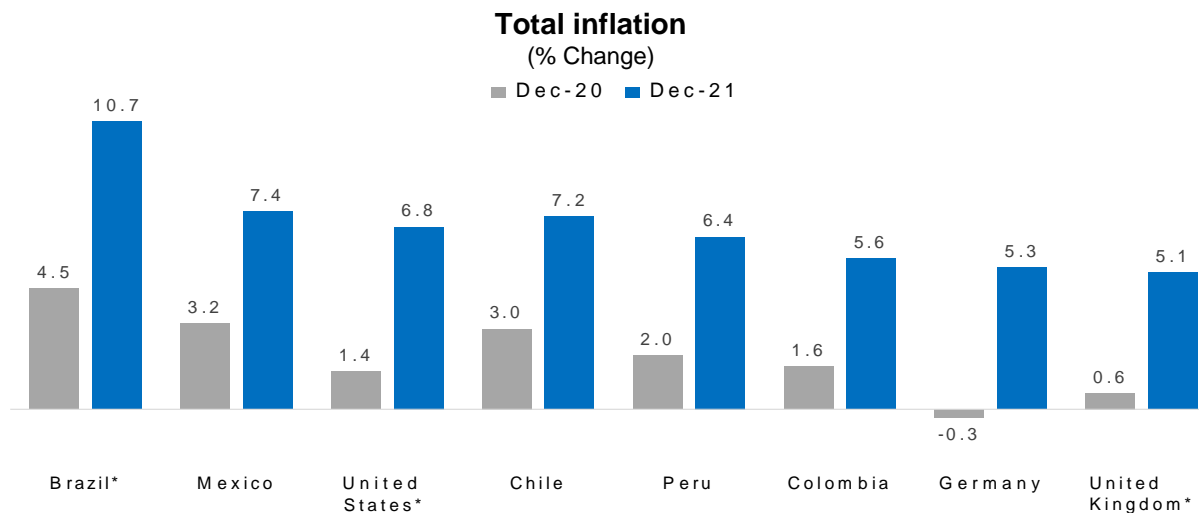
Percentile 63: Corresponds to the percentage changes of the item located in the 63th percentile.

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 has been observed in the world since the middle of last year. In December 2021, total inflation and core inflation in Peru were among the lowest at the international level.

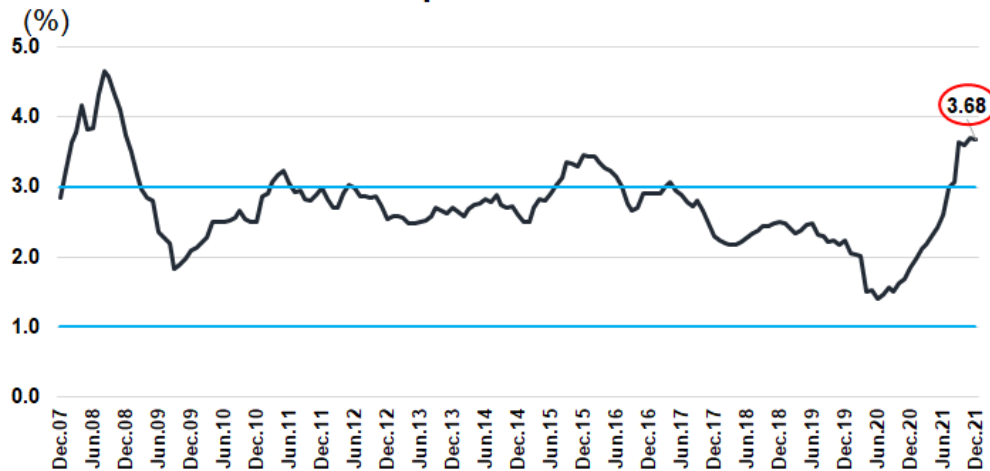


* Information as of November 2021.
Source: Trading Economics and BCRP (Peru).



One-year-ahead expected inflation for 2022 increased from 3.5 percent to 3.7 percent, 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:			
	Oct 31.	Nov 30.	Dec 31.	
Economic analysts¹				
2022	3.15	3.55	3.60	↑
2023	2.90	2.80	2.90	
Financial entities²				
2022	3.50	3.50	3.75	↑
2023	3.00	3.00	3.00	
Non-financial firms³				
2022	3.00	3.21	3.50	↑
2023	3.00	3.00	3.00	

¹ 18 analysts in October, 16 in November and 17 in December 2021.

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

³ 284 non financial firms in October, 287 in November and 267 in December 2021.



Economic activity in the January-October 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	Oct.	Jan.-Oct.	Q.3	Oct.	Jan.-Oct.
Primary GDP	23.1	-7.7	3.0	0.3	7.6	-3.7	-1.2	-2.6
Agriculture and Livestock	6.4	1.4	9.6	5.2	3.0	7.8	7.6	4.6
Fishing	0.5	4.2	-37.8	-33.1	4.9	-28.6	-27.1	-2.5
Mining	8.8	-13.8	6.2	0.4	13.7	-3.9	-0.7	-4.7
Fuel	1.5	-11.0	-6.2	7.2	-5.5	-19.1	-6.1	-15.6
Primary industries	3.6	-2.0	-9.0	-8.5	6.0	-9.8	-10.9	-0.4
Non-primary GDP	76.9	-12.0	13.8	5.7	18.5	3.1	1.8	1.5
Non-primary industries	8.5	-16.4	14.5	3.9	28.9	4.4	2.9	3.8
Electricity and water	2.0	-6.1	6.3	3.3	9.8	2.9	3.2	1.8
Construction	5.6	-13.9	23.8	-3.1	52.0	18.3	11.0	17.2
Commerce	10.2	-16.0	10.1	5.1	21.5	1.2	1.1	-1.5
Total Services	50.6	-10.3	13.7	7.7	13.3	1.5	0.6	-0.1
GDP	100.0	-11.0	11.4	4.6	16.0	1.6	1.2	0.6

1/ Implicit weighting for 2020 at 2007 prices.

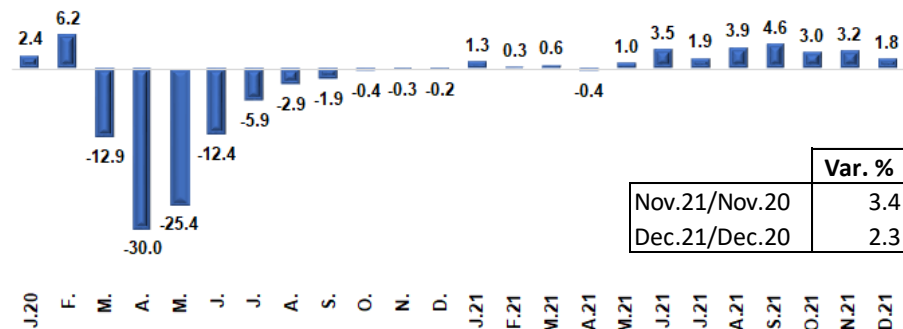
Source: INEI and BCRP



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

Average monthly electricity production (GWh)

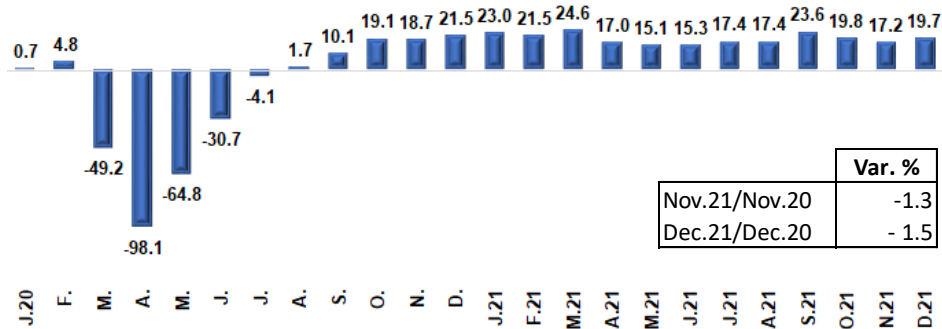
(% change respect to the same period in 2019)



Source: COES.

Domestic consumption of cement*

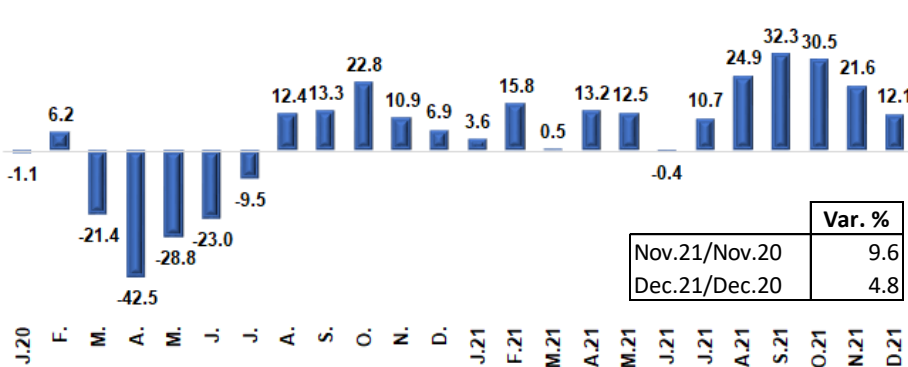
(% change respect to the same period in 2019)



* Data for December represents a forecast.
Source: Cement companies and UNACEM.

Non traditional exports*

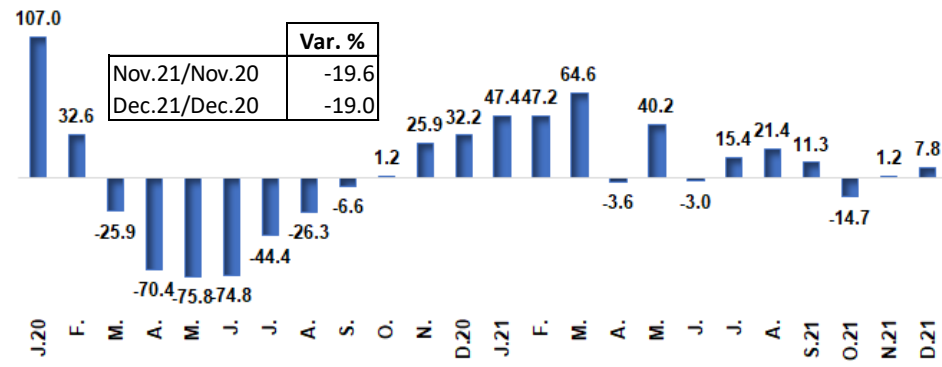
(% change respect to the same period in 2019)



* Data for December represents a forecast.
Source: Sunat.

Real Investment of the General Government

(% change respect to the same period in 2019)



Source: MEF.



Most indicators of expectations about the economy have continued in December in the pessimistic tranche.

Macroeconomic Expectations: Survey Results

		Dec.2019	Mar.2020	Oct.2021	Nov.2021			Dec.2021			Correlation with GDP ^{1/}
EXPECTATION:											
ECONOMIC SITUATION:	IN 3 MONTHS	50.8	21.8	42.5	40.1	↓	<	41.2	↑	<	0.63
	IN 12 MONTHS	61.5	41.5	51.0	47.3	↓	<	48.6	↑	<	0.42
SECTOR:	IN 3 MONTHS	51.5	28.5	48.7	46.8	↓	<	46.2	↓	<	0.67
	IN 12 MONTHS	61.5	43.4	56.2	53.2	↓	>	53.7	↑	>	0.33
COMPANY'S SITUATION:	IN 3 MONTHS	56.1	28.3	51.5	51.3	↓	>	51.0	↓	>	0.66
	IN 12 MONTHS	66.6	46.4	57.8	56.7	↓	>	58.6	↑	>	0.66
ABOUT DEMAND:	IN 3 MONTHS	55.1	30.7	53.6	52.2	↓	>	49.6	↓	<	0.66
	IN 12 MONTHS	68.0	47.4	61.5	60.5	↓	>	60.4	↓	>	0.66
NEW PERSONNEL HIRED:	IN 3 MONTHS	48.6	35.9	47.1	49.5	↑	<	46.2	↓	<	0.66
	IN 12 MONTHS	54.0	39.6	52.9	53.2	↑	>	52.8	↓	>	0.58
COMPANY'S INVESTMENT:	IN 3 MONTHS ^{3/}	51.3	29.9	44.7	43.3	↓	<	42.8	↓	<	0.65
	IN 12 MONTHS ^{3/}	59.3	40.0	52.4	50.6	↓	>	50.8	↑	>	0.65

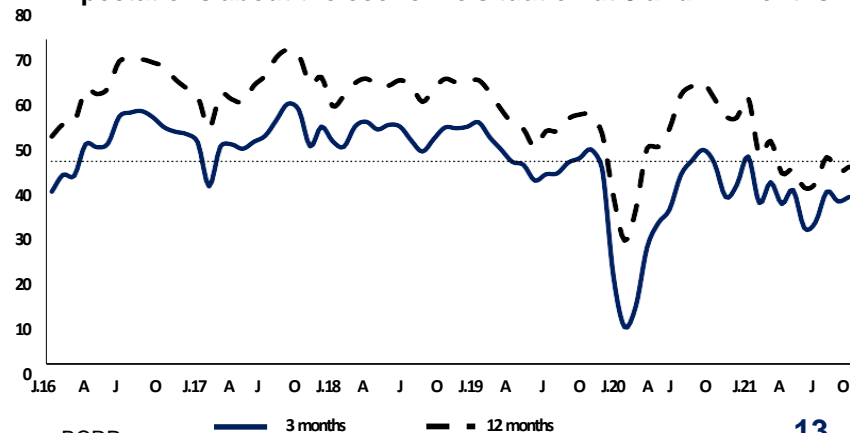
Memo: Greater than 50 points (neutral) means that confidence is on the optimistic tranche and less than 50 points in the pessimistic tranche.

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 since September.

Expectations about the economic situation at 3 and 12 months



Source: BCRP.

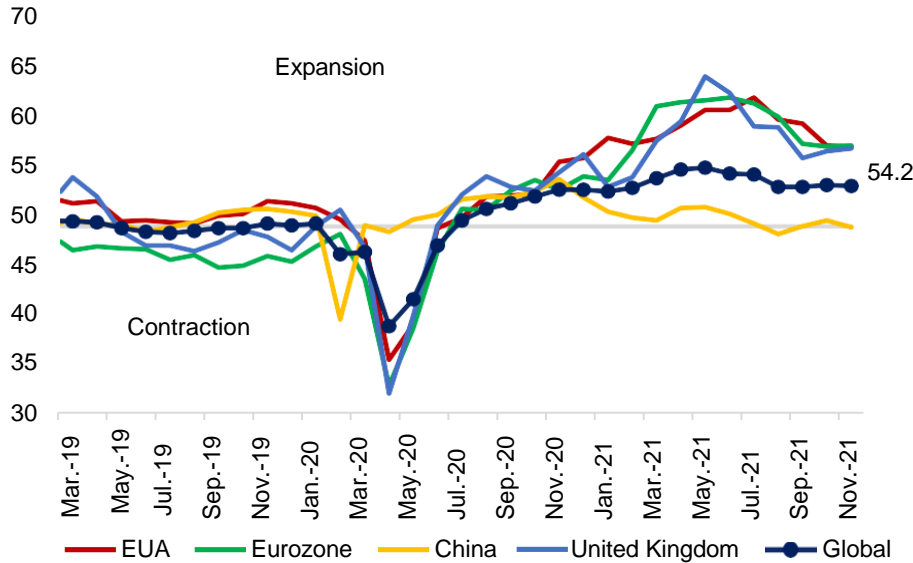
— 3 months - - - 12 months



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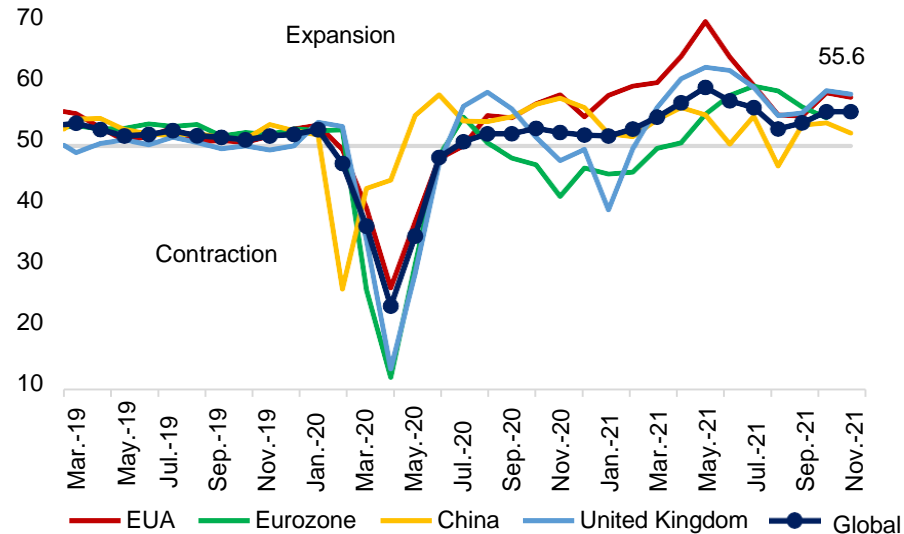
World economic activity has been recovering, although at a slower pace, due to outbreaks of COVID-19 infections and the appearance of new variants and bottlenecks in the global supply of goods and services. The recovery process is expected to continue in the coming quarters as vaccination progresses 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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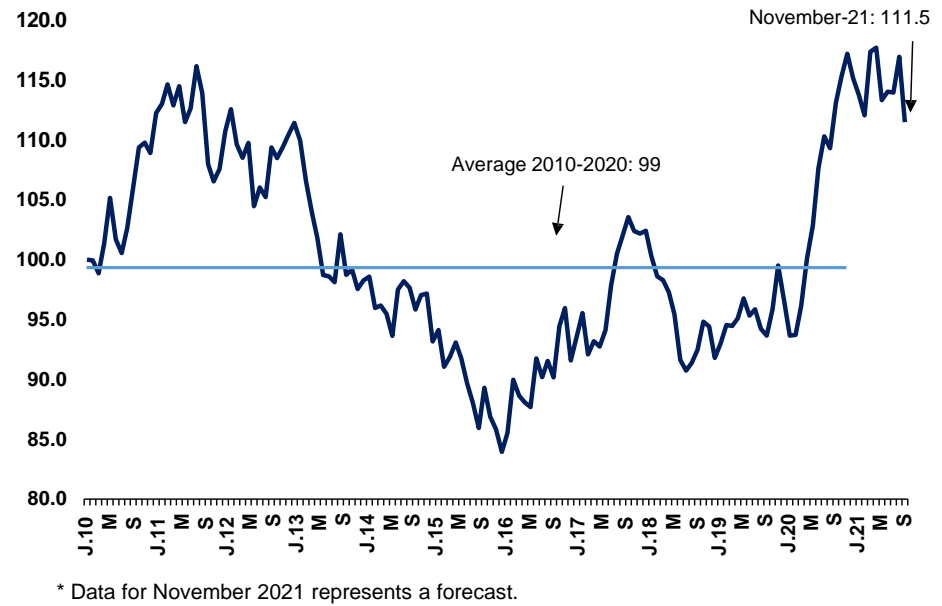
A strong increase in the international price of minerals remains, and especially in copper, gold and zinc. In this regard, the terms of trade continue at a historically high level.

International Copper Price (cUS\$/pound)



Source: Reuters

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



* Data for November 2021 represents a forecast.

Source: BCRP



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 January 6, the exchange rate was S/ 3.970 per dollar, recording an appreciation 0.5 percent respect to December 31, 2021 (S/ 3.991) and a depreciation 9.7 percent respect to December 31, 2020 (S/ 3.620).

Exchange Rate

(currency units per dollar)

		End of period					Accumulated change (%)*				
		Dec.18	Dec.19	Dec.20	Dec.21	As of Jan 6. 2022	2022**	2021	2020	2019	
Dollar Index	Spot	96.17	96.39	89.94	95.97	96.18	0.2	6.7	-6.7	0.2	
Eurozone	US\$ per Euro	1.144	1.121	1.221	1.137	1.131	-0.5	-6.9	8.9	-2.0	
United Kingdom	US\$ per Pound	1.281	1.326	1.367	1.353	1.353	0.0	-1.1	3.1	3.5	
Japan	Yen	109.93	108.61	103.24	115.08	115.74	0.6	11.5	-4.9	-1.2	
Brazil	Real	3.880	4.019	5.194	5.570	5.713	2.6	7.3	29.2	3.6	
Colombia	Peso	3.245	3,285	3,415	4.065	4.042	-0.6	19.1	3.9	1.2	
Chile	Peso	693	752	710	851	840	-1.3	19.9	-5.6	8.5	
Mexico	Peso	19.65	18.93	19.87	20.49	20.52	0.2	3.1	5.0	-3.7	
Argentina	Peso	37.65	59.86	84.08	102.68	103.22	0.5	22.1	40.5	59.0	
Peru	Sol	3.377	3.315	3.620	3.991	3.970	-0.5	10.2	9.2	-1.8	

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

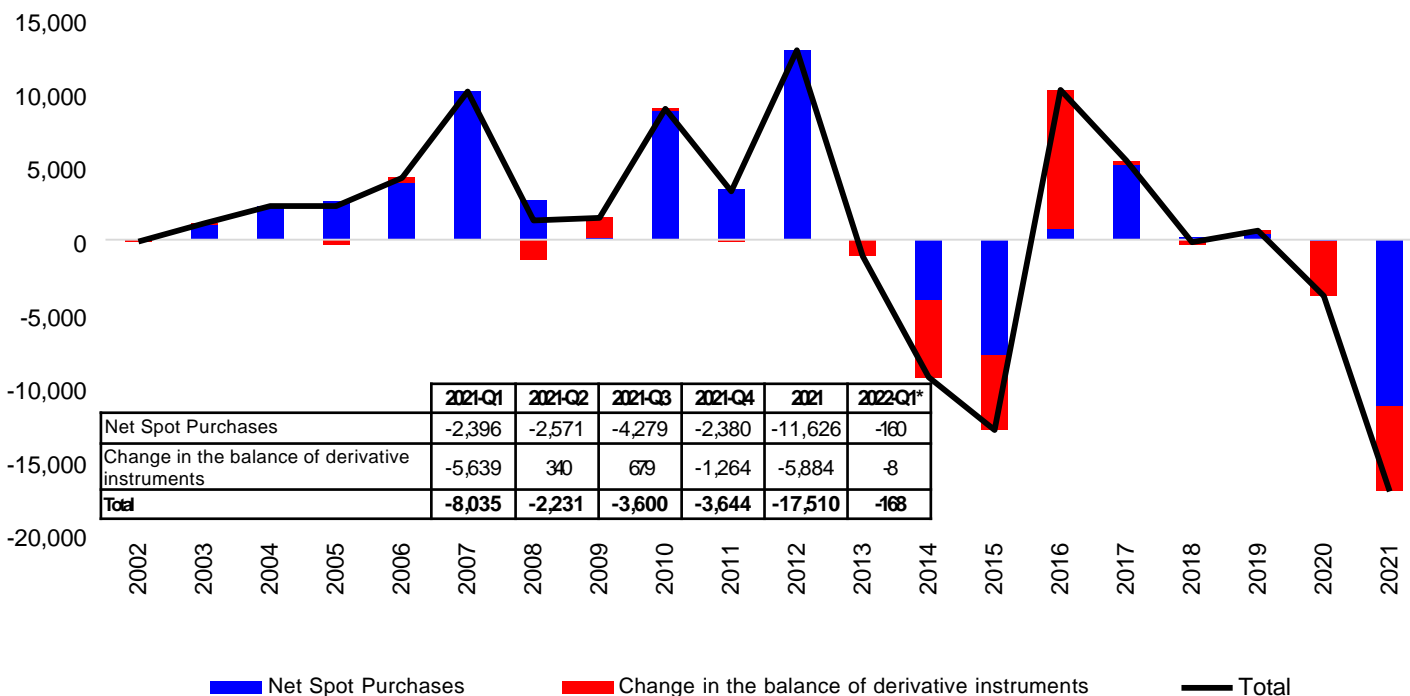
** Comparison of 2022 is with respect to January 06.

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\$ 17.5 billion in the foreign exchange market through sales in the spot market (US\$ 11.6 billion), the net placement of exchange derivatives and the net placement of certificates indexed to the exchange rate (US\$ 5.9 billion).

FX Intervention of the BCRP (Million US\$)



* Data as of January 5.
Source: BCRP

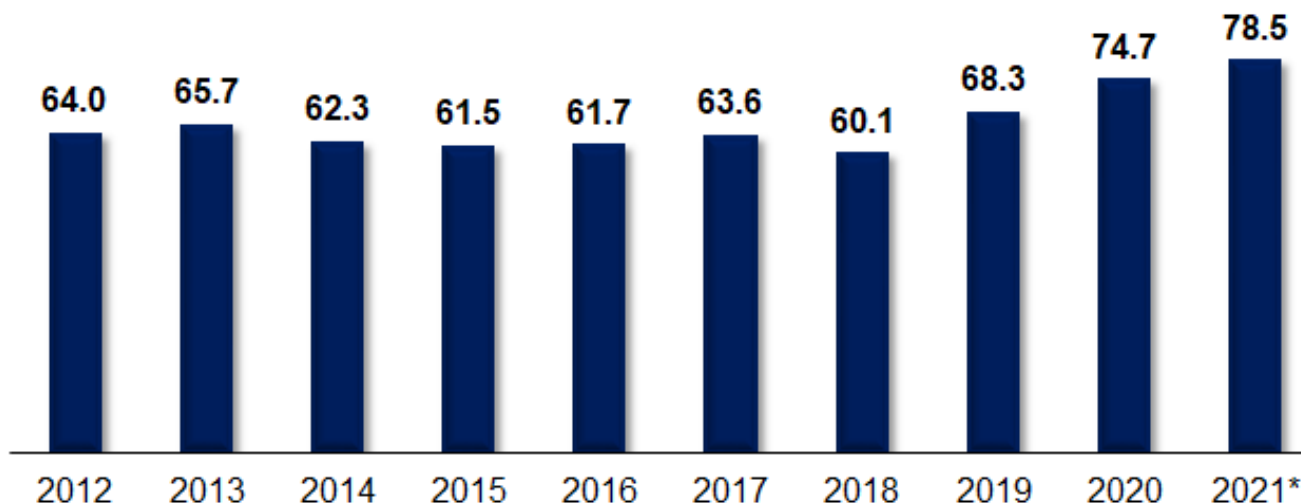


CENTRAL RESERVE BANK OF PERU

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 31
Source: BCRP.



So far this year, the long-term interest rates have recovered worldwide due to global and regional growth expectations, as well as due to the increase in country risk. Despite this, Peru's sovereign bond yield continue to be like one of the lowest in the region.

10-year Sovereign Bond Yield

(%)

	End of Period				Accumulated change as of Jan 6, 2022 (bps)	
	Dec.19	Dec.20	Dec.21	As of Jan 6, 2022	Dec.21	Dec.20
United States	1.92	0.92	1.51	1.73	22	81
Germany	-0.19	-0.57	-0.18	-0.06	12	51
France	0.12	-0.34	0.20	0.26	7	60
Italy	1.41	0.54	1.17	1.27	10	73
Spain	0.46	0.04	0.56	0.62	6	58
Greece	1.43	0.62	1.32	1.38	7	76
United Kingdom	0.82	0.19	0.97	1.15	19	96
Japan	-0.02	0.02	0.07	0.12	6	10
Brazil	6.79	6.90	10.84	11.40	55	450
Chile	3.17	2.65	5.68	5.70	1	305
Colombia	6.34	5.39	8.22	8.60	38	321
Mexico	6.89	5.53	7.56	7.85	29	232
Peru	4.64	3.50	5.87	6.02	15	252

Source: Reuters



Interest rates in soles remain below long-term averages rates.

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	3.34
TAMN ^{3/}	14.37	14.35	12.10	11.20	10.73	10.49	10.68	10.83	11.21	15.90
90-day corporate prime	4.52	3.29	0.68	0.55	0.88	1.48	1.96	2.62	3.09	3.97
Corporates ^{4/}	4.90	3.80	2.51	2.23	1.44	2.06	2.46	2.81	3.22	4.85
Large companies ^{4/}	6.42	6.01	4.60	3.92	3.70	4.20	4.87	5.35	5.65	6.49
Medium-sized enterprises ^{4/}	9.84	9.28	6.07	7.95	7.28	7.91	8.57	9.00	8.75	9.72
Small business ^{4/}	18.50	18.03	17.23	18.21	17.64	18.09	18.42	19.07	19.28	20.01
Micro business ^{4/}	32.70	31.32	30.09	32.84	32.37	31.58	30.93	31.16	32.34	32.20
Mortgage ^{4/}	7.60	7.00	6.39	5.89	5.87	6.37	6.54	6.88	6.85	8.29
10-year sovereign bond	5.62	4.64	3.50	4.97	5.37	6.44	5.82	5.95	5.87	5.43
TIPMN ^{5/}	2.47	2.25	0.98	0.89	0.81	0.81	0.86	1.00	1.10	2.20
Deposit rate 90-day corporate prime	4.01	2.81	0.19	0.14	0.38	0.93	1.26	1.94	2.63	3.20
Deposits over 1 year to People	3.68	3.47	1.97	1.93	2.03	2.46	2.82	3.09	3.09	4.09

1/ Information as of January 5, with the exception of the reference rate, which is as of January 7. Corresponds to banking companies.

2/ Average since September 2010, with the exception of the reference rate for which the average rate is since September 2003.

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.

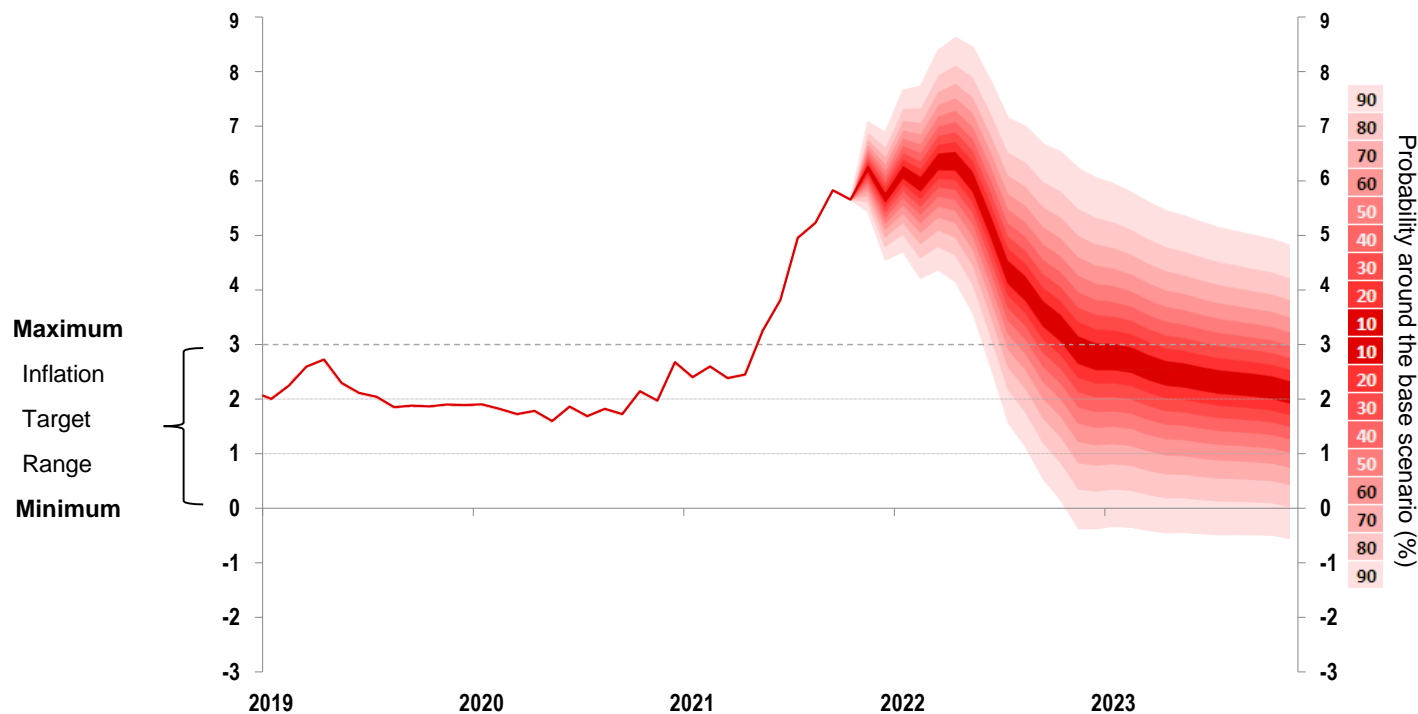
Source: BCRP and SBS.



Inflation is expected to return to the target range in the fourth quarter of the 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 so that inflation returns to the target range. Based on the available information, the Board sees the convenience of continuing the normalization of monetary policy in the next months.

Inflation Forecast: 2021 – 2023

(Last 12-month % change)





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