



**CENTRAL RESERVE BANK OF PERU**

# **Monetary Policy Statement July 2022**

**July 8, 2022**

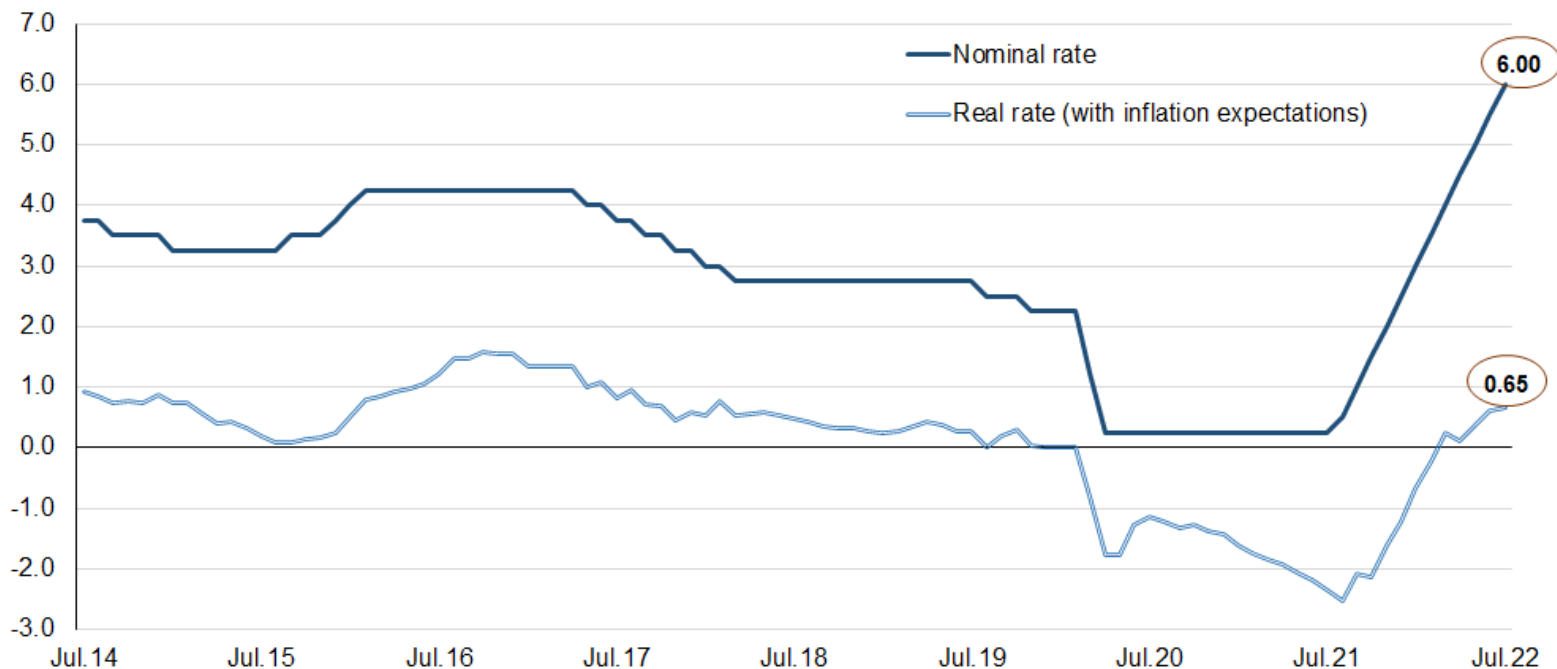


# CENTRAL RESERVE BANK OF PERU

The Board of Directors of the Central Reserve Bank of Peru (BCRP) decided to raise the reference interest rate by 50 bps to 6.0 percent, thus continuing to normalize its monetary policy stance.

## Policy interest rate

(%)



|                                    | 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 |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>(I) Nominal rate</b>            | 0.25   | 0.50   | 1.00   | 1.50   | 2.00   | 2.50   | 3.00   | 3.50   | 4.00   | 4.50   | 5.00   | 5.50   | 6.00   |
| <b>(II) Inflation expectations</b> | 2.60   | 3.03   | 3.07   | 3.64   | 3.61   | 3.71   | 3.68   | 3.73   | 3.75   | 4.39   | 4.62   | 4.89   | 5.35   |
| <b>(III) Real rate: (I)-(II)</b>   | -2.35  | -2.53  | -2.07  | -2.14  | -1.61  | -1.21  | -0.68  | -0.23  | 0.25   | 0.11   | 0.38   | 0.61   | 0.65   |

Source: BCRP



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\*

(%)

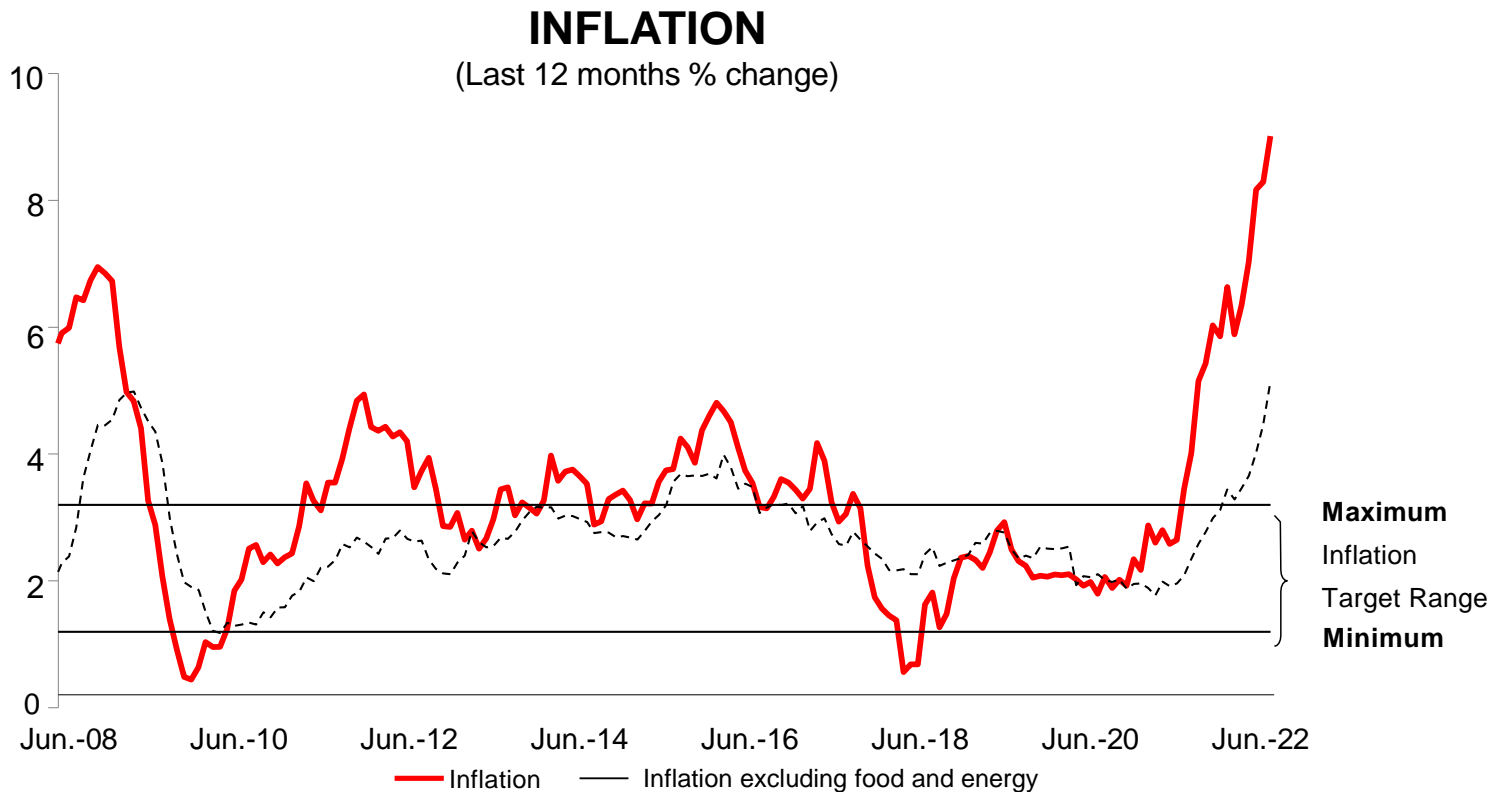
|          | <b>MPIR</b> | <b>1-Year ahead inflation expectations**</b> | <b>Ex ante Real Rate</b> |
|----------|-------------|--|--------------------------|
| Brazil   | 13.25       | 7.02   | 6.24                     |
| Chile    | 9.00        | 6.50   | 2.50                     |
| Colombia | 7.50        | 5.30   | 2.20                     |
| Mexico   | 7.75        | 6.00   | 1.75                     |
| Peru     | 6.00        | 5.35   | 0.65                     |

\* Policy rates as of July 8, 2022 and inflation expectations as of June 2022 with the exception of Brazil (May 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).



Year-on-year inflation increased from 8.09 percent in May to 8.81 percent in June, above the target range, due to significant increases in international food and fuel prices.



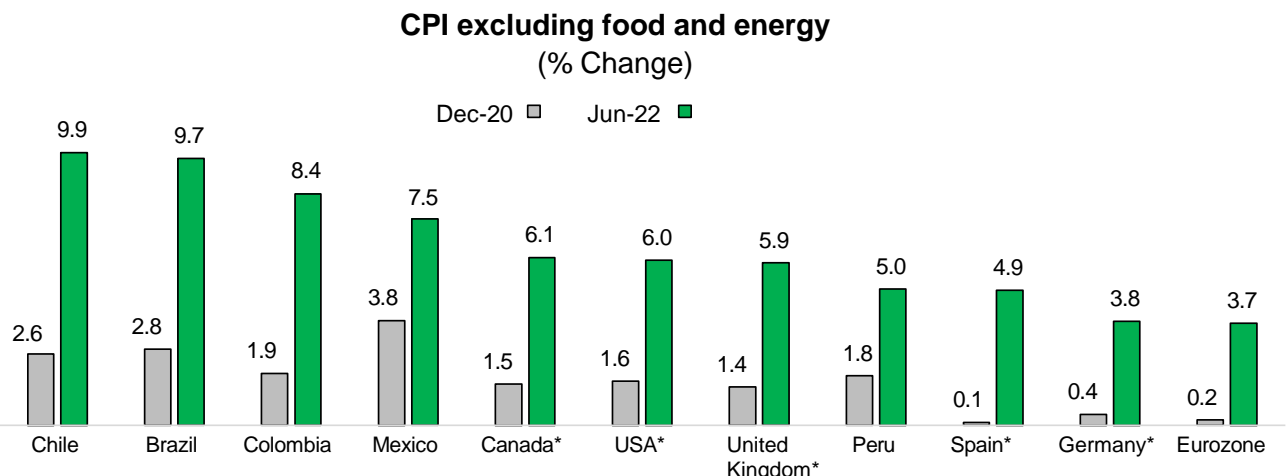
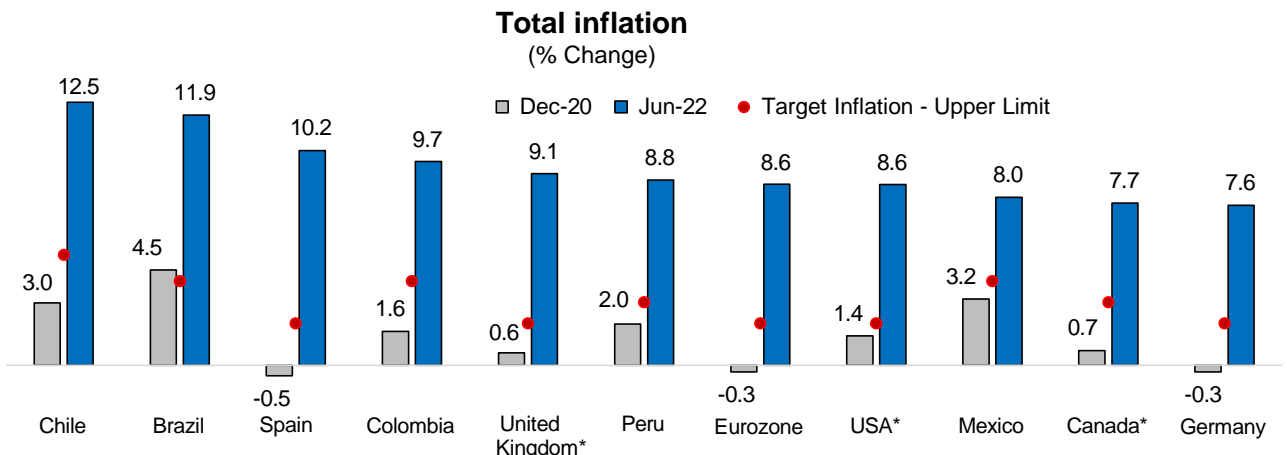
| Last 12 months % change                    | Jan. 21 | Feb. 21 | Mar. 21 | Apr. 21 | May. 21 | Jun. 21 | Jul. 21 | Aug. 21 | Sep. 21 | Oct. 21 | Nov. 21 | Dec. 21 | Jan. 22 | Feb. 22 | Mar. 22 | Apr. 22 | May. 22 | Jun. 22 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Inflation</b>                           | 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    |
| <b>Inflation excluding food and energy</b> | 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    |

Source: BCRP



# CENTRAL RESERVE BANK OF PERU

The significant and continuous increase in international energy and food 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 May 2022.

Source: Statistical institutes and central banks.



Year-on-year core inflation also rose from 4.26 percent in May to 4.95 percent in June, above the upper limit of the inflation target range.

## Inflation and Trend Indicators

(Annual % change)

|                                | Annual average | Annual % change |        |        |        |        |        |        |
|--------------------------------|----------------|-----------------|--------|--------|--------|--------|--------|--------|
|                                | 2001-2020      | Dec.21          | Jan.22 | Feb.22 | Mar.22 | Apr.22 | May.22 | Jun.22 |
| CPI                            | 2.6            | 6.43            | 5.68   | 6.15   | 6.82   | 7.96   | 8.09   | 8.81   |
| CPI excluding food and energy  | 2.1            | 3.24            | 3.08   | 3.26   | 3.46   | 3.81   | 4.26   | 4.95   |
| <b><u>Trend indicators</u></b> |                |                 |        |        |        |        |        |        |
| Bounded mean                   | 2.5            | 4.53            | 4.85   | 5.21   | 5.63   | 6.19   | 6.80   | 7.46   |
| Percentile 63                  | 2.4            | 4.23            | 4.61   | 5.05   | 5.57   | 6.28   | 6.98   | 7.71   |
| Re-weighted                    | 2.5            | 4.24            | 4.33   | 4.76   | 5.23   | 5.80   | 6.42   | 7.01   |

**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 over the standard deviation of their monthly percentage changes.



The oil price increase, mainly since 2021, as well as the restrictions of the COVID-19 pandemic that limit access to other basic inputs, raised the cost of industrial products. In this regard, the increase in the price of manures and fertilizers has exerted additional pressure on food prices, since it affects the production costs of perishable agricultural crops.

## Import Prices

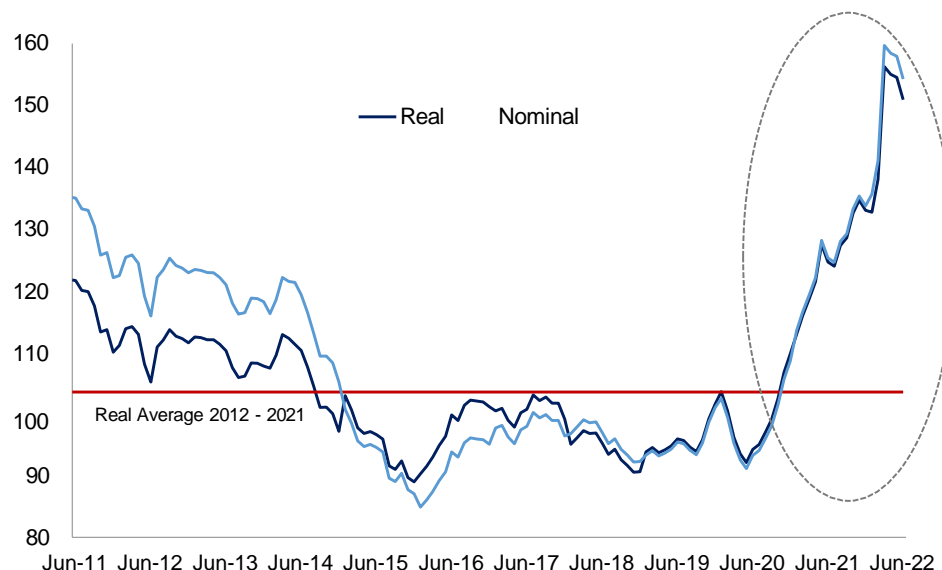
| Item              | % Change             |                      |                      |
|-------------------|----------------------|----------------------|----------------------|
|                   | Dec. 21 /<br>Dec. 20 | Jun. 22 /<br>Dec. 21 | Jun. 22 /<br>May. 22 |
| Industrial inputs | 34.4                 | 7.1                  | 1.2                  |
| Plastics          | 52.2                 | -1.1                 | 0.6                  |
| Iron and Steel    | 62.1                 | 4.4                  | 8.7                  |
| Textiles          | 26.0                 | 6.2                  | -2.2                 |
| Papers            | 31.5                 | 16.1                 | 0.6                  |
| Chemical goods    | 15.5                 | 12.8                 | 1.0                  |
| Organic chemicals | 45.1                 | 5.7                  | 2.1                  |
| Rest              | 28.5                 | 8.4                  | 0.1                  |
| <i>Of Which:</i>  |                      |                      |                      |
| Fertilizers       | 111.3                | 43.2                 | -3.5                 |

Source: Sunat.

Elaboration: BCRP.

## FAO Food Price Index\*

(Base 2014 - 2016 = 100)



\* The real price index is the nominal price index deflated by the World Bank's manufacturing unit value index.

Source: FAO.



# CENTRAL RESERVE BANK OF PERU

On July 6, the exchange rate stands at S/3.895 per dollar, which caused an appreciation of 2.4 percent compared to December 31, 2021 (S/3.991).

## Exchange Rate

(currency units per dollar)

|                       |                | End of period |              |              |              |              |              |                    | Accumulated change (%)** |             |            |             |
|-----------------------|----------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------------|--------------------------|-------------|------------|-------------|
|                       |                | Dec.19        | Dec.20       | Dec.21       | Apr.22       | May.22       | Jun.22       | As of July 6. 2022 | Jun.22                   | Dec.21      | Dec.20     | Dec.19      |
| <b>Dollar Index</b>   | Spot           | 96.39         | 89.94        | 95.67        | 102.96       | 101.75       | 104.69       | 107.05             | 2.3                      | 11.9        | 19.0       | 11.1        |
| <b>Eurozone</b>       | US\$ per Euro  | 1.121         | 1.222        | 1.137        | 1.055        | 1.073        | 1.048        | 1.019              | -2.8                     | -10.4       | -16.6      | -9.2        |
| <b>United Kingdom</b> | US\$ per Pound | 1.326         | 1.367        | 1.353        | 1.257        | 1.260        | 1.218        | 1.193              | -2.0                     | -11.8       | -12.7      | -10.0       |
| <b>Japan</b>          | Yen            | 108.61        | 103.25       | 115.08       | 129.70       | 128.67       | 135.72       | 135.92             | 0.1                      | 18.1        | 31.6       | 25.1        |
| <b>Australia</b>      | US\$ per AUD   | 0.702         | 0.769        | 0.726        | 0.706        | 0.718        | 0.690        | 0.680              | -1.6                     | -6.4        | -11.7      | -3.2        |
| <b>Canada</b>         | CAD            | 1.299         | 1.273        | 1.264        | 1.285        | 1.265        | 1.287        | 1.304              | 1.3                      | 3.2         | 2.4        | 0.4         |
| <b>Brazil</b>         | Real           | 4.025         | 5.194        | 5.571        | 4.972        | 4.735        | 5.256        | 5.419              | 3.1                      | -2.7        | 4.3        | 34.6        |
| <b>Colombia</b>       | Peso           | 3,287         | 3,428        | 4,065        | 3,963        | 3,774        | 4,152        | 4,337              | 4.5                      | 6.7         | 26.5       | 31.9        |
| <b>Chile</b>          | Peso           | 753           | 711          | 852          | 852          | 824          | 918          | 965                | 5.1                      | 13.3        | 35.8       | 28.2        |
| <b>Mexico</b>         | Peso           | 18.93         | 19.91        | 20.53        | 20.43        | 19.66        | 20.12        | 20.67              | 2.7                      | 0.7         | 3.8        | 9.2         |
| <b>Argentina</b>      | Peso           | 59.87         | 84.15        | 102.74       | 115.31       | 120.19       | 125.22       | 126.38             | 0.9                      | 23.0        | 50.2       | 111.1       |
| <b>Peru</b>           | <b>Sol</b>     | <b>3.314</b>  | <b>3.619</b> | <b>3.991</b> | <b>3.839</b> | <b>3.715</b> | <b>3.827</b> | <b>3.895</b>       | <b>1.8</b>               | <b>-2.4</b> | <b>7.6</b> | <b>17.5</b> |

\* 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 July 6.

Source: Reuters

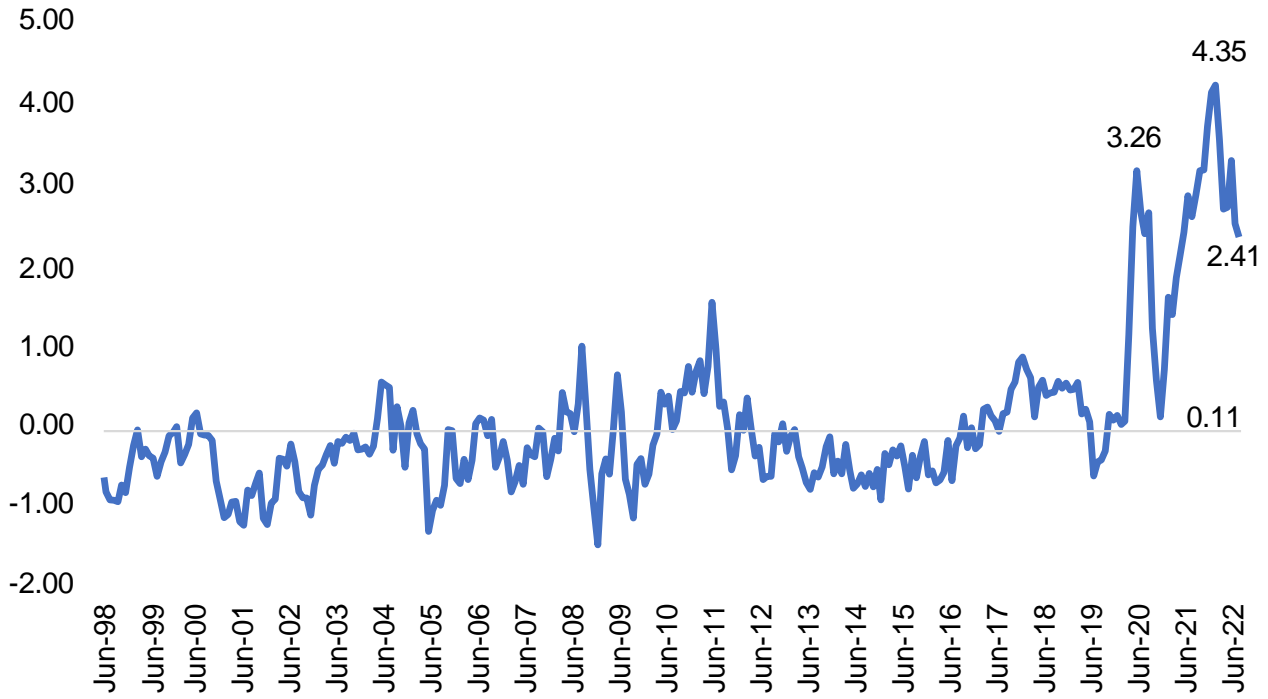




Global economic activity is improving at a slower pace due to the persistent bottlenecks in the global supply of goods and services, the reversal of monetary stimulus in advanced economies, the confinement measures in China, and international conflicts.

### Global Supply Chain Pressures Index

(Deviations from the historical average)



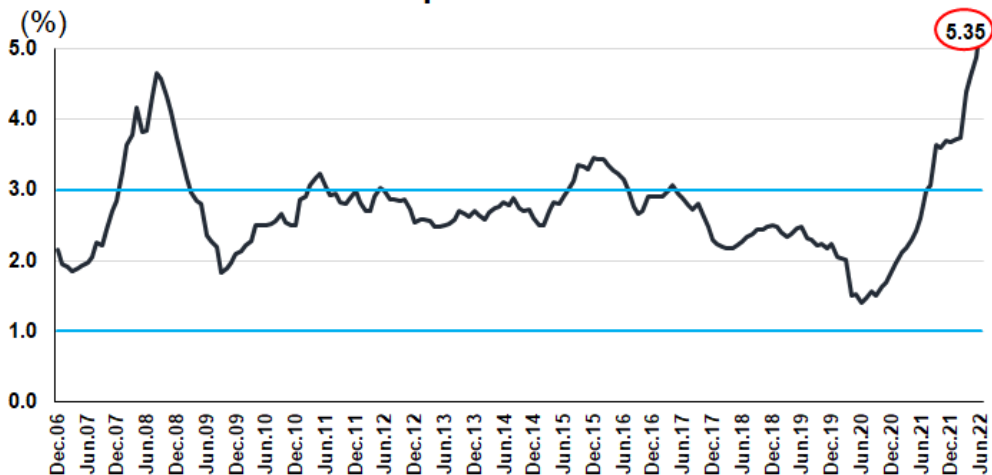
Source: FED



# CENTRAL RESERVE BANK OF PERU

One-year-ahead expected inflation increased from 4.89 to 5.35 percent between May and June, 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: |         |         |   |
|--|--------------|---------|---------|---|
|  | Apr 30.      | May 31. | Jun 30. |   |
| <b>Economic analysts<sup>1</sup></b>   |              |         |         |   |
| 2022                                   | 5.50         | 6.00    | 7.00    | ↑ |
| 2023                                   | 3.20         | 3.80    | 4.00    | ↑ |
| 2024                                   | 3.00         | 3.00    | 3.00    | = |
| <b>Financial entities<sup>2</sup></b>  |              |         |         |   |
| 2022                                   | 5.00         | 5.50    | 6.40    | ↑ |
| 2023                                   | 3.50         | 3.55    | 4.00    | ↑ |
| 2024                                   | 3.10         | 3.00    | 4.00    | ↑ |
| <b>Non-financial firms<sup>3</sup></b> |              |         |         |   |
| 2022                                   | 5.00         | 5.80    | 6.00    | ↑ |
| 2023                                   | 4.00         | 4.00    | 4.50    | ↑ |
| 2024                                   | 3.50         | 3.80    | 3.90    | ↑ |

<sup>1</sup> 17 analysts in April, 19 in May and 19 in June 2022.

<sup>2</sup> 15 financial entities in April, 14 in May and 13 in June 2022.

<sup>3</sup> 294 non financial firms in April, 295 in May and 284 in June 2022.

Source: BCRP



In April 2022, economic activity remains above the pre-pandemic level and the most intensive sectors in human contact have been recovering with advances in mass vaccination.

## GROSS DOMESTIC PRODUCT

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

|                            | Weight             | 2020         | 2021        | 22/21       |             |
|----------------------------|--------------------|--------------|-------------|-------------|-------------|
|                            | 2021 <sup>1/</sup> | Year         | Year        | Q1          | April       |
| <b>Primary GDP</b>         | <b>21.2</b>        | <b>-7.6</b>  | <b>5.8</b>  | <b>-0.4</b> | <b>-1.1</b> |
| Agriculture and Livestock  | 5.9                | 1.0          | 4.2         | 3.7         | 4.8         |
| Fishing                    | 0.5                | 4.2          | 2.8         | -26.2       | -37.5       |
| Mining                     | 8.5                | -13.8        | 9.8         | -0.6        | -4.7        |
| Fuel                       | 1.2                | -11.0        | -4.6        | 11.6        | 26.2        |
| Primary industries         | 3.3                | -2.0         | 3.2         | -8.5        | -11.3       |
| <b>Non-primary GDP</b>     | <b>78.8</b>        | <b>-12.0</b> | <b>15.7</b> | <b>5.0</b>  | <b>5.0</b>  |
| Non-primary industries     | 9.4                | -16.4        | 25.2        | 5.6         | 7.5         |
| Electricity and water      | 1.8                | -6.1         | 8.5         | 3.4         | 2.8         |
| Construction               | 6.8                | -13.3        | 34.7        | -0.5        | 4.9         |
| Commerce                   | 10.5               | -16.0        | 17.8        | 5.9         | 2.6         |
| Total Services             | 50.3               | -10.4        | 11.9        | 5.4         | 5.2         |
| <i>Of Which:</i>           |                    |              |             |             |             |
| Transportation and storage | 4.6                | -26.6        | 17.7        | 12.4        | 17.6        |
| Lodging and restaurants    | 2.2                | -50.7        | 43.3        | 49.4        | 48.5        |
| Telecommunications         | 5.6                | 4.8          | 7.6         | 4.1         | 3.1         |
| Business services          | 4.2                | -19.7        | 14.4        | 3.2         | 1.8         |
| <b>GDP</b>                 | <b>100.0</b>       | <b>-11.0</b> | <b>13.5</b> | <b>3.8</b>  | <b>3.7</b>  |

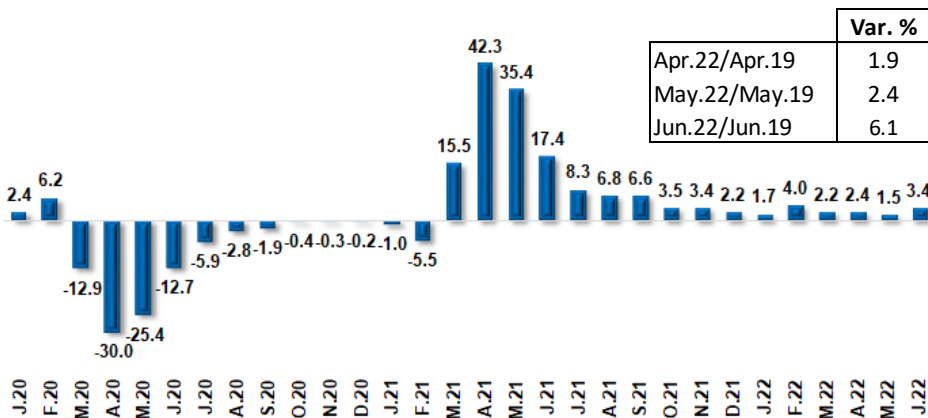
Source: INEI



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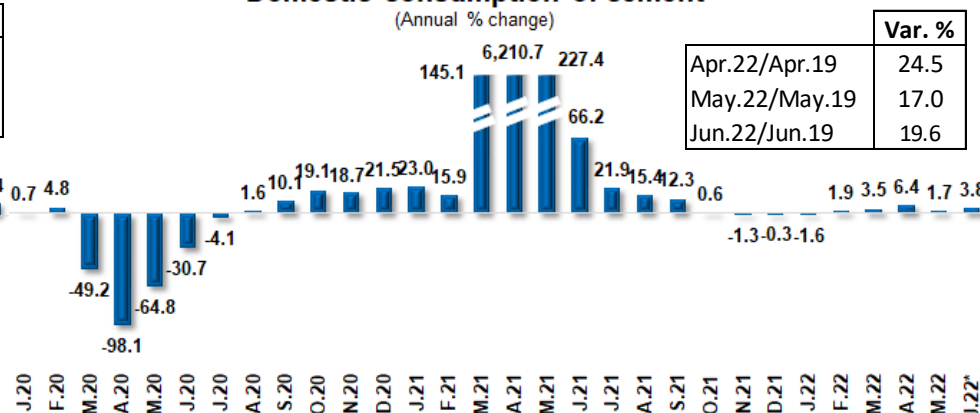
The leading indicators at the end of June indicate that the recovery of private consumption remains.

**Average monthly electricity production (GWh)**  
(Annual % change)



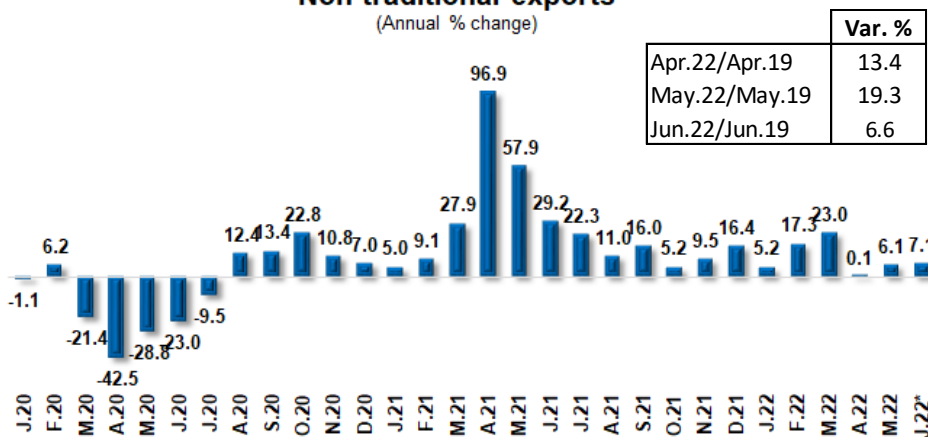
Source: COES.

**Domestic consumption of cement**  
(Annual % change)



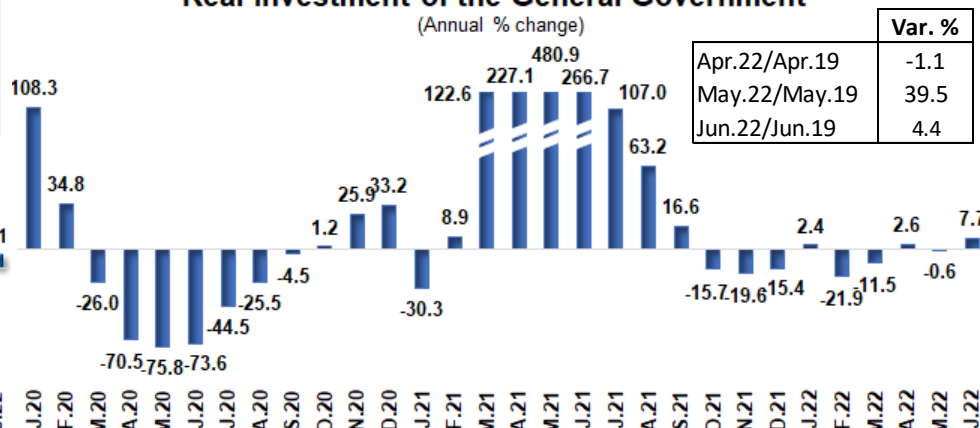
Source: Cement companies. \* Forecast for June.

**Non traditional exports**  
(Annual % change)



Source: Sunat. \* Forecast for June.

**Real Investment of the General Government\***  
(Annual % change)



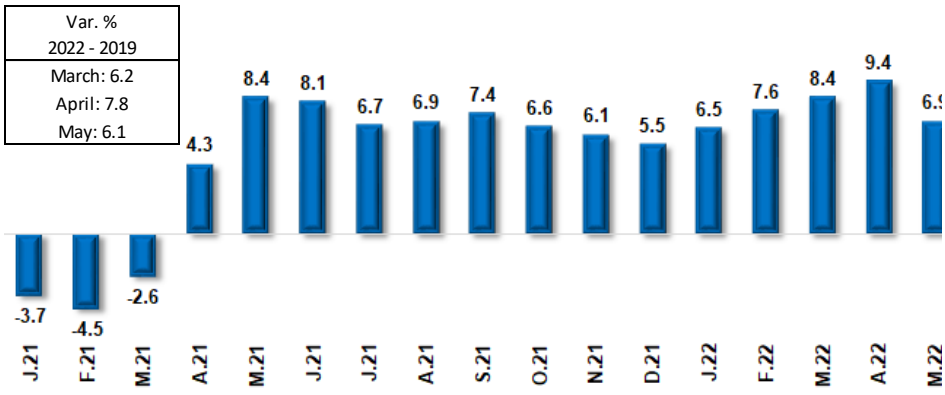
Source: MEF. \* Change of investment in real terms.



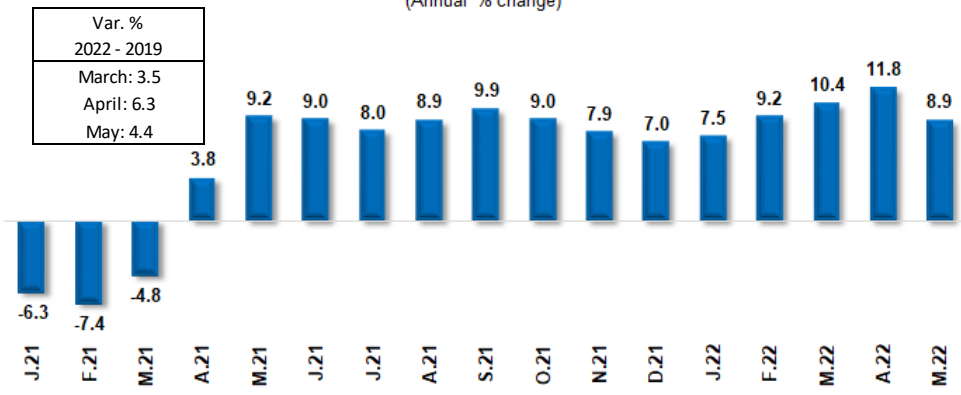
# CENTRAL RESERVE BANK OF PERU

In May, total formal employment at the national level increased 6.9 percent compared to May 2021, mainly as a consequence of the employment growth in the private sector, both in Lima and in the rest of the country. For its part, the total wage bill increased 9.3 percent, due to the increase in the formal employment and in the average income.

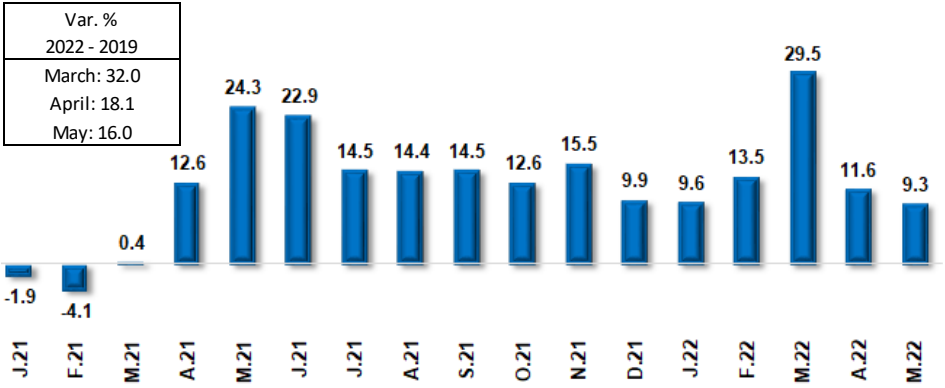
**Formal employment - Electronic Payroll**  
(Annual % change)



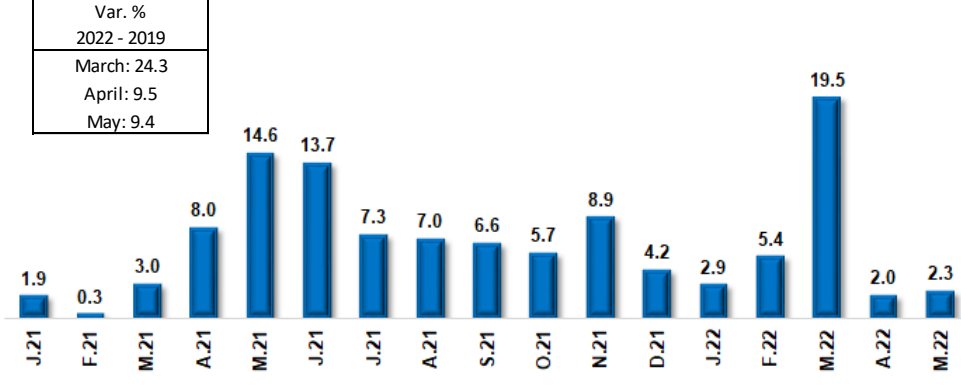
**Private sector formal employment - Electronic Payroll**  
(Annual % change)



**Total formal wage bill - Electronic Payroll**  
(Annual % change)



**Formal Average Income - Electronic Payroll**  
(Annual % change)



Source: SUNAT - Monthly Payment Form.



Most of the leading and expectations indicators about the economy deteriorated in June and remain in the pessimistic range.

## Macroeconomic Expectations: Survey Results

|  |                            | Dec.2019 | Mar.2020 | Apr.2022 | May.2022 |   |   | Jun.2022 |   |   | Correlation with GDP <sup>1/</sup> |
|--|----------------------------|----------|----------|----------|----------|---|---|----------|---|---|------------------------------------|
| <b>EXPECTATION:</b>                      |                            |          |          |          |          |   |   |          |   |   |                                    |
| ECONOMIC SITUATION:                      | IN 3 MONTHS                | 50.8     | 21.8     | 34.9     | 36.1     | ↑ | < | 34.1     | ↓ | < | 0.63                               |
|  | IN 12 MONTHS               | 61.5     | 41.5     | 40.3     | 42.3     | ↑ | < | 40.5     | ↓ | < | 0.42                               |
| SECTOR:                                  | IN 3 MONTHS                | 51.5     | 28.5     | 43.5     | 46.2     | ↑ | < | 43.2     | ↓ | < | 0.67                               |
|  | IN 12 MONTHS               | 61.5     | 43.4     | 48.9     | 51.8     | ↑ | > | 49.2     | ↓ | < | 0.33                               |
| COMPANY'S SITUATION:                     | IN 3 MONTHS                | 56.1     | 28.3     | 47.9     | 48.3     | ↑ | < | 48.7     | ↑ | < | 0.66                               |
|  | IN 12 MONTHS               | 66.6     | 46.4     | 52.8     | 55.6     | ↑ | > | 53.9     | ↓ | > | 0.66                               |
| ABOUT DEMAND:                            | IN 3 MONTHS                | 55.1     | 30.7     | 50.4     | 52.3     | ↑ | > | 50.6     | ↓ | > | 0.66                               |
|  | IN 12 MONTHS               | 68.0     | 47.4     | 55.9     | 59.8     | ↑ | > | 58.0     | ↓ | > | 0.66                               |
| NEW PERSONNEL HIRED:                     | IN 3 MONTHS                | 48.6     | 35.9     | 48.4     | 47.9     | ↓ | < | 48.9     | ↑ | < | 0.66                               |
|  | IN 12 MONTHS               | 54.0     | 39.6     | 50.2     | 51.7     | ↑ | > | 51.3     | ↓ | > | 0.58                               |
| COMPANY'S INVESTMENT:                    | IN 3 MONTHS <sup>2/</sup>  | 51.3     | 29.9     | 45.0     | 46.6     | ↑ | < | 44.7     | ↓ | < | 0.65                               |
|  | IN 12 MONTHS <sup>2/</sup> | 59.3     | 40.0     | 50.6     | 54.0     | ↑ | > | 51.0     | ↓ | > | 0.65                               |
| <b>EXPECTATION OF THE AVERAGE PRICE:</b> |                            |          |          |          |          |   |   |          |   |   |                                    |
| SUPPLIES IN 3 MONTHS                     |                            | 51.5     | 52.9     | 67.4     | 71.9     | ↑ | > | 72.1     | ↑ | > | 0.63                               |
| SALE IN 3 MONTHS                         |                            | 56.4     | 49.7     | 64.2     | 63.3     | ↓ | > | 62.4     | ↓ | > | 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/ Correlation with Private Investment since September 2017 to December 2019

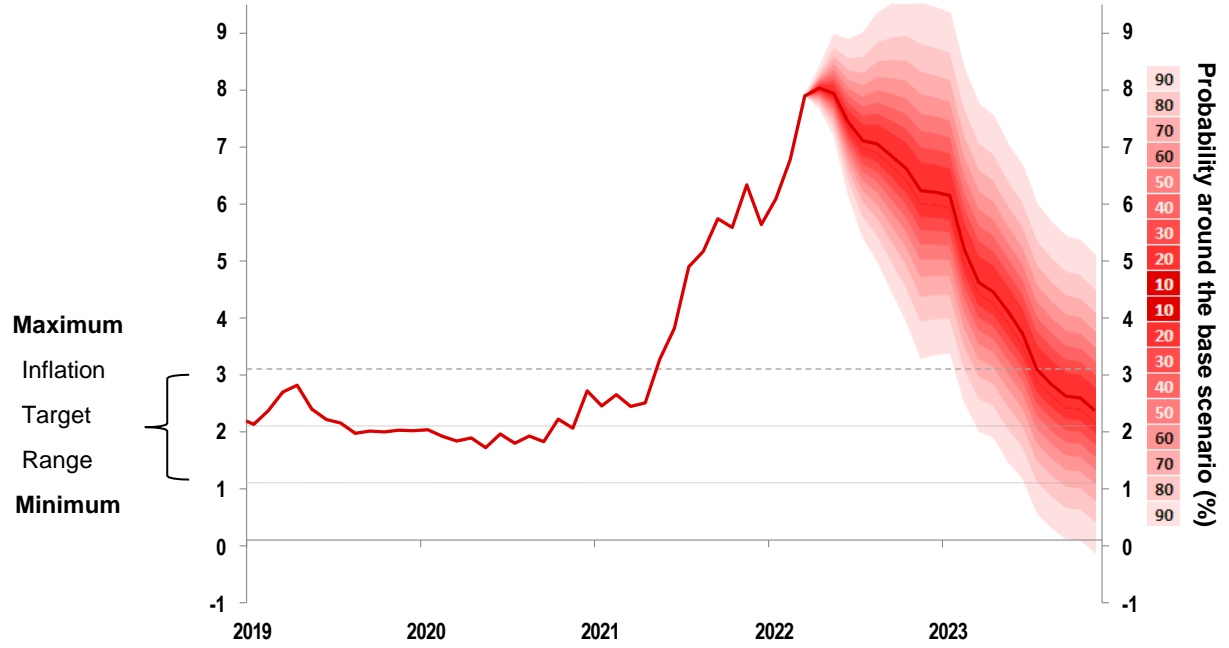


Inflation is projected to return to the target range between the second and third quarters of next year. The downward path of year-on-year inflation is expected to start in July this year, due to the moderation of the effect of international food and energy prices and an economy performance still below its potential level.

The Board is particularly attentive to new information on inflation and its determinants, including the evolution of inflation expectations and economic activity, with an aim to consider changes in the monetary stance so that inflation returns to the target range over the forecast horizon.

## Inflation Forecast: 2022 – 2023

(Last 12-month % change)



Source: BCRP – IR June 2022





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# **Monetary Policy Statement July 2022**

**July 8, 2022**