



CENTRAL RESERVE BANK OF PERU

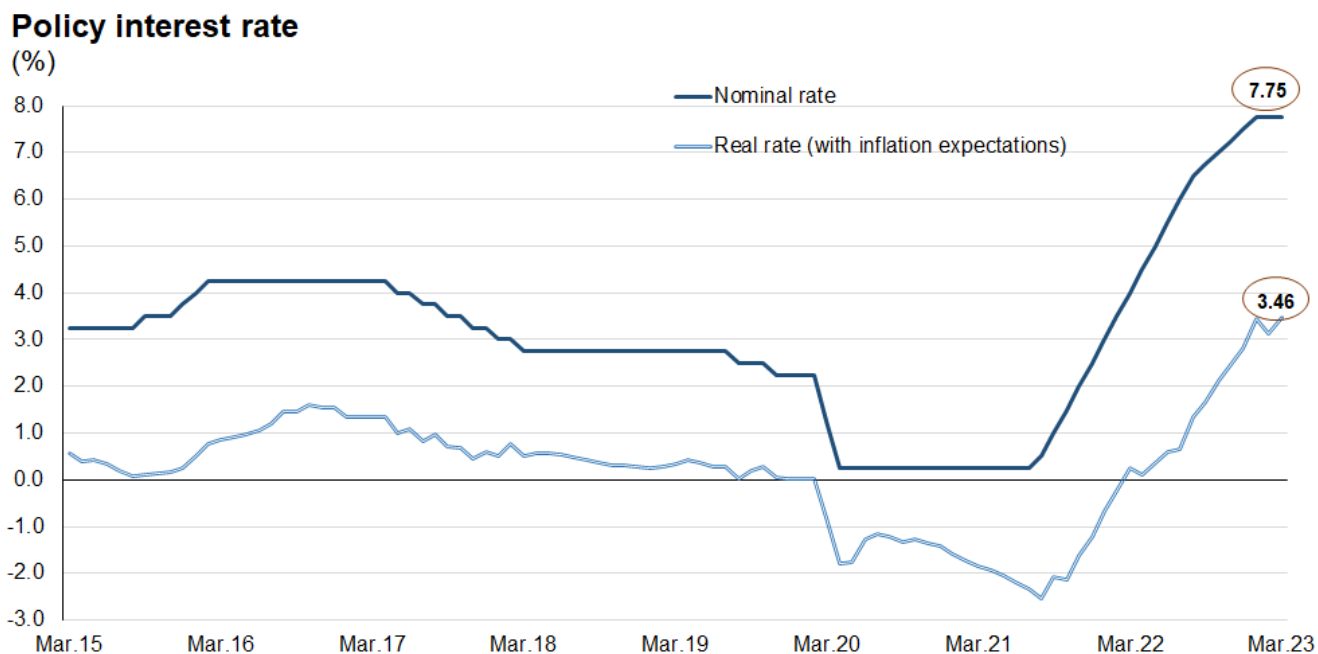
Monetary Policy Statement March 2023

March 10, 2023



CENTRAL RESERVE BANK OF PERU

The Board of Directors of the Central Reserve Bank of Peru (BCRP) decided to maintain the reference rate at 7.75 percent. This decision does not necessarily imply an end to the BCRP's monetary tightening cycle. Future reference rate adjustments will be conditional on new information about inflation and its determinants, including the macroeconomic effects of the recent political unrest



	Mar.22	Apr.22	May.22	Jun.22	Jul.22	Aug.22	Sep.22	Oct.22	Nov.22	Dec.22	Jan.23	Feb.23	Mar.23
(I) Nominal rate	4.00	4.50	5.00	5.50	6.00	6.50	6.75	7.00	7.25	7.50	7.75	7.75	7.75
(II) Inflation expectations	3.75	4.39	4.62	4.89	5.35	5.16	5.10	4.89	4.78	4.68	4.30	4.62	4.29
(III) Real rate: (I)-(II)	0.25	0.11	0.38	0.61	0.65	1.34	1.65	2.11	2.47	2.82	3.45	3.13	3.46



Inflation is a global phenomenon. Central banks have raised their interest rates since 2021, 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	5.59	8.16
Chile	12.75	7.28	5.47
Colombia	11.25	5.00	6.25
Mexico	11.00	5.08	5.92
Peru	7.75	4.29	3.46

* Policy rates as of March 8, 2023 and inflation expectations as of February 2023.

** Obtained by interpolation based on expectations as of December 2023 and 2024 in the cases of Brazil and Mexico (the other central banks publish the data directly).

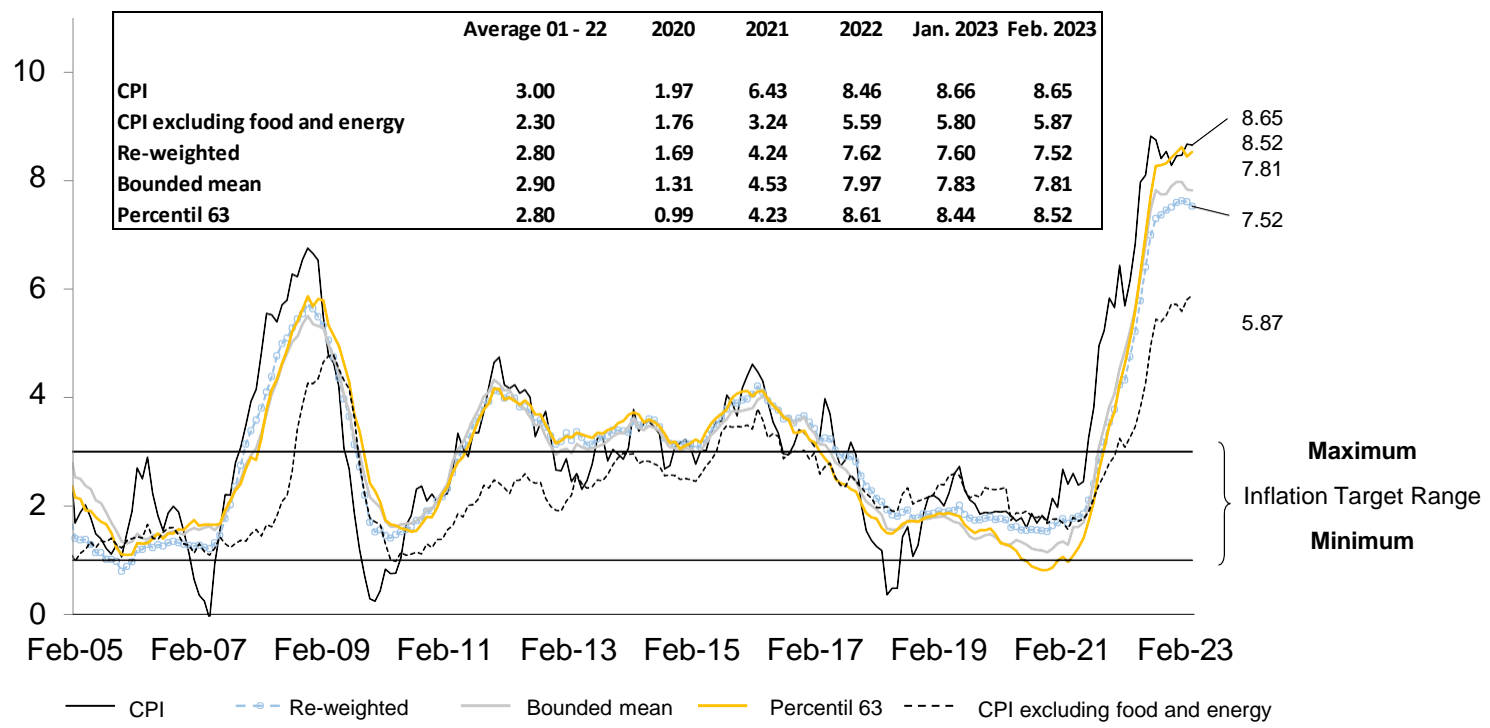
Source: Central Banks



In February, month-on-month inflation was 0.29 percent and core inflation was 0.27 percent. Year-on-year inflation fell from 8.66 percent in January to 8.65 percent in February, while core inflation increased from 5.80 percent in January to 5.87 percent in February, both above the upper limit of the inflation target range.

Inflation

(Last 12-month % change)

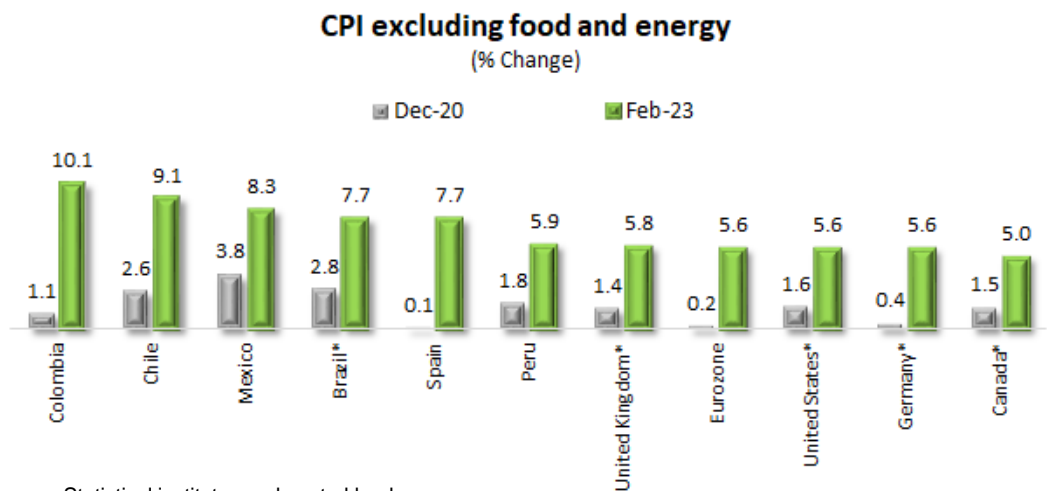
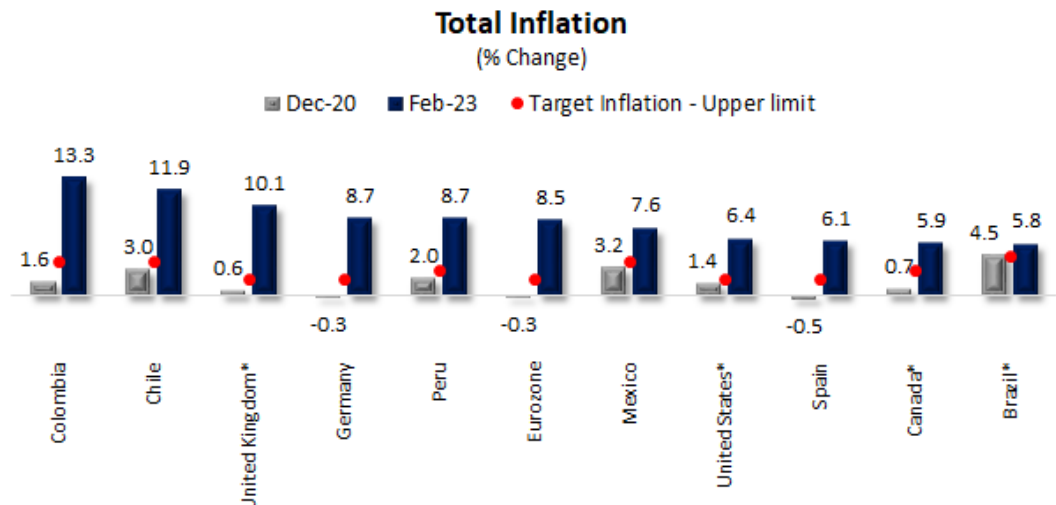


Rewighted: Reduces the weight of items with greater volatility, considers the original weights of each item over the standard deviation of their monthly percentage changes.
Bounded mean: Weighted average of the percentage change of prices between the 34th and 84th percentiles.
Percentile 63: Corresponds to the percentage changes of the item placed in the 63rd percentile.
CPI excluding food and energy: CPI excluding food, fuel and electricity



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The significant increase in international food and fuel prices since the second half of 2021, 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.

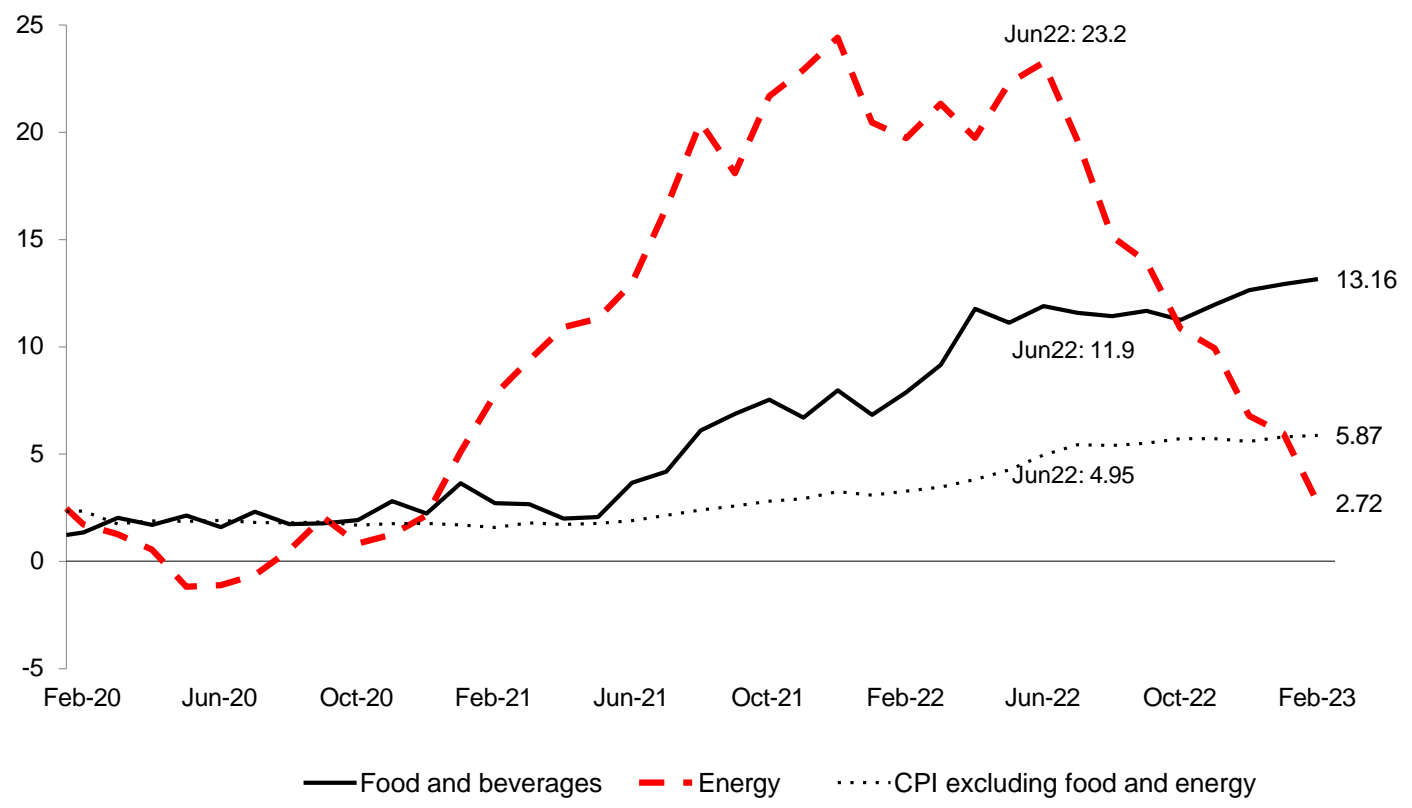


* Information as of January 2023. Source: Statistical institutes and central banks.



In the Peruvian case it has been exacerbated by the political unrest since December.

Inflation (Last 12-month % change)

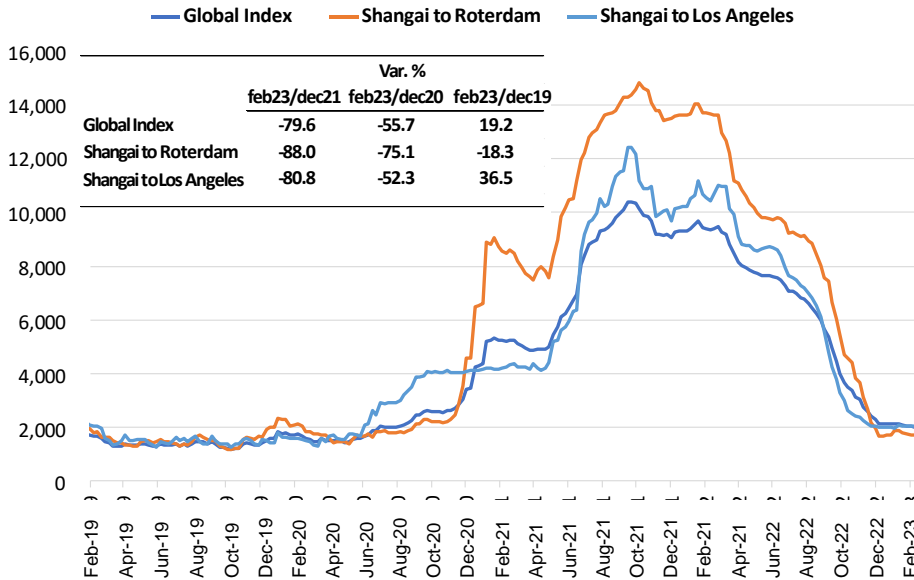


Source: INEI

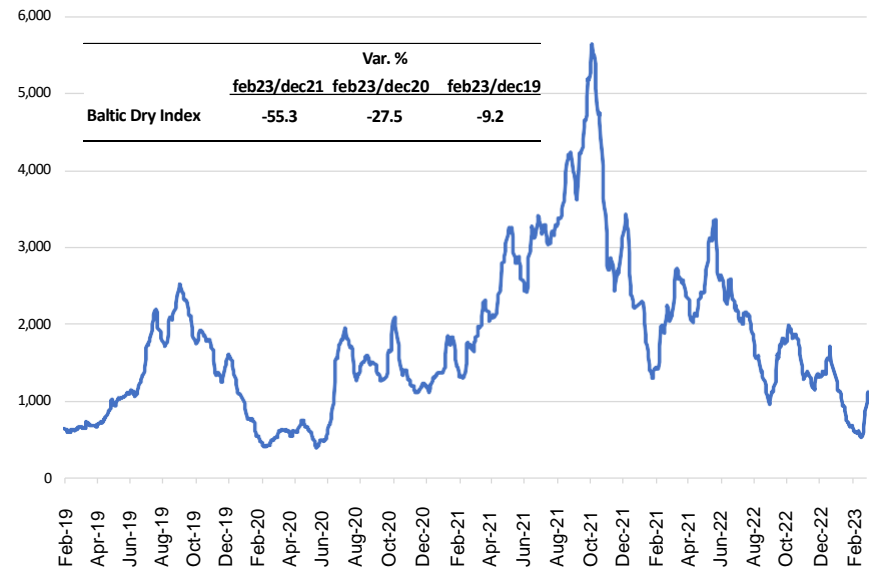


Import freight rates show a decreasing trend.

Drewry's Global Container Index (US\$ per 40 ft container)



Baltic Dry Index

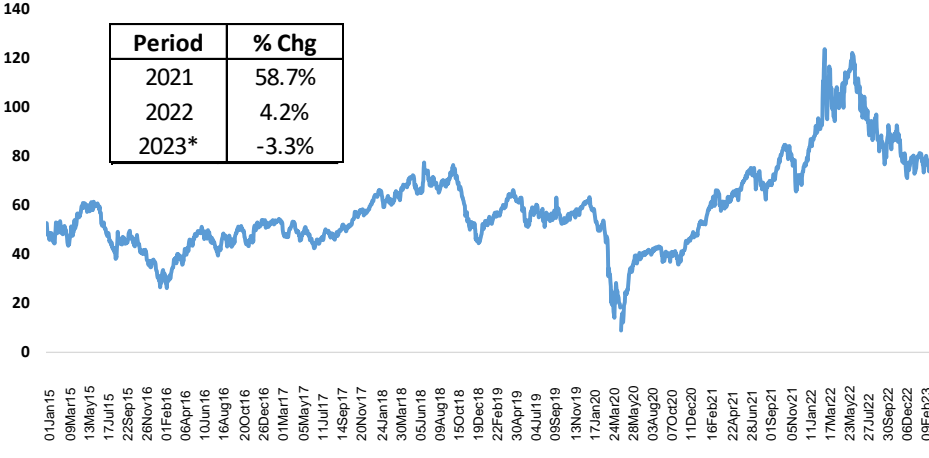


Source: Sunat, BCRP, Drewry and Baltic.

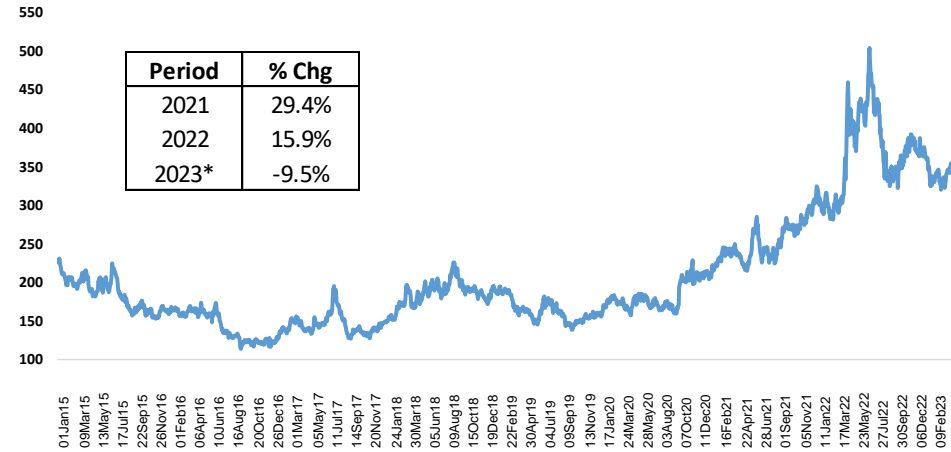


International fuel and grain prices also continue their downward trend.

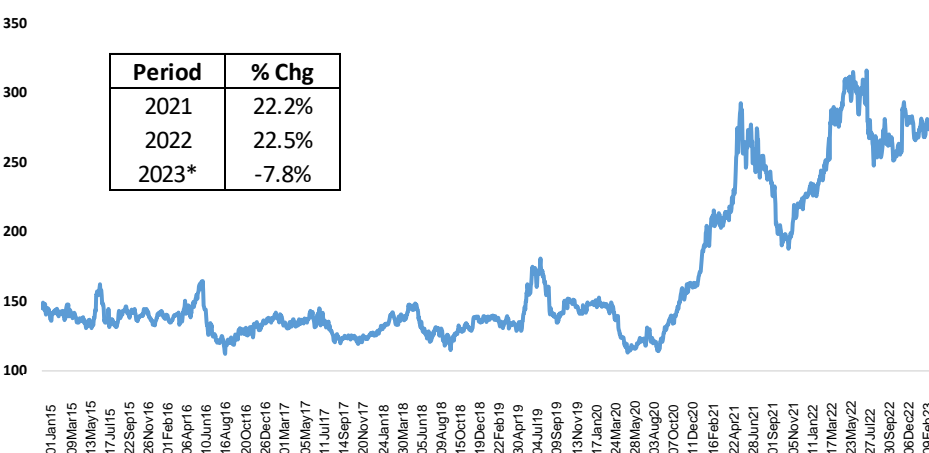
Oil (West Texas Intermediate, US\$/barrel)



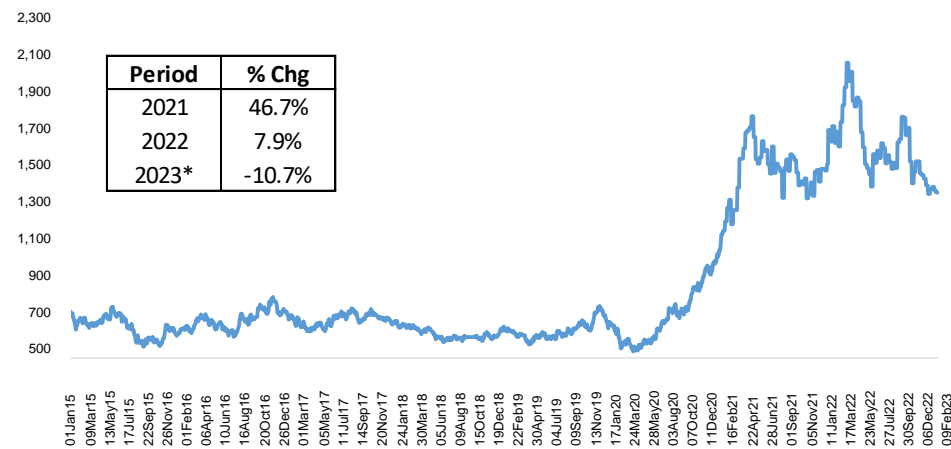
Wheat Price (HRW US\$/MT)



Maize Price (US\$ MT)



Soybean oil Price (US\$ MT)

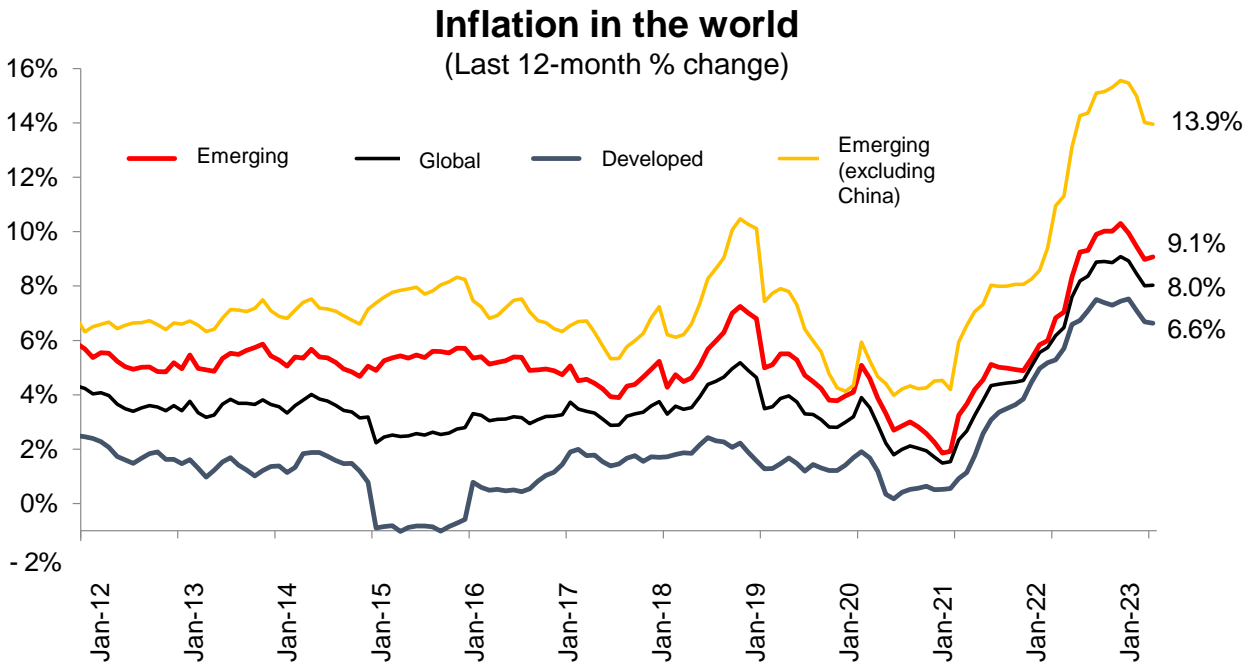


Note: For 2023, accumulated variation as of March 8.

Source: Reuters.



Global inflation in January continued to fall, although with regional differences.



Proportion of countries with an increase in their annual inflation rate (%)

	September	October	November	December	January
Total	56	48	34	32	40
Latin America	33	32	41	50	42
Asia	49	38	29	46	47
Europe	80	62	24	17	32

Source: Bloomberg and trading economics.
Elaboration: BCRP

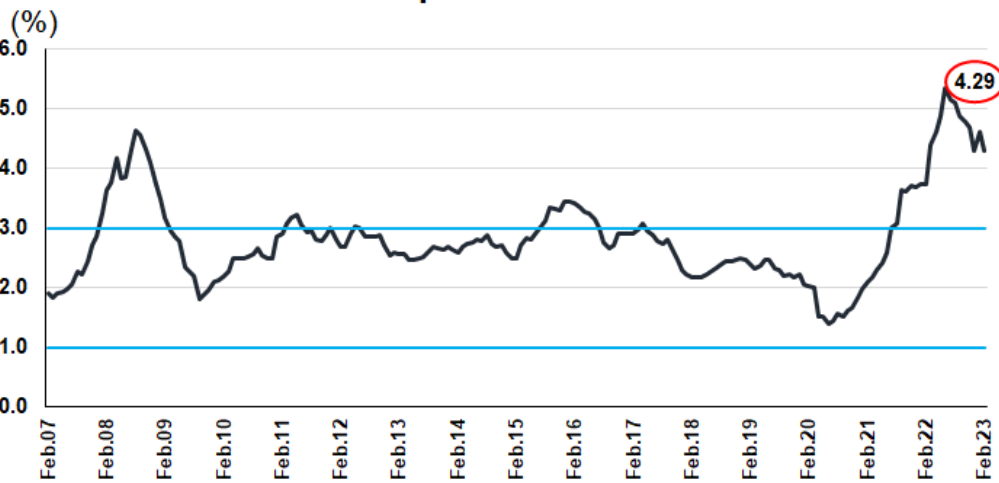


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One-year-ahead expected inflation decreased from 4.62 percent in January to 4.29 percent in February, above the upper limit of the inflation target range. Expected inflation for 2023 also decreased from 4.73 to 4.50 percent. iii. A downward trend in year-on-year inflation is forecast since March, with a return to the target range in the fourth quarter of this year, due to a moderation of the impact of international food and fuel prices, a reversal of agricultural supply shocks, and declining inflation expectations in the rest of the year; even though it is estimated that the monthly rate for March would be higher than previous months due to temporary and seasonal factors.

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:			
	Dec 30.	Jan 31.	Feb 28.	
Economic analysts¹				
2023	4.10	4.80	4.00	↓
2024	3.00	3.00	3.00	=
2025			2.80	
Financial entities²				
2023	4.50	4.65	5.00	↑
2024	3.50	4.00	3.50	↓
2025			3.00	
Non-financial firms³				
2023	4.50	5.00	5.50	↑
2024	4.00	4.00	4.00	=
2025			3.85	

¹ 17 analysts in December, 19 in January and 17 in February 2023.

² 14 financial entities in December, 18 in January and 17 in February 2023.

³ 285 non financial firms in December, 284 in January and 284 in February 2023.



Most leading and expectations indicators for economic activity recovered in February but remain in pessimistic territory.

Macroeconomic Expectations: Survey Results

	Dec.2019	Mar.2020	Dec.2022	Jan.2023		Feb.2023		Correlation with GDP ^{1/}			
<u>CURRENT SITUATION:</u>											
BUSINESS SITUATION	53.4	41.1	50.0	46.3	↓	<	48.2	↑	<	0.56	
LEVEL OF SALES	54.2	30.3	42.9	39.0	↓	<	41.8	↑	<	0.49	
PRODUCTION LEVEL	50.0	23.5	44.4	42.2	↓	<	39.5	↓	<	0.44	
DEMAND COMPARED TO THE EXPECTED DEMAND	40.0	23.0	37.3	34.4	↓	<	36.8	↑	<	0.68	
PURCHASING ORDERS COMPARED TO THE PREVIOUS MONTH	51.2	27.5	42.7	38.5	↓	<	41.0	↑	<	0.52	
UNWANTED INVENTORY DAYS ^{2/}	8.9	5.9	16.0	14.1	↓	<	12.6	↓	<	-0.36	
<u>EXPECTATION:</u>											
ECONOMIC SITUATION:	IN 3 MONTHS	50.8	21.8	42.4	31.9	↓	<	41.5	↑	<	0.63
	IN 12 MONTHS	61.5	41.5	54.0	46.6	↓	<	51.9	↑	>	0.42
SECTOR:	IN 3 MONTHS	51.5	28.5	47.1	39.7	↓	<	44.0	↑	<	0.67
	IN 12 MONTHS	61.5	43.4	58.5	50.9	↓	>	54.7	↑	>	0.33
COMPANY'S SITUATION:	IN 3 MONTHS	56.1	28.3	48.0	44.6	↓	<	48.0	↑	<	0.66
	IN 12 MONTHS	66.6	46.4	59.4	54.9	↓	>	58.9	↑	>	0.66
ABOUT DEMAND:	IN 3 MONTHS	55.1	30.7	48.9	45.3	↓	<	48.5	↑	<	0.66
	IN 12 MONTHS	68.0	47.4	62.7	56.0	↓	>	60.2	↑	>	0.66
NEW PERSONNEL HIRED:	IN 3 MONTHS	48.6	35.9	44.4	43.0	↓	<	45.3	↑	<	0.66
	IN 12 MONTHS	54.0	39.6	53.0	49.6	↓	<	54.0	↑	>	0.58
COMPANY'S INVESTMENT:	IN 3 MONTHS ^{3/}	51.3	29.9	45.7	43.6	↓	<	45.9	↑	<	0.65
	IN 12 MONTHS ^{3/}	59.3	40.0	55.3	50.8	↓	>	55.1	↑	>	0.65
<u>EXPECTATION OF THE AVERAGE PRICE:</u>											
SUPPLIES IN 3 MONTHS		51.5	52.9	56.1	58.8	↑	>	55.6	↓	>	0.63
SALE IN 3 MONTHS		56.4	49.7	58.8	60.1	↑	>	54.7	↓	>	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.

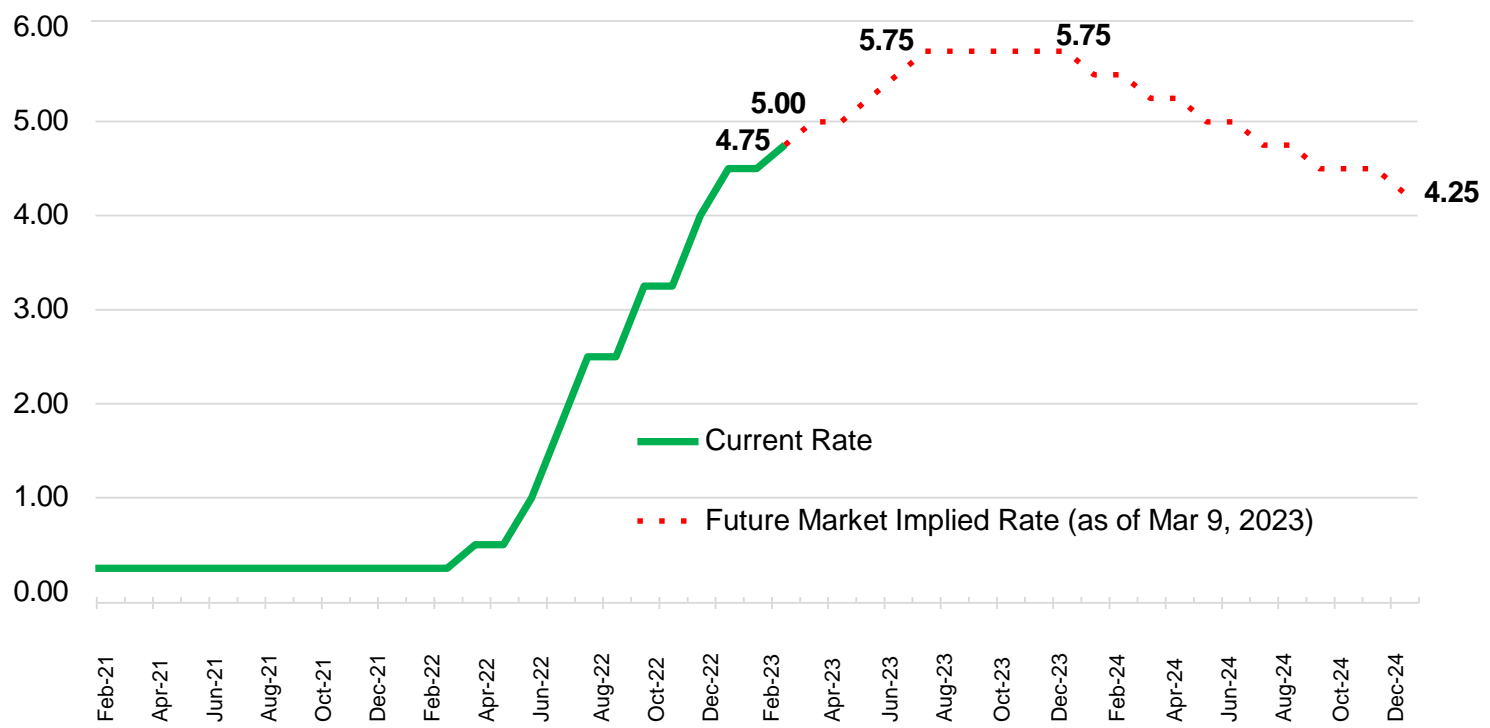
3/ Correlation with Private Investment from September 2017 to December 2019, recording an optimal lag (t=-3 for 3-month investment and t=-6 for 12-month investment).

Source: BCRP



The outlook for global economic activity has improved slightly; however, global risks remain due to monetary tightening in advanced economies, the impact of inflation on consumption, and international conflicts.

FED: Rate and Market Expectations* (%, upper limit)

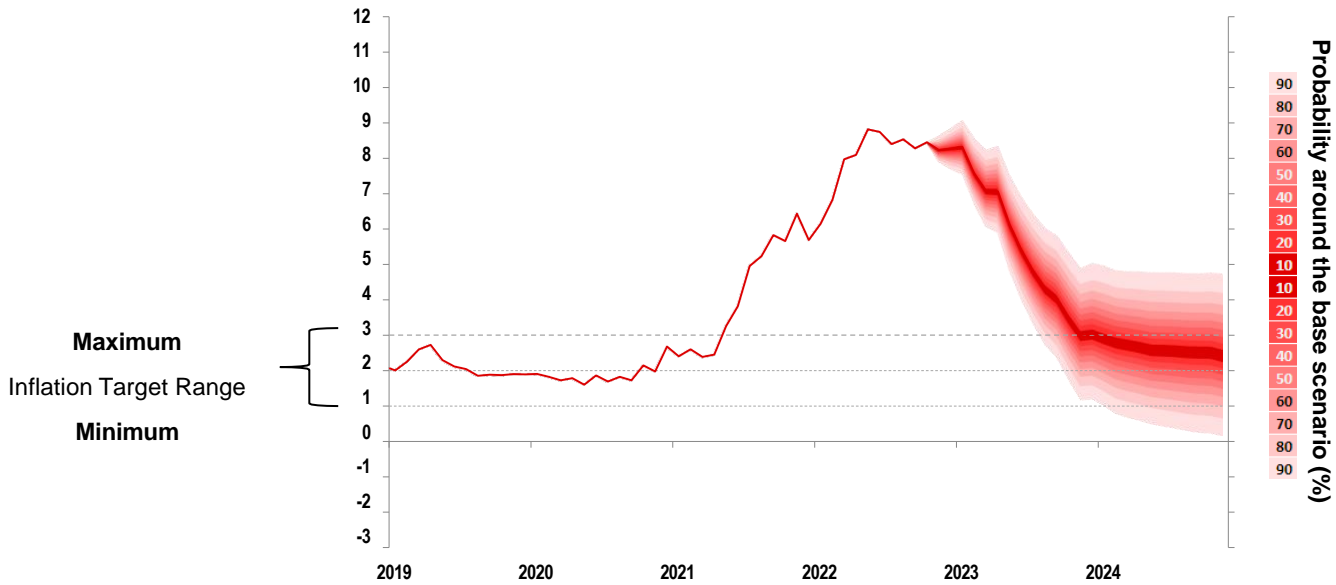


* Forecast uses implied future market rate as of March 9, 2023
Source: FED and Reuters



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

Inflation Forecast: 2022 – 2024 (Last 12-month % change)



Source: BCRP



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