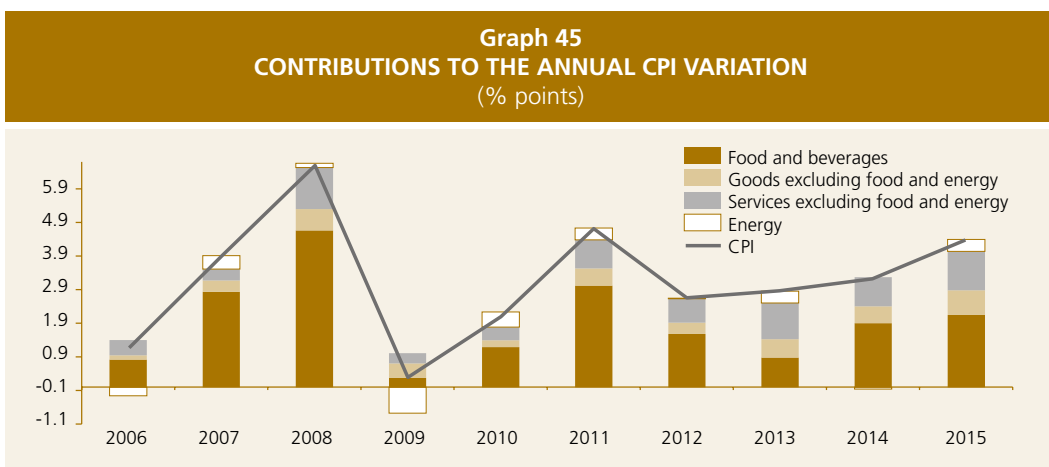
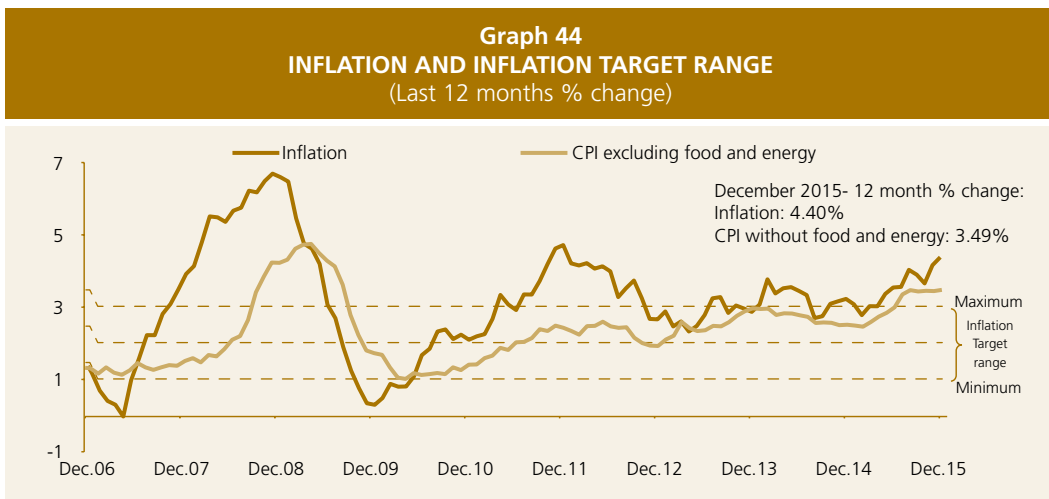


INFLATION IV

The consumer price index (CPI) increased from 3.2 percent in 2014 to 4.4 percent in 2015 reflecting mainly rises in food prices, electricity rates, and in the prices of items associated with the exchange rate. While inflation in the group of food and energy prices rose from 4.1 to 5.5 percent, the CPI without food and energy prices increased from 2.5 to 3.5 percent between 2014 and 2015.

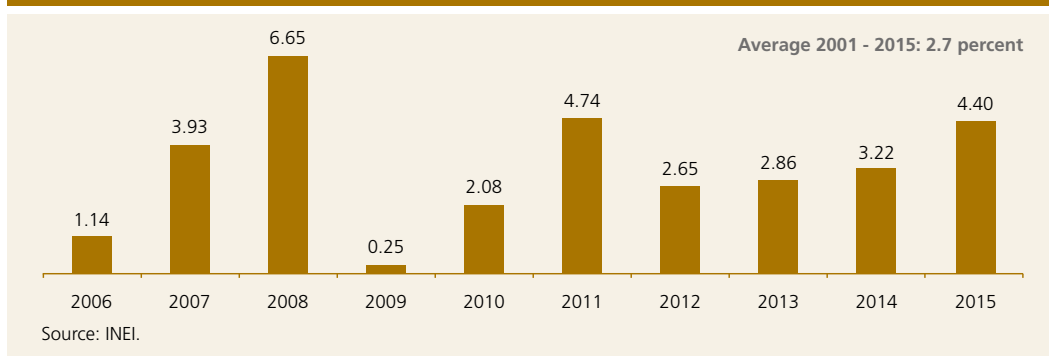


Ten items accounted for 70 percent of the increase in the CPI during 2015. These items included meals outside the home, electricity rates, potatoes, education costs, and urban fares.

Table 56
ITEM WITH THE HIGHEST WEIGHTED CONTRIBUTION TO INFLATION: 2015

Positive	Weight	% Chg.	Contribution	Negative	Weight	% Chg.	Contribution
Meals outside the home	11.7	5.4	0.72	Gasoline and lubricants	1.3	-8.1	-0.11
Electricity rates	2.9	18.7	0.54	Citric fruits	0.5	-13.6	-0.10
Potato	0.9	62.9	0.53	Gas	1.4	-5.8	-0.08
Education costs (tuition and fees)	8.8	4.9	0.46	Telephone rates	2.9	-2.9	-0.06
Urban fare	8.5	2.6	0.22	Internet services	0.6	-4.2	-0.02
Purchases of vehicles	1.6	10.4	0.16	Cereal grains	0.1	-29.8	-0.02
Water consumption	1.6	8.1	0.14	Other fresh fruits	0.4	-4.1	-0.02
Toiletries	4.9	2.5	0.12	Papaya	0.2	-4.7	-0.01
Poultry meat	3.0	3.6	0.11	Other cereals	0.5	-0.9	0.00
Sugar	0.5	19.0	0.10	Peaches	0.1	-3.1	0.00
Total			3.10	Total			-0.42

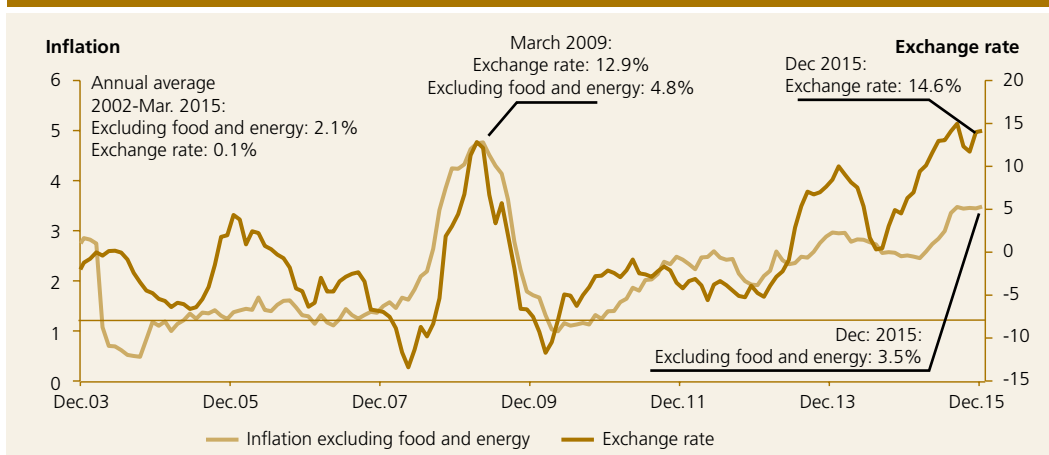
Graph 46
INFLATION
(% change, at the end-of-period)



Exchange Rate and Inflation

An acceleration has been observed since 2013 in the CPI without food and energy in part as a result of the increase registered in the dollar-sol the exchange rate. This indicator rose from 2.1 percent in January 2013 to 3.5 percent in December 2015, while the exchange rate increased from -5.2 to 14.6 percent in the same period.

Graph 47
INFLATION EXCLUDING FOOD AND ENERGY AND EXCHANGE RATE
(12-month % change)



Inflation Without Food and Energy

The annual rate of inflation without food and energy increased from 2.5 to 3.5 percent between December 2014 and December 2015. The prices of goods rose from 2.4 percent in 2014 to 3.6 percent in 2015 while the prices of services rose from 2.6 to 3.4 percent in the same period.

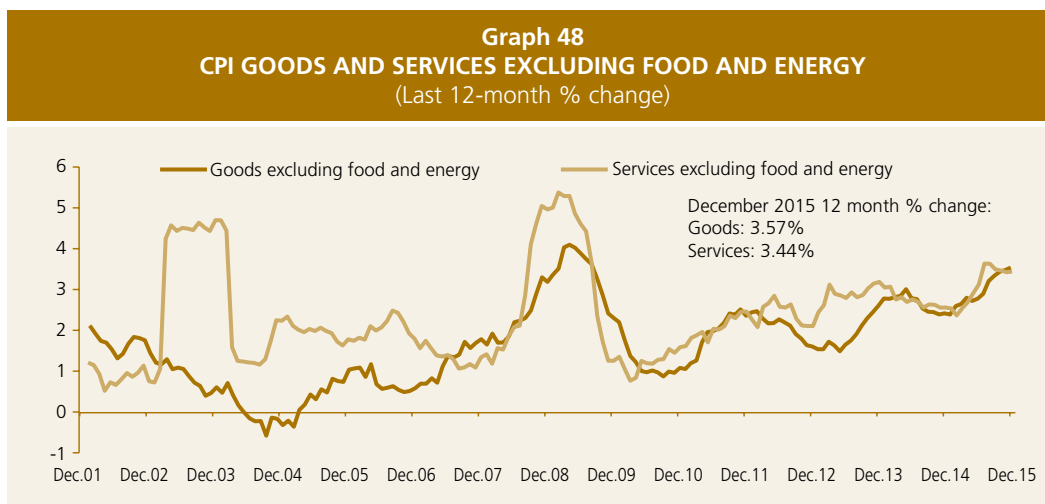


Table 57
INFLATION
(% change)

	Weight	2013	2014	2015	Ave. % chg. 2001-2015
CPI	100.0	2.86	3.22	4.40	2.70
1. CPI excluding food and energy	56.4	2.97	2.51	3.49	2.09
a. Goods	21.7	2.62	2.43	3.57	1.75
Textiles and footwear	5.5	2.30	2.10	3.08	2.30
Domestic appliances	1.3	-0.08	0.33	3.45	-0.58
Other industrial products	14.9	2.97	2.72	3.77	1.65
b. Services	34.8	3.18	2.55	3.44	2.35
<i>of which:</i>					
Education	9.1	4.76	4.51	5.16	3.94
Rent	2.4	3.46	2.63	3.47	0.41
Health	1.1	4.99	4.43	5.53	2.92
Transportation	8.9	3.54	2.54	2.57	2.65
Telephone and water	5.4	-0.39	-0.65	1.69	0.32
2. Food and energy	43.6	2.73	4.08	5.47	3.37
a. Food and beverages	37.8	2.24	4.83	5.37	3.45
<i>of which:</i>					
Chicken meat	3.0	-3.63	8.70	3.62	2.79
Bread	1.9	0.77	1.70	0.41	3.99
Rice	1.9	0.50	2.60	2.59	1.67
Sugar	0.5	-15.99	1.39	19.04	2.26
Noodles	0.5	3.70	1.97	4.06	2.30
Oils	0.5	-1.02	-1.03	-0.89	3.08
Potato	0.9	-6.02	-4.03	62.87	6.37
Fresh and frozen fish	0.7	15.96	4.01	1.58	3.89
Meals outside the home	11.7	5.23	4.65	5.44	3.66
b. Fuels and electricity	5.7	6.09	-0.85	6.20	2.69
Fuels	2.8	5.95	-5.59	-6.33	2.29
Oil and lubricant	1.3	6.91	-12.50	-8.05	1.71
Gas	1.4	4.98	1.21	-5.76	1.05
Electricity	2.9	6.23	4.37	18.71	2.44

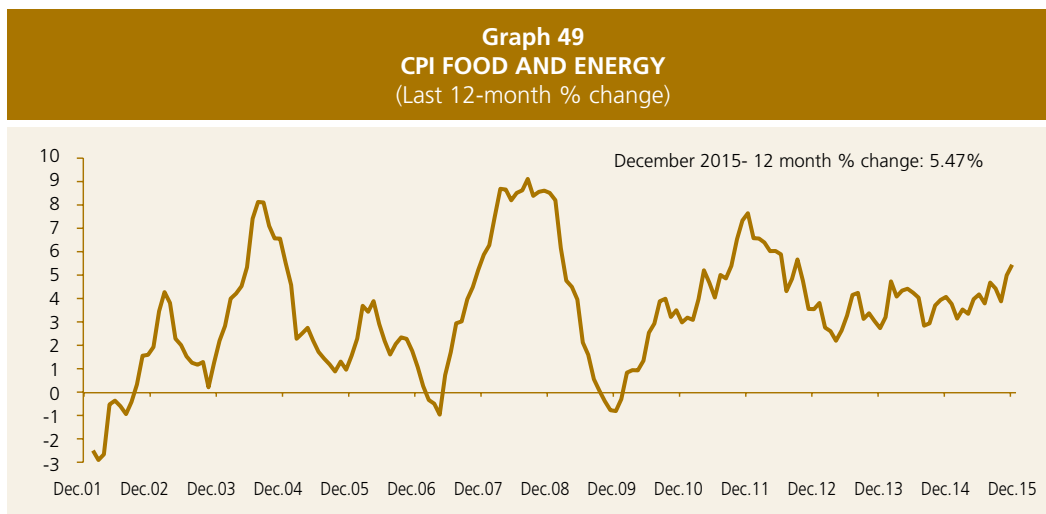
Rises in the prices of goods that stand out included the increase in the **prices of vehicles** (10.4 percent), which reflected the effect of a higher dollar-sol exchange rate (up 14.6 percent), as well as rises in the category of **"personal care items"** (up 2.5 percent), which include products such as like shampoo and toothpaste that have a high imported content.



Tuition and education fees increased by 4.9 percent –a similar rate than in 2014 (4.6 percent)–, mainly due to the adjustment made in March (4.0 percent) which is when school classes begin. The rate of the **water supply service** increased 8.1 percent, this increase being authorized by the regulating entity Sunass to fulfill Sedapal goals of increasing the coverage of drinking water supply. Another rise worth highlighting was the increase of **urban fares** (2.6 percent), a higher rate than the one registered in 2014 (2.3 percent).

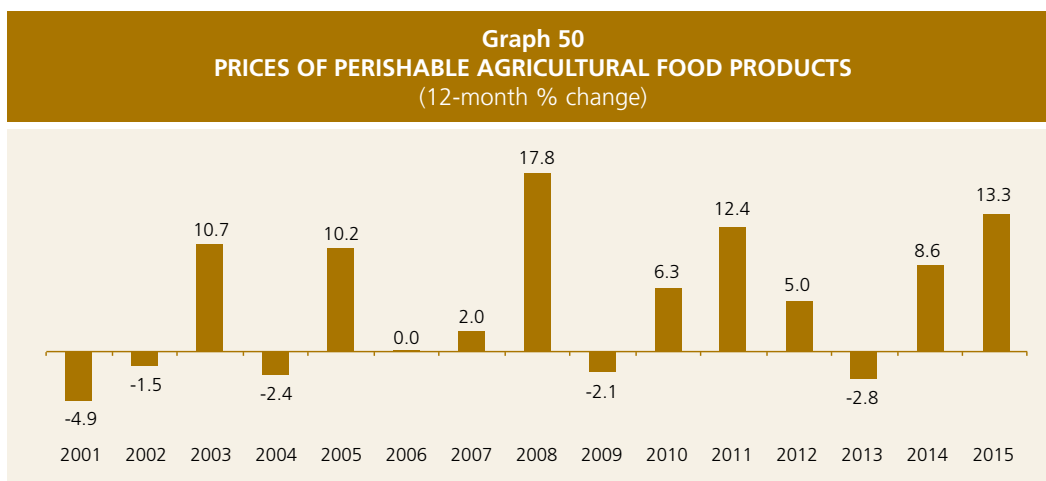
Food and Energy Prices

Inflation in food and energy items, indicator which reflects the short-term changes that are beyond monetary policy control, rose from 4.1 percent in 2014 to 5.5 percent in 2015. This upward trend was influenced mainly by the evolution of food prices, which increased from 4.8 percent in 2014 to 5.4 percent in 2015, affected by weather anomalies. In addition to this, electricity rates rose from 4.4 percent in 2014 to 18.7 percent in 2015. Fuel prices, in contrast, fell 6.3 percent.



Foodstuffs

Increased temperatures and expectations of a severe El Niño episode resulted in lower cultivated areas in 2015 as well as in lower yields in several crops.



Recording strong rises over the year associated with production problems in the main areas that supply this crop to Lima, the price of **potatoes** accumulated a variation of 62.9 percent. Warmer weather conditions discouraged sowings in the valleys of Lima, while the irregularity of rains also affected this crop in Huánuco and much of the Central highlands.

The price of **sugar** rose 19.0 percent as a result of supply-related problems. The domestic production of sugar cane declined 10 percent, influenced by the higher weather temperatures which reduced the formation of sucrose in sugarcane. Some strikes and labor problems in some companies located in Lambayeque contributed also to this lower supply.

Another product that contributed to increase inflation was **chicken meat**, whose price rose 3.6 percent (although this rise was lower than the rise recorded by the food products consumed at home (5.3 percent)). In a context of high supply due to the increased placement of baby chickens –up about 9 percent compared to 2014–, the price of chicken meat only recorded increases in some months of the year, which was associated with rises in the price of fish, the main substitute of poultry. .

In contrast, the price of **citrus** fruits fell 13.6 percent. This decline was due mainly to the lower price of tangerines (-14.7percent) as a result of the increased supply of these fruit in the months of March to June not only because of seasonal factors, but also because of the better implementation of agricultural techniques in the valleys of Lima. Moreover, the price of lemons dropped 20.7 percent, this trend being more pronounced in the last months of the year. High temperatures in Piura and good agronomic practices resulted in higher yields. Another farming product that showed a price fall was **papaya** (-4.7percent), the decline being explained by the greater abundance of the fruit that came to the markets of Lima from the San Martín region.

The category that registered the largest contribution to weighted inflation was **meals outside the home** (5.4 percent), which accounted for 0.72 percentage points of the inflation rate. The variation this category recorded in the year was similar to that of food and drinks consumed at the home (5.3 percent). Food consumed in restaurants showed several hikes over the year, reflecting increased consumer preferences for this service.

Energy Prices

Electricity rates rose 18.7 percent in 2015 (vs 4.4 percent in 2014) as a result of the successive rate adjustments approved by the regulating entity. Electricity generation and distribution costs were affected by the rise in the foreign exchange rate (14.6 percent), as well as by the adjustment of transmission tolls which incorporated costs incurred in the expansion of transmission lines. Other factors that affected the power rate were the higher price of natural gas, the prepayment to Gasoducto Sur Peruano for the pipeline, as well as the quarterly settlement of the compensation mechanism to regulated users for the contracts between electricity distribution and electricity generation companies.

Fuels showed price falls (-8.1percent) associated with the lower international prices of oil. The price of WTI oil dropped from US\$ 60 per barrel in December 2014 to US\$ 37 per barrel in December 2015.

Table 58
FUEL PRICES
(Annual % change)

	2013	2014	2015	Average 2006-2015
Fuels	6.0	-5.6	-6.3	0.2
Gasoline	6.9	-12.5	-8.1	-1.1
Gas	5.0	1.2	-5.8	1.1
Price of WTI oil, end of period 1/				
US Dollars	97.8	59.8	37.2	
Soles	272.5	177.1	126.0	

1/ West Texas Intermediate.
Source: INEI and Bloomberg.