



CENTRAL RESERVE BANK OF PERU

# Monetary Policy Statement

## August 2023

August 11, 2023



**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\***  
(%)

	<b>MPIR</b>	<b>1-Year ahead inflation expectations**</b>	<b>Ex ante Real Rate</b>
Brazil	13.25	4.29	8.96
Colombia	13.25	6.02	7.23
Mexico	11.25	4.27	6.98
Chile	10.25	3.50	6.75
Peru	7.75	3.57	4.18

\* Policy rates as of August 10, 2023 and inflation expectations as of July 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

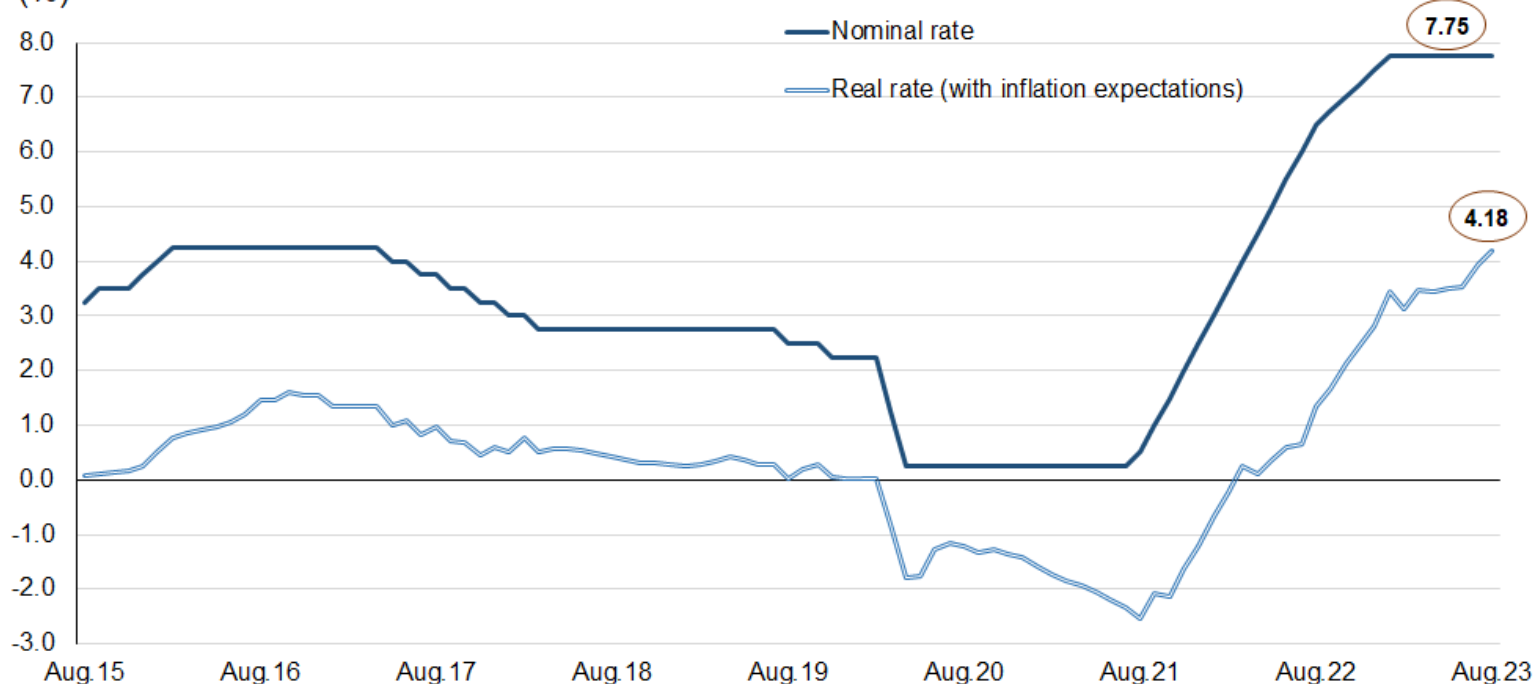


# CENTRAL RESERVE BANK OF PERU

The Board of Directors of the Central Reserve Bank of Peru (BCRP) decided to maintain the reference rate at 7.75 percent. Future reference rate adjustments will be conditional on new information about inflation and its determinants.

## Policy interest rate

(%)



	Aug.22	Sep.22	Oct.22	Nov.22	Dec.22	Jan.23	Feb.23	Mar.23	Apr.23	May.23	Jun.23	Jul.23	Aug.23
(I) Nominal rate	6.50	6.75	7.00	7.25	7.50	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
(II) Inflation expectations	5.16	5.10	4.89	4.78	4.68	4.30	4.62	4.29	4.30	4.25	4.21	3.83	3.57
(III) Real rate: (I)-(II)	1.34	1.65	2.11	2.47	2.82	3.45	3.13	3.46	3.45	3.50	3.54	3.92	4.18



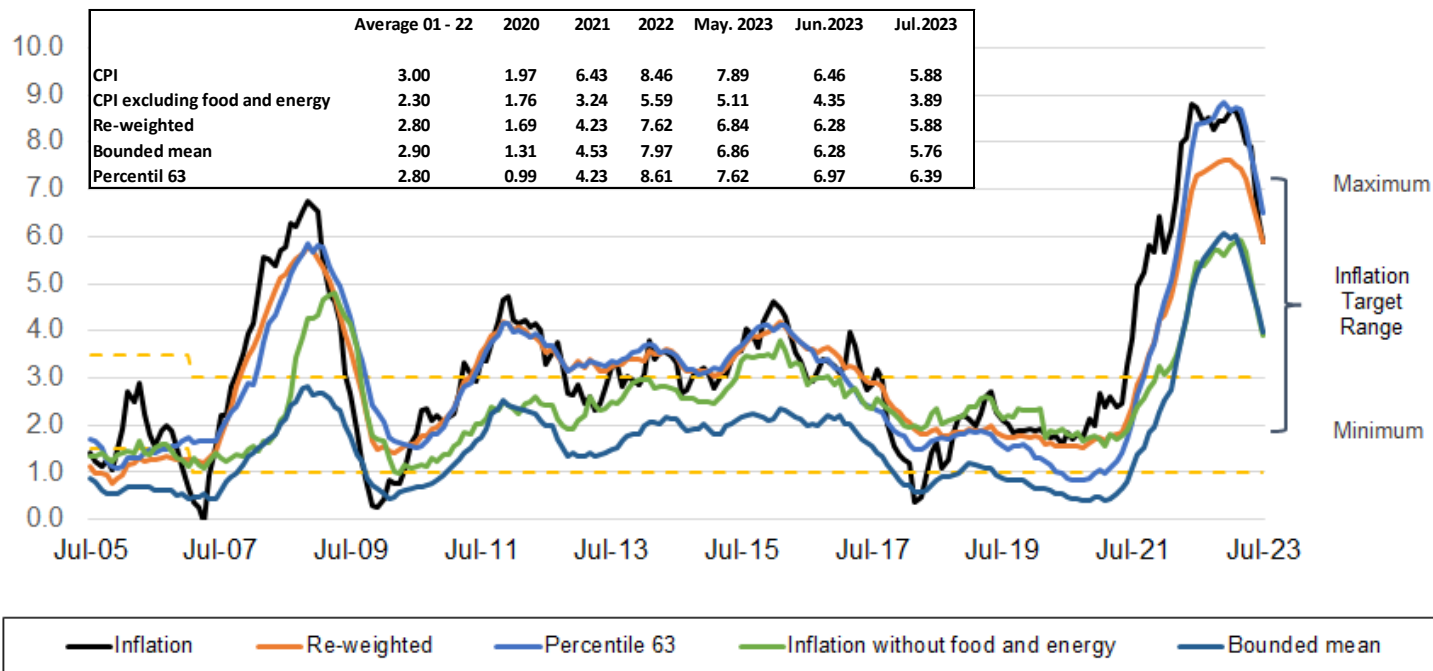
# CENTRAL RESERVE BANK OF PERU

In July, month-on-month inflation was 0.39 percent and core inflation was 0.29 percent. Year-on-year inflation fell from 6.46 percent in June to 5.88 percent in July, while core inflation decreased from 4.35 percent in June to 3.89 percent in July. Both indicators significantly fell two months in a row but remain above the upper limit of the inflation target range.

## Inflation (Last 12-month % change)

### Inflation

(Last 12 months % 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



**Most trend indicators showed lower year-on-year changes in July than in June.**

## Annual Inflation Trend Indicators

Last 12 months % change

	CPI	Re-weighted <sup>1/</sup>	Bounded mean <sup>2/</sup>	Percentil 63 <sup>3/</sup>	CPI excluding food and energy <sup>4/</sup>
Jan-22	5.68	4.32	4.85	4.61	3.08
Feb-22	6.15	4.75	5.21	5.05	3.26
Mar-22	6.82	5.20	5.63	5.57	3.46
Apr-22	7.96	5.77	6.19	6.28	3.81
May-22	8.09	6.39	6.80	6.98	4.26
Jun-22	8.81	6.98	7.46	7.71	4.95
Jul-22	8.74	7.29	7.82	8.26	5.44
Aug-22	8.40	7.36	7.74	8.27	5.39
Sep-22	8.53	7.44	7.74	8.31	5.51
Oct-22	8.28	7.50	7.89	8.41	5.72
Nov-22	8.45	7.59	7.97	8.51	5.71
Dec-22	8.46	7.62	7.97	8.61	5.59
Jan-23	8.66	7.61	7.83	8.44	5.80
Feb-23	8.65	7.52	7.81	8.52	5.87
Mar-23	8.40	7.46	7.46	8.49	5.92
Apr-23	7.97	7.23	7.23	8.08	5.66
May-23	7.89	6.84	6.86	7.62	5.11
Jun-23	6.46	6.28	6.28	6.97	4.35
Jul-23	5.88 ↓	5.88 ↓	5.76 ↓	6.39 ↓	3.89 ↓

**1/ Reweighted:** Reduces the weight of items with greater volatility, considers the original weights of each item over the standard deviation of their monthly percentage changes.

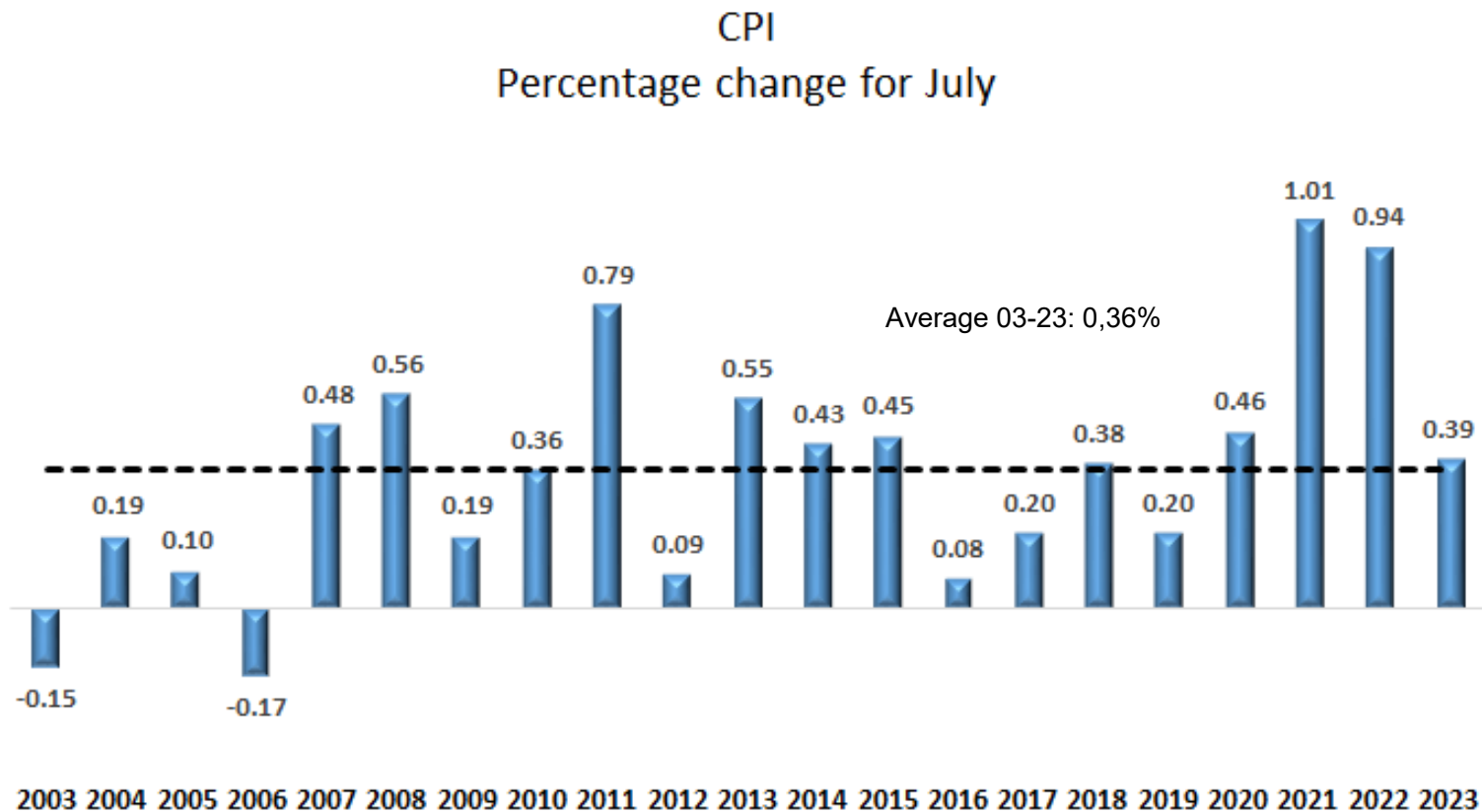
**2/ Bounded mean:** Weighted average of the percentage change of prices between the 34th and 84th percentiles.

**3/ Percentile 63:** Corresponds to the percentage changes of the item placed in the 63rd percentile.

**4/ CPI excluding food and energy:** CPI excluding food, fuel and electricity



The inflation rate for July of this year has been much lower than that observed in the previous two years, and more similar to the long-term average rate (0.36 percent).

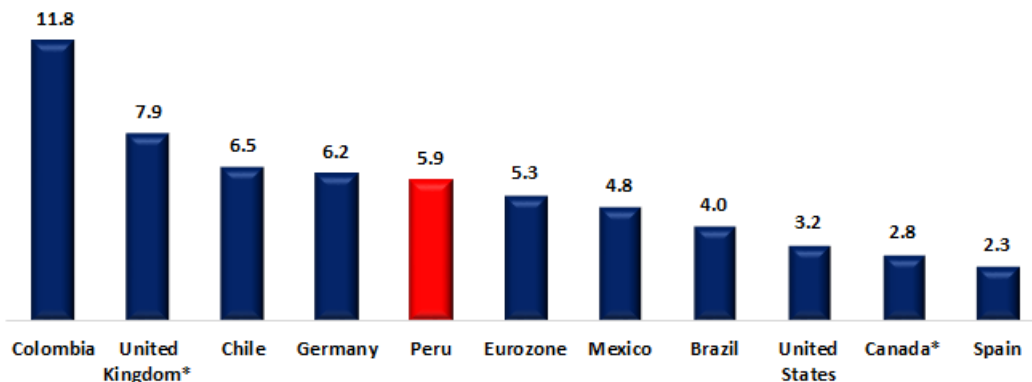




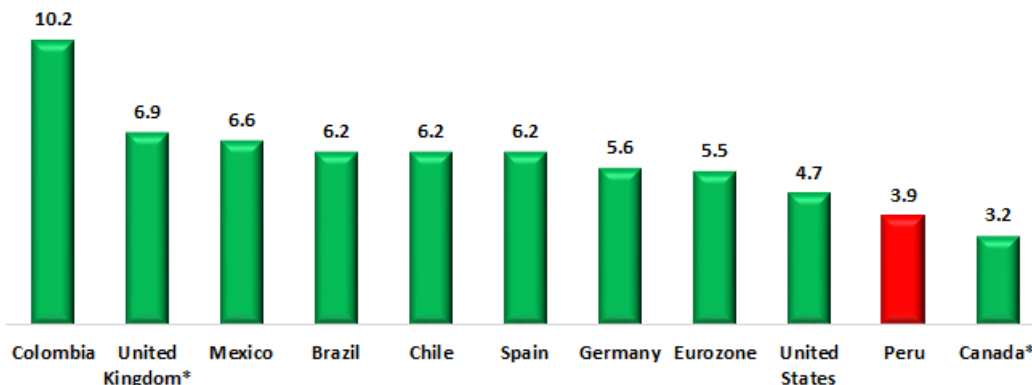
# CENTRAL RESERVE BANK OF PERU

The sharp 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, although in most countries it started to decline.

**Total Inflation: July 2023**  
(% Change)



**CPI excluding food and energy: July 2023**  
(% Change)

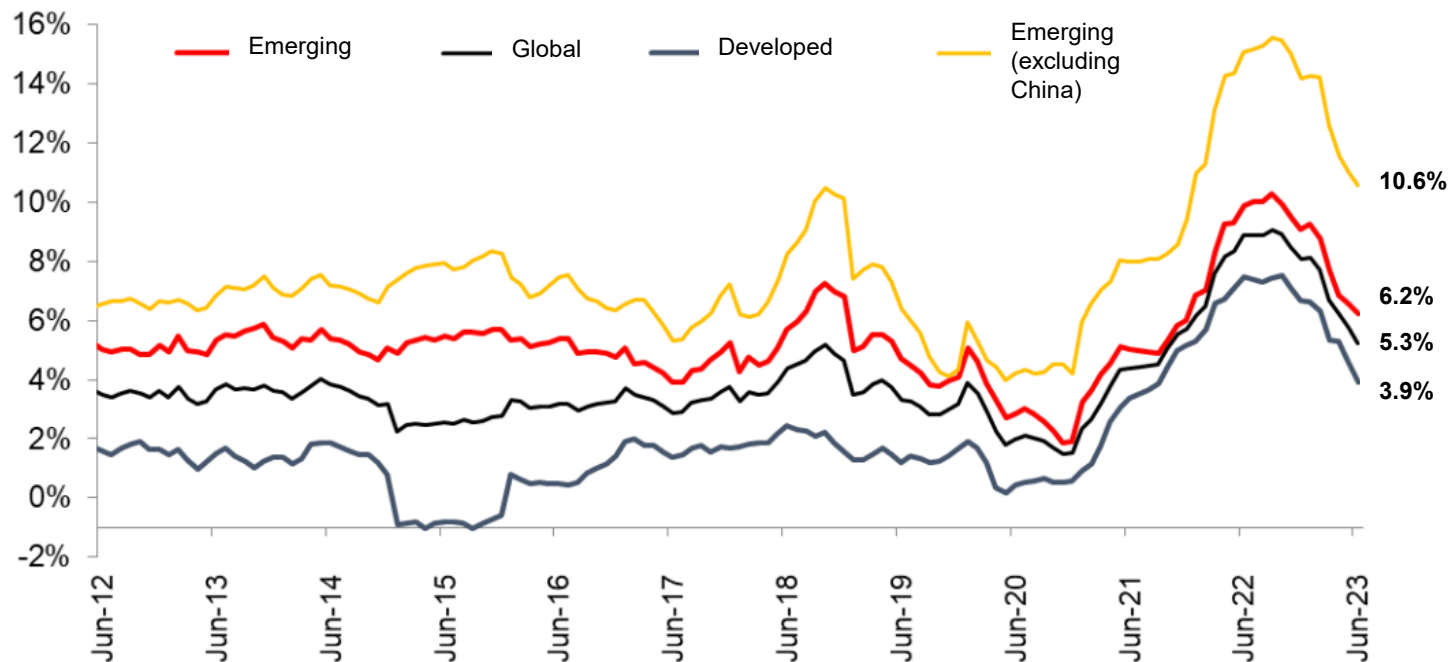


\* Information as of June 2023. Source: Statistical institutes and central banks.



## Global inflation continued to decline in June.

### Inflation (12-month change): Global, Developed, Emerging



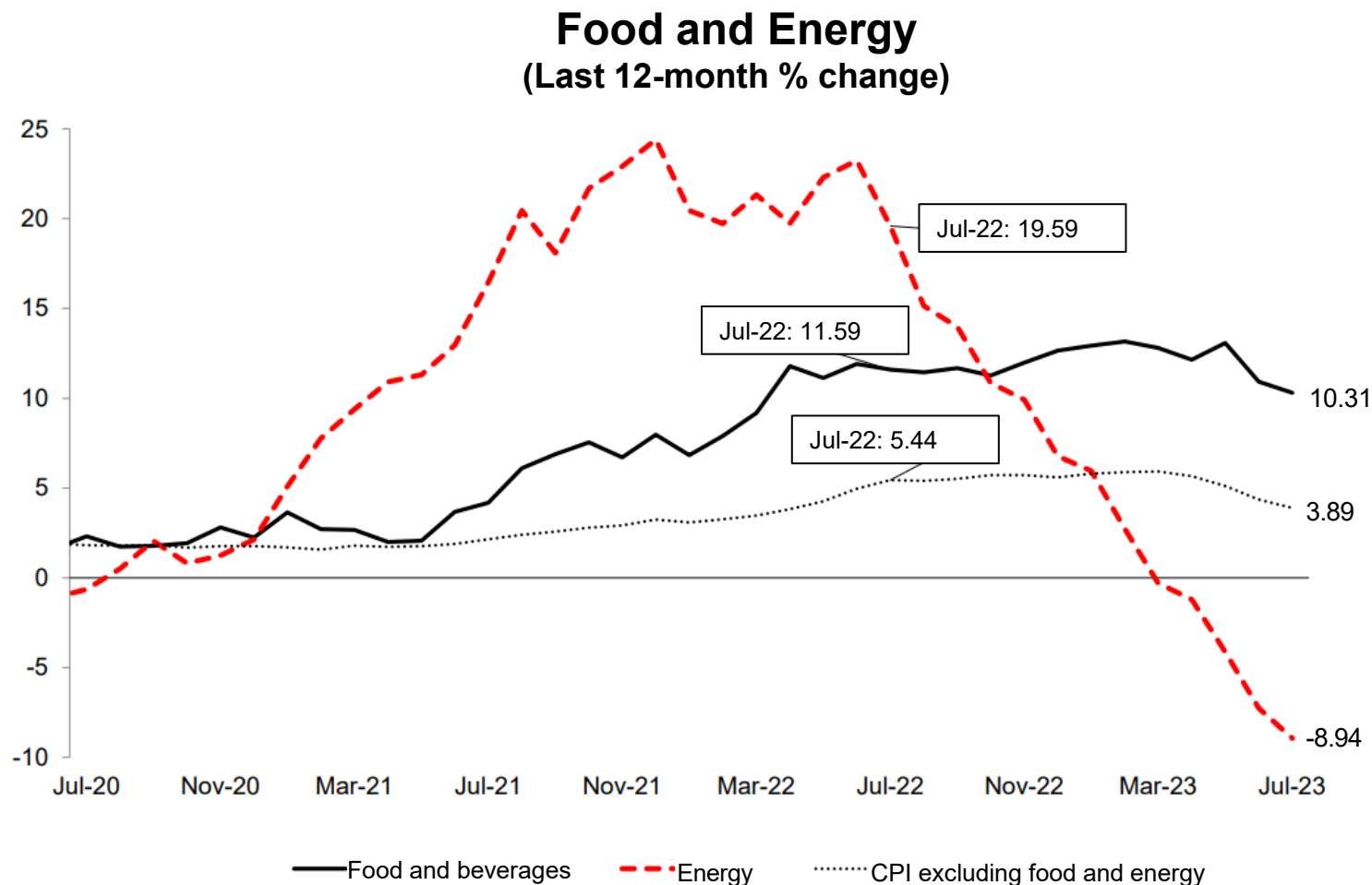
### Proportion of countries with an increase in their annual inflation rate (%)

	October	November	December	January	February	March	April	May	June
Total	48	34	32	40	37	25	19	19	15
Latin America	32	41	50	42	40	12	20	24	13
Asia	38	29	46	47	38	21	18	18	12
Europe	62	24	17	32	33	11	18	9	4





In the Peruvian case, there were transitory inflation effects due to restrictions in the supply of some food items, which would have begun to recede since June.



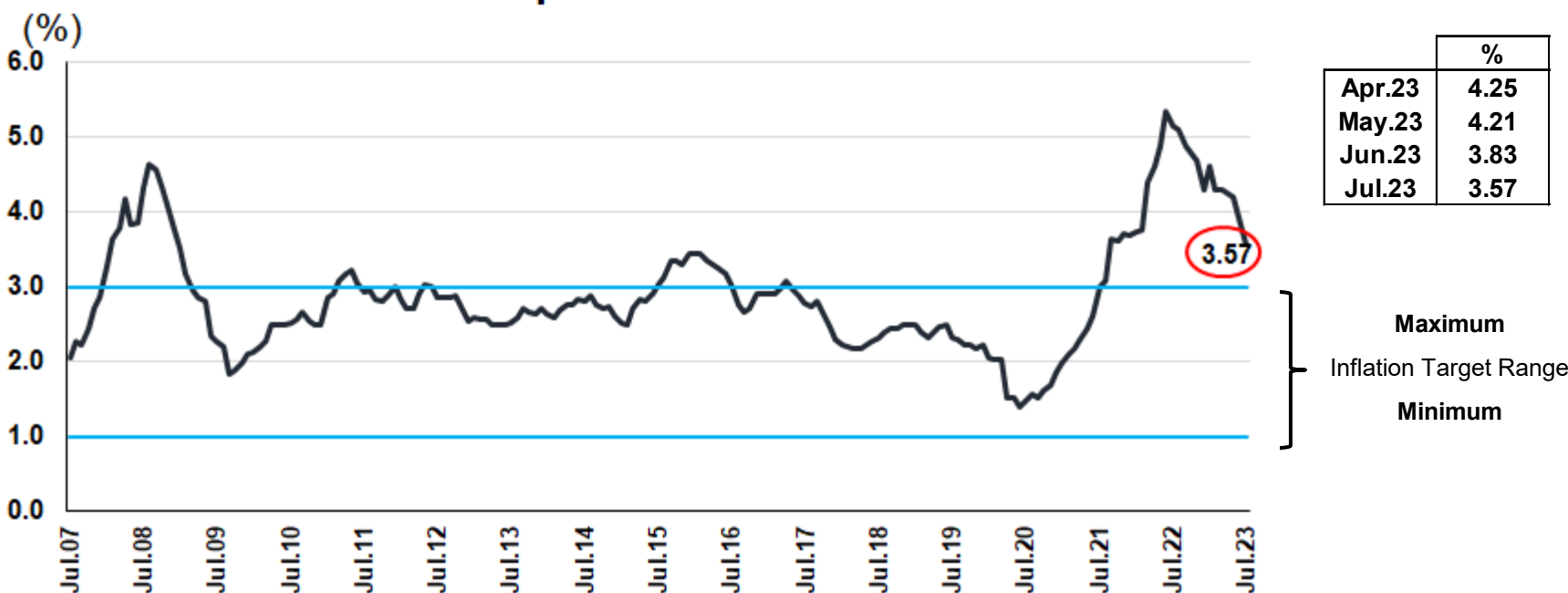
Source: INEI



# CENTRAL RESERVE BANK OF PERU

One-year-ahead expected inflation decreased from 3.83 percent in June to 3.57 percent in July, above the upper limit of the inflation target range. The downward trend in year-on-year inflation is forecast to continue in the following months, near the target range at the end of the year and approaching the range beginning next 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. However, there are risks related to climatic factors.

## 1-Year ahead inflation expectations\*



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

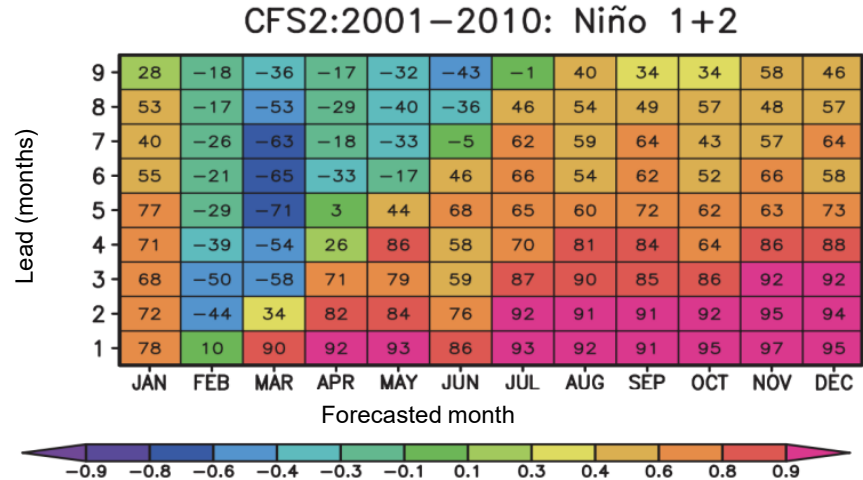
Note: 12-month inflation expectations are calculated as the simple average of the 12-month expectations of the financial system and economic analysts. For each of these, a 12-month expectation estimate is obtained by weighting the current year's expectation by the number of months remaining and the following year's expectation by the number of months remaining to complete the 12-month period.



**ENFEN statement of July 21: Coastal El Niño conditions will continue until the summer of 2024. For the rest of the year, conditions will transition from strong to moderate, while for the summer of 2024, conditions between weak and moderate are expected.**

Estimated probabilities of El Niño during the summer of 2024				
	Probability	Of Which:		
		Weak	Moderate	Strong or very Strong
Eastern Pacific	87	40	35	12
Central Pacific	84	43	38	3

**Forecast-Observed Correlation of ATMS for the Niño 1+2  
Zone: 2001-2010**



**Predictability barrier:** Sea surface temperature anomaly (SSTA) forecasts made in winter perform better than those made before May. Thus, the forecast made in August for December would have a high correlation with the actual data (left table).

**Ocean-atmosphere coupling:** The ENFEN report mentions that models indicate a strong El Niño by the end of the year, but only a slight ocean-atmosphere coupling is observed (warm sea in 3.4 but no W-E winds). This could indicate that the warm phase of El Niño-Southern Oscillation (Global Niño) may not materialize.

Source: BCRP, IMARPE, NOAA, Reupo and Takahashi (2014) and Australian Bureau of Meteorology. Prepared by: Economic Activity Indicators Department. Date: August 7, 2023.



# CENTRAL RESERVE BANK OF PERU

The leading and expectations indicators for economic activity in July show a moderate recovery compared to the previous month but remain in pessimistic territory. The shocks derived from social conflicts and the coastal El Niño have had a greater than expected impact on economic activity and domestic demand.

## Macroeconomic Expectations: Survey Results

		Dec.2019	Mar.2020	May.2023	Jun.2023			Jul.2023		Correlation with GDP <sup>1</sup>	
<b><u>CURRENT SITUATION:</u></b>											
BUSINESS SITUATION		53.4	41.1	46.9	45.2	↓	<	45.6	↑	<	0.56
LEVEL OF SALES		54.2	30.3	46.6	46.2	↓	<	44.6	↓	<	0.49
PRODUCTION LEVEL		50.0	23.5	47.2	44.9	↓	<	44.1	↓	<	0.44
DEMAND COMPARED TO THE EXPECTED DEMAND		40.0	23.0	37.1	34.5	↓	<	33.4	↓	<	0.68
PURCHASING ORDERS COMPARED TO THE PREVIOUS MONTH		51.2	27.5	44.9	45.2	↑	<	45.5	↑	<	0.52
UNWANTED INVENTORY DAYS <sup>2/</sup>		8.9	5.9	8.4	11.5	↑	<	13.4	↑	<	-0.36
<b><u>EXPECTATION:</u></b>											
ECONOMIC SITUATION:	IN 3 MONTHS	50.8	21.8	44.5	42.8	↓	<	44.5	↑	<	0.63
	IN 12 MONTHS	61.5	41.5	56.3	51.2	↓	>	53.9	↑	>	0.42
SECTOR:	IN 3 MONTHS	51.5	28.5	47.5	44.7	↓	<	45.4	↑	<	0.67
	IN 12 MONTHS	61.5	43.4	58.0	54.5	↓	>	54.3	~	>	0.33
COMPANY'S SITUATION:	IN 3 MONTHS	56.1	28.3	51.1	46.3	↓	<	48.7	↑	<	0.66
	IN 12 MONTHS	66.6	46.4	61.6	57.1	↓	>	59.7	↑	>	0.66
ABOUT DEMAND:	IN 3 MONTHS	55.1	30.7	50.8	49.6	↓	<	51.5	↑	<	0.66
	IN 12 MONTHS	68.0	47.4	62.5	60.1	↓	>	61.5	↑	>	0.66
NEW PERSONNEL HIRED:	IN 3 MONTHS	48.6	35.9	46.7	46.5	~	<	46.3	~	<	0.66
	IN 12 MONTHS	54.0	39.6	54.4	51.6	↓	>	52.6	↑	>	0.58
COMPANY'S INVESTMENT:	IN 3 MONTHS <sup>3/</sup>	51.3	29.9	47.4	45.4	↓	<	45.6	~	<	0.65
	IN 12 MONTHS <sup>3/</sup>	59.3	40.0	54.1	54.5	↑	>	54.9	↑	>	0.65
<b><u>EXPECTATION OF THE AVERAGE PRICE:</u></b>											
SUPPLIES IN 3 MONTHS		51.5	52.9	51.9	52.2	↑	>	53.4	↑	>	0.63
SALE IN 3 MONTHS		56.4	49.7	55.0	54.2	↓	>	55.3	↑	>	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.

~ : Indicates that the monthly difference of each diffusion index is no greater, in absolute value, than 0.2. Up or down arrows indicate that this threshold was exceeded, while the "-" sign implies that the index did not change.

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.

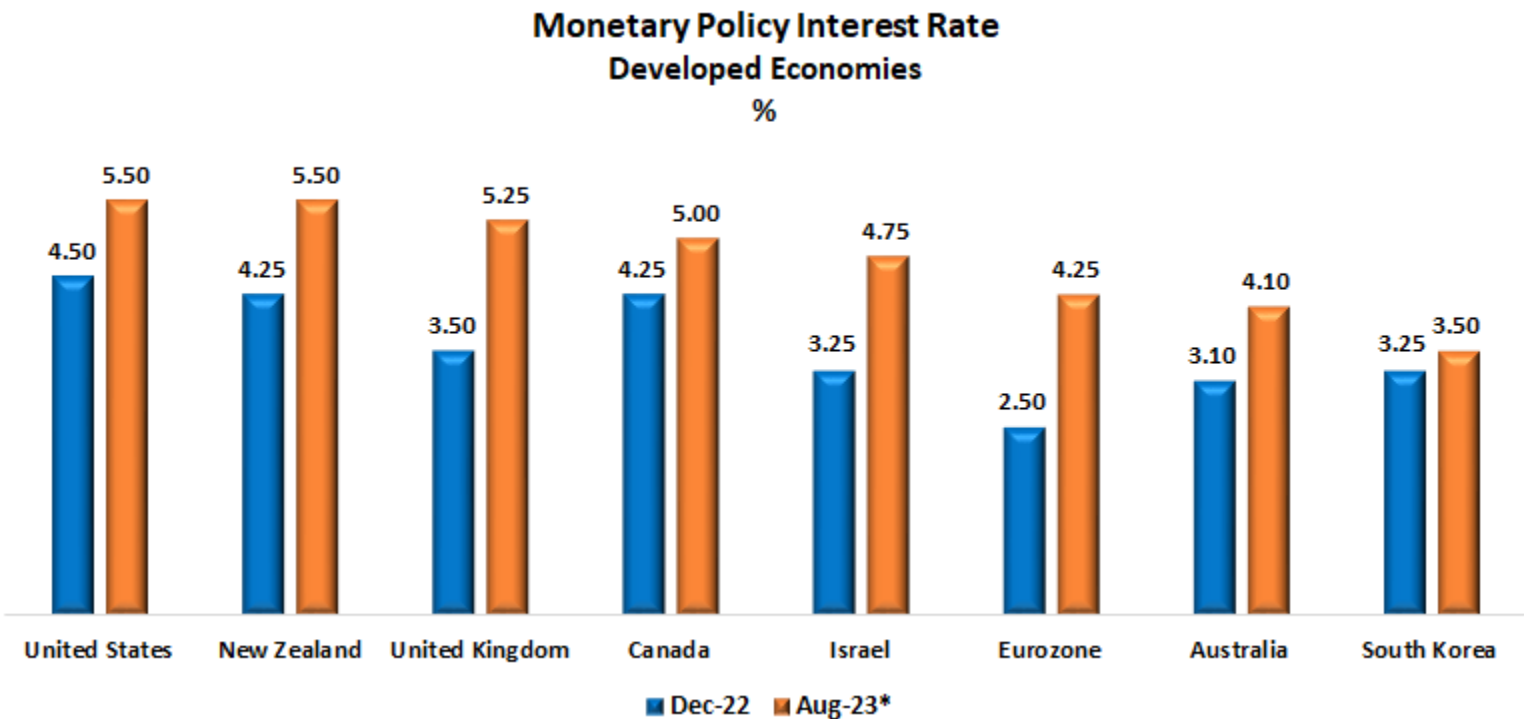
2/ Days of unwanted inventories show the difference between the days of inventories corresponding to each month minus the days of desired inventories according to the companies.

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 moderated; however, global risks remain due to monetary tightening in advanced economies and international conflicts.



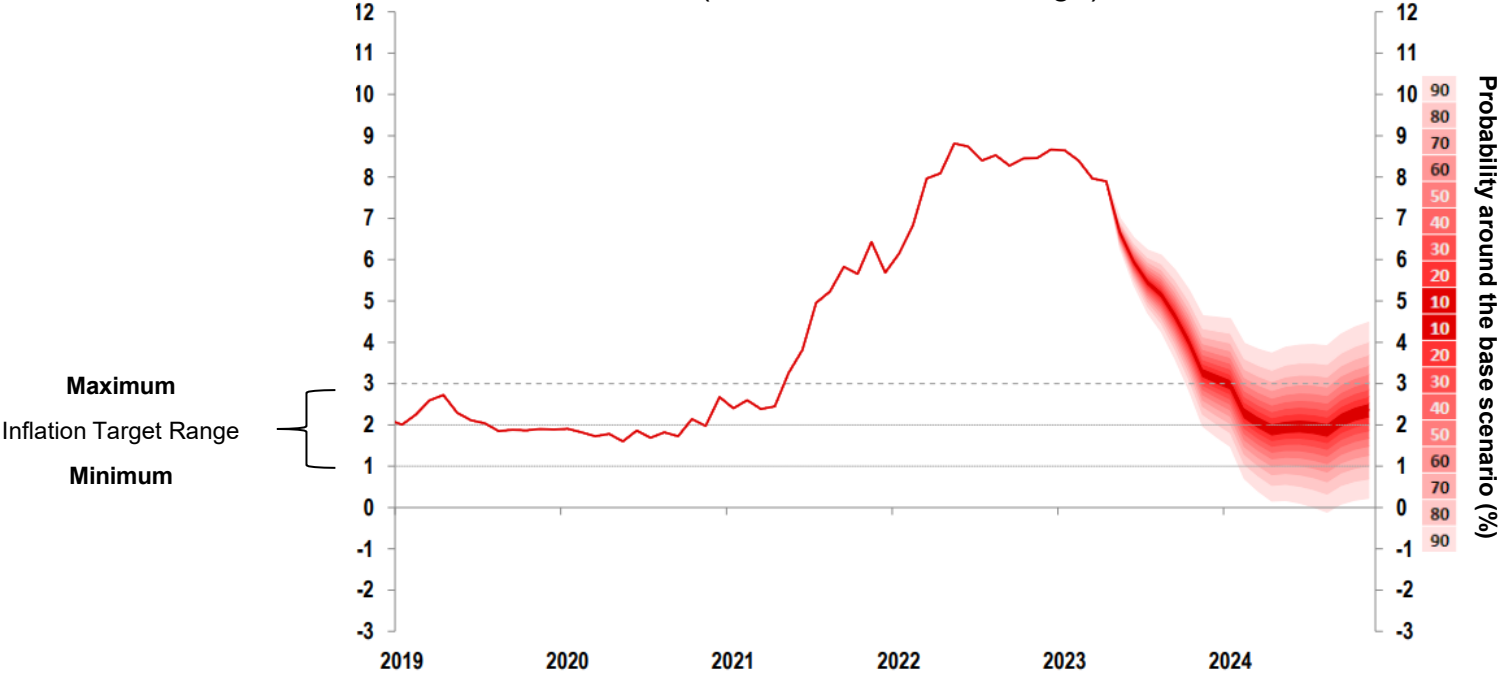
\*/ As of August 10.  
Source: Central Banks.



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: 2023 – 2024

(Last 12-month % change)



Source: BCRP Inflation Report



CENTRAL RESERVE BANK OF PERU

# Monetary Policy Statement

## August 2023

August 11, 2023