CENTRAL RESERVE BANK OF PERU

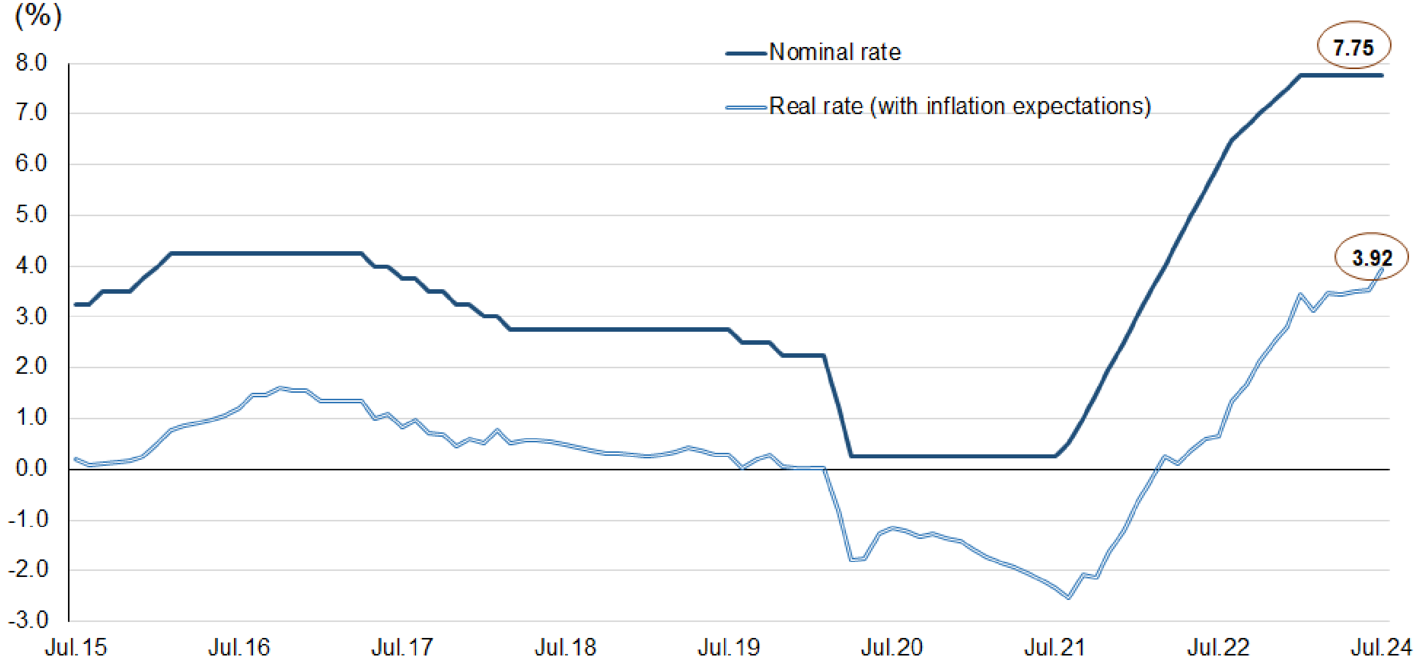
# Monetary Policy Statement
# July 2023

July 14, 2023

**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.**

**Policy interest rate**

(%)




| | Jul.22 | Aug.22 | Sep.22 | Oct.22 | Nov.22 | Dec.22 | Jan.23 | Feb.23 | Mar.23 | Apr.23 | May.23 | Jun.23 | Jul.23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **(I) Nominal rate** | 6.00 | 6.50 | 6.75 | 7.00 | 7.25 | 7.50 | 7.75 | 7.75 | 7.75 | 7.75 | 7.75 | 7.75 | 7.75 |
| **(II) Inflation expectations** | 5.35 | 5.16 | 5.10 | 4.89 | 4.78 | 4.68 | 4.30 | 4.62 | 4.29 | 4.30 | 4.25 | 4.21 | 3.83 |
| **(III) Real rate: (I)-(II)** | 0.65 | 1.34 | 1.65 | 2.11 | 2.47 | 2.82 | 3.45 | 3.13 | 3.46 | 3.45 | 3.50 | 3.54 | 3.92 |

Source: BCRP

## 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 | 4.45 | 9.30 |
| Chile | 11.25 | 3.50 | 7.75 |
| Mexico | 11.25 | 4.05 | 7.20 |
| Colombia | 13.25 | 6.40 | 6.85 |
| Peru | 7.75 | 3.83 | 3.92 |

* Policy rates as of July 13, 2023 and inflation expectations as of June 2023.

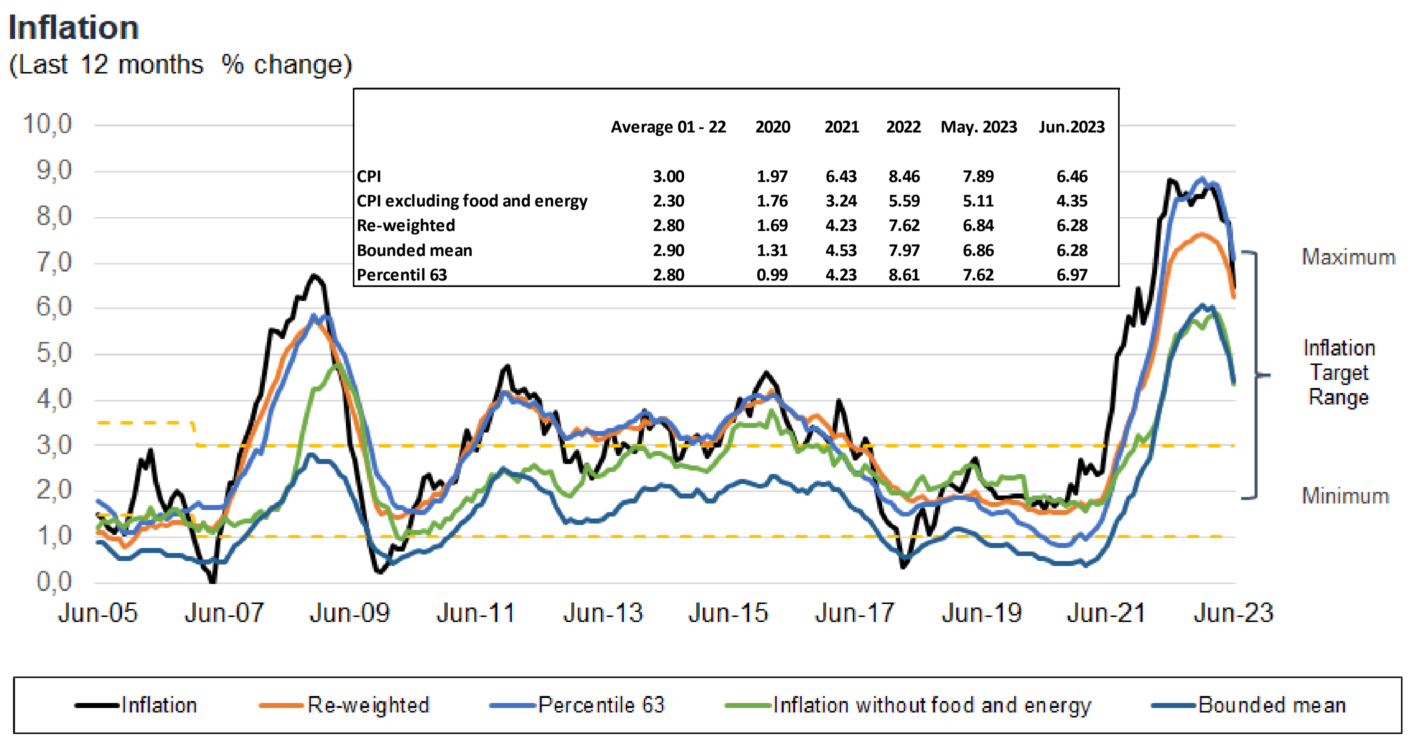
** Obtained by interpolation based on expectations as of December 2023 and 2024 in the cases of Brazil and Mexico (the other central banks publish the data directly).

Source: Central Banks

**In June, month-on-month inflation was -0.15 percent because of the reduction in food and energy prices (-0.49 percent). Core inflation was 0.14 percent. Year-on-year inflation fell from 7.89 percent in May to 6.46 percent in June, while core inflation decreased from 5.11 percent in May to 4.35 percent in June. Both indicators significantly fell but remain above the upper limit of the inflation target range.**

## Inflation

(Last 12-month % change)




| | Average 01 - 22 | 2020 | 2021 | 2022 | May. 2023 | Jun.2023 |
|---|---|---|---|---|---|---|
| CPI | 3.00 | 1.97 | 6.43 | 8.46 | 7.89 | 6.46 |
| CPI excluding food and energy | 2.30 | 1.76 | 3.24 | 5.59 | 5.11 | 4.35 |
| Re-weighted | 2.80 | 1.69 | 4.23 | 7.62 | 6.84 | 6.28 |
| Bounded mean | 2.90 | 1.31 | 4.53 | 7.97 | 6.86 | 6.28 |
| Percentil 63 | 2.80 | 0.99 | 4.23 | 8.61 | 7.62 | 6.97 |

**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.
**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

Source: BCRP

# Most trend indicators showed lower monthly changes in June than in May.

Monthly Inflation Trend Indicators
Monthly percentage change

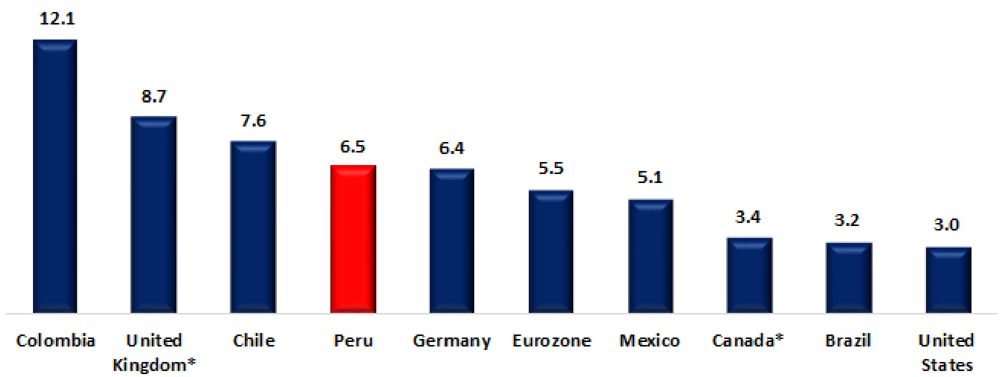
| | CPI | Re-weighted [1/] | Bounded mean [2/] | Percentil 63 [3/] | CPI excluding food and energy [4/] |
|---|---|---|---|---|---|
| Jan-22 | 0.04 | 0.32 | 0.42 | 0.50 | -0.16 |
| Feb-22 | 0.31 | 0.44 | 0.41 | 0.44 | 0.21 |
| Mar-22 | 1.48 | 0.80 | 0.94 | 0.77 | 0.83 |
| Apr-22 | 0.96 | 0.69 | 0.68 | 0.82 | 0.45 |
| May-22 | 0.38 | 0.77 | 0.74 | 0.84 | 0.60 |
| Jun-22 | 1.19 | 0.86 | 0.91 | 0.99 | 0.86 |
| Jul-22 | 0.94 | 0.73 | 0.83 | 0.87 | 0.74 |
| Aug-22 | 0.67 | 0.59 | 0.59 | 0.64 | 0.31 |
| Sep-22 | 0.52 | 0.48 | 0.46 | 0.52 | 0.33 |
| Oct-22 | 0.35 | 0.53 | 0.62 | 0.63 | 0.50 |
| Nov-22 | 0.52 | 0.52 | 0.47 | 0.50 | 0.23 |
| Dec-22 | 0.79 | 0.63 | 0.63 | 0.77 | 0.54 |
| | | | | | |
| Jan-23 | 0.23 | 0.31 | 0.30 | 0.34 | 0.05 |
| Feb-23 | 0.29 | 0.36 | 0.39 | 0.51 | 0.27 |
| Mar-23 | 1.25 | 0.75 | 0.62 | 0.74 | 0.88 |
| Apr-23 | 0.56 | 0.48 | 0.46 | 0.44 | 0.20 |
| May-23 | 0.32 | 0.40 | 0.39 | 0.41 | 0.08 |
| Jun-23 | -0.15 ↓ | 0.33 ↓ | 0.37 ↓ | 0.38 ↓ | 0.14 ↑ |

**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.
**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

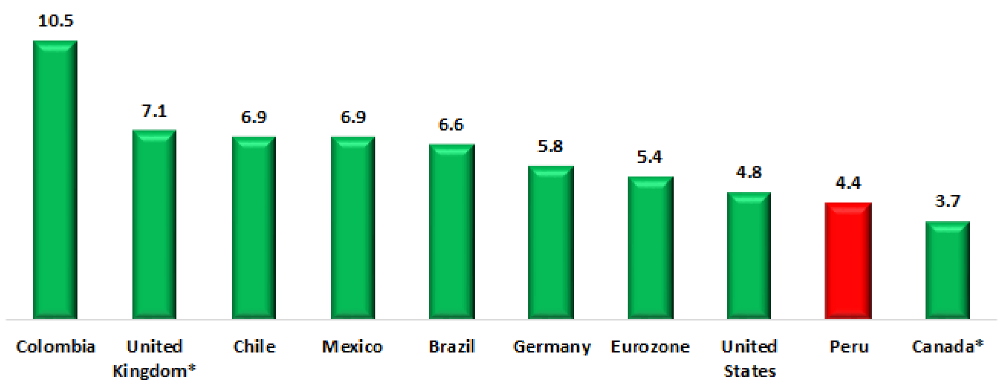
Source: BCRP

**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: June 2023
(% Change)

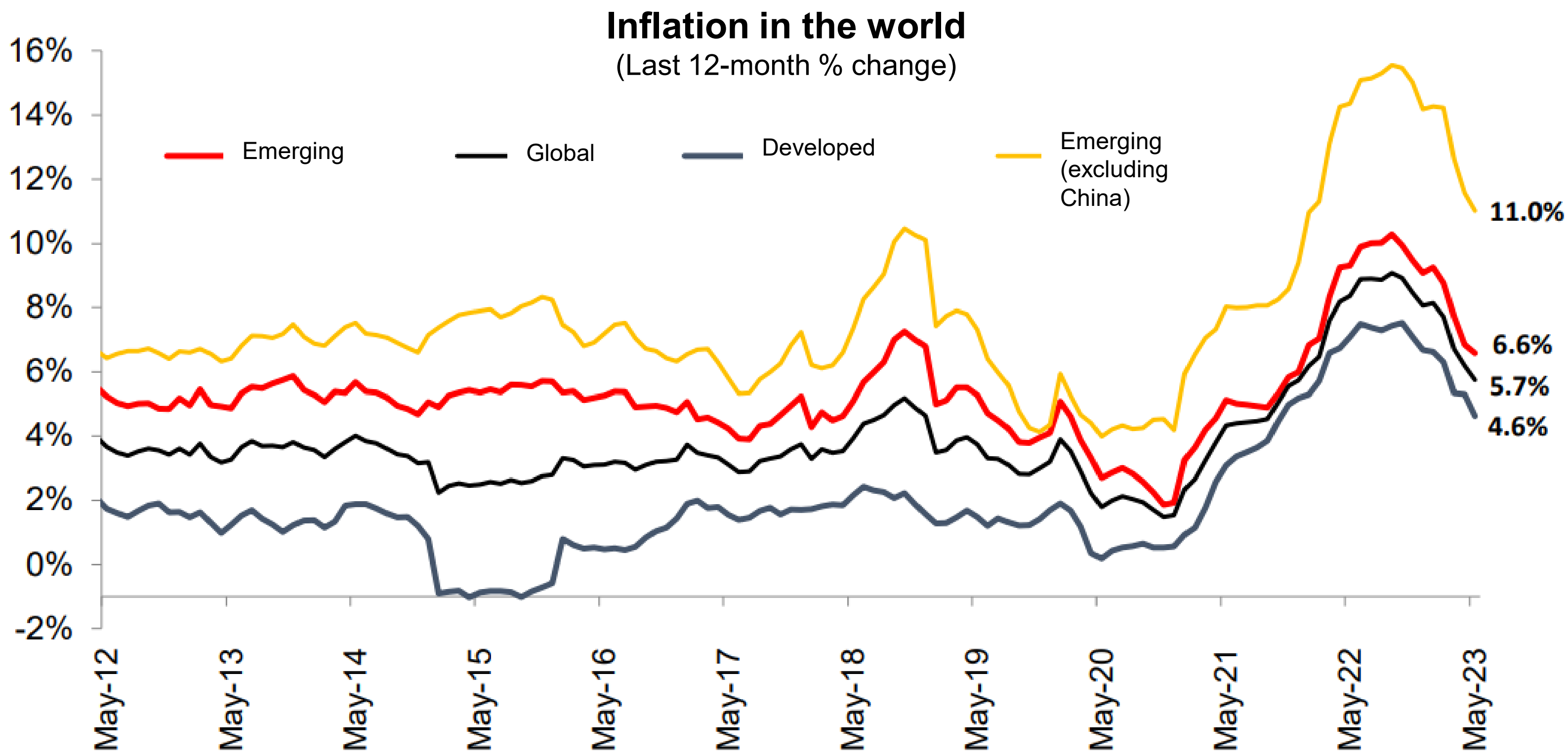



CPI excluding food and energy: June 2023
(% Change)




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

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

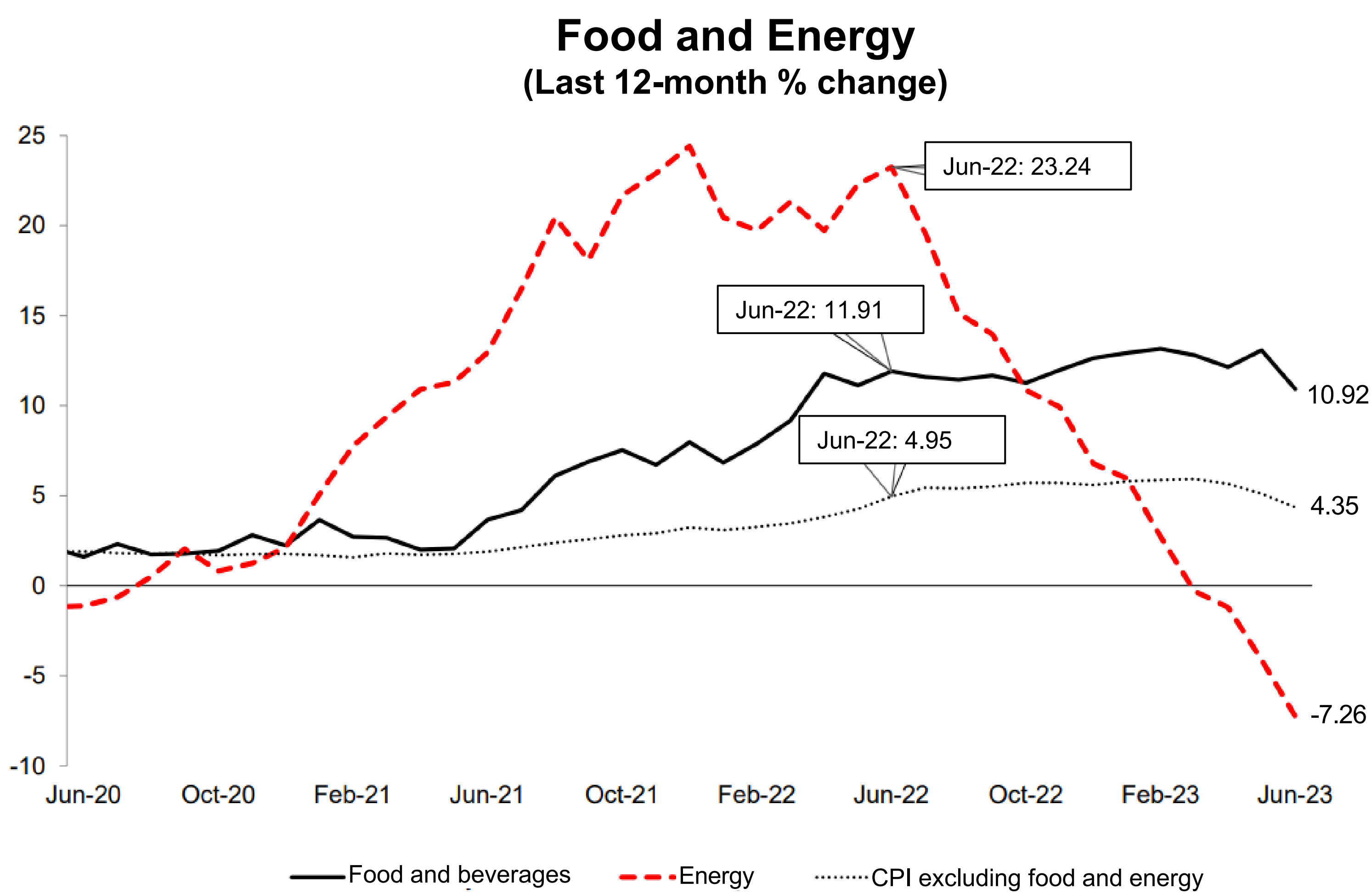



**Proportion of countries with an increase in their annual inflation rate**
(%)

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

Source: Reuters and Tading Economics.
Elaboration: BCRP.

**In the Peruvian case, there were transitory inflation effects due to restrictions in the supply of some food items, which began to recede in June.**

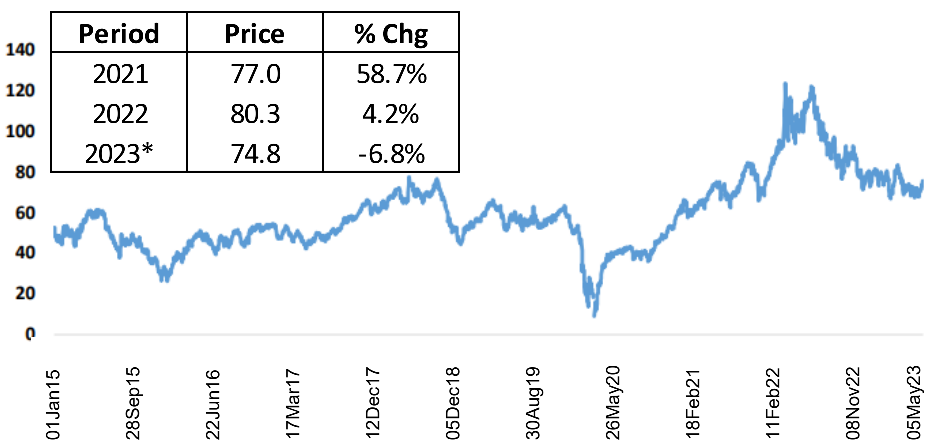



Source: INEI

# International fuel and grain prices also continue their downward trend.

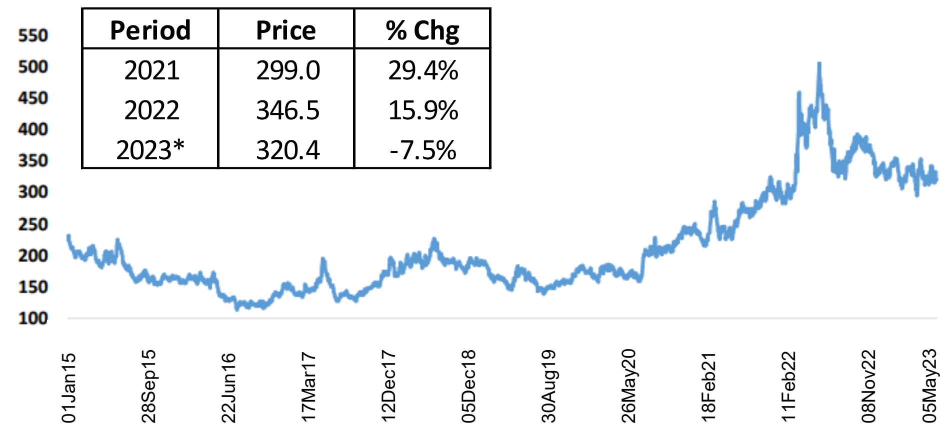
### Oil (West Texas Intermediate, US$/barrel)

| Period | Price | % Chg |
|---|---|---|
| 2021 | 77.0 | 58.7% |
| 2022 | 80.3 | 4.2% |
| 2023* | 74.8 | -6.8% |



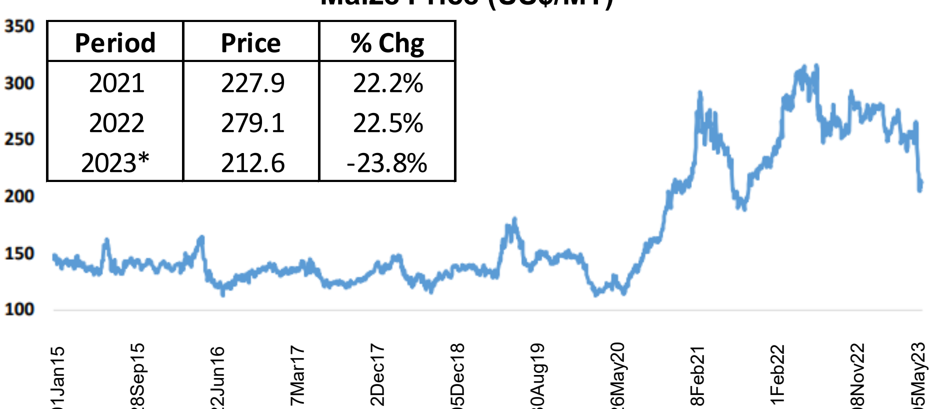

### Wheat Price (HRW US$/MT)

| Period | Price | % Chg |
|---|---|---|
| 2021 | 299.0 | 29.4% |
| 2022 | 346.5 | 15.9% |
| 2023* | 320.4 | -7.5% |



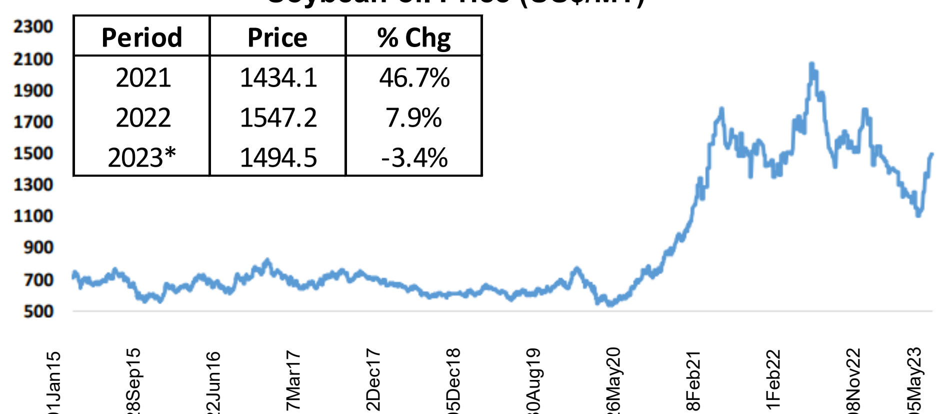

### Maize Price (US$/MT)

| Period | Price | % Chg |
|---|---|---|
| 2021 | 227.9 | 22.2% |
| 2022 | 279.1 | 22.5% |
| 2023* | 212.6 | -23.8% |




### Soybean oil Price (US$/MT)

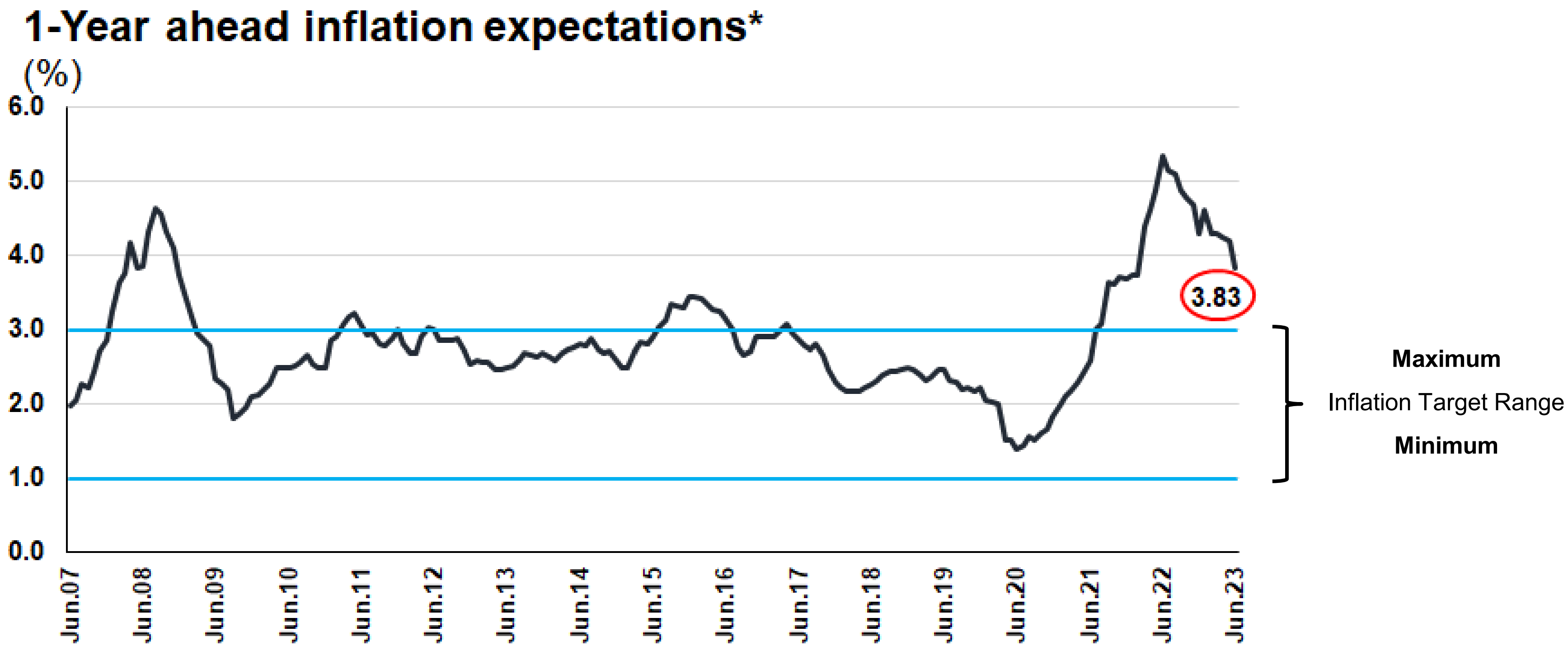
| Period | Price | % Chg |
|---|---|---|
| 2021 | 1434.1 | 46.7% |
| 2022 | 1547.2 | 7.9% |
| 2023* | 1494.5 | -3.4% |




*Note: For 2023, accumulated change as of July 11.

Source: Reuters.

**One-year-ahead expected inflation decreased from 4.21 percent in May to 3.83 percent in June, 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.**




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

Source: BCRP

# The leading and expectations indicators for economic activity in June show deterioration compared to the previous month, with the majority persisting in pessimistic territory.

**Macroeconomic Expectations: Survey Results**

| | | Dec.2019 | Mar.2020 | Apr.2023 | May.2023 | | | Jun.2023 | | | Correlation with GDP 1/ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **CURRENT SITUATION:** | | | | | | | | | | | |
| BUSINESS SITUATION | | 53.4 | 41.1 | 46.9 | 46.9 | = | < | 45.2 | ↓ | < | 0.56 |
| LEVEL OF SALES | | 54.2 | 30.3 | 47.2 | 46.6 | ↓ | < | 46.2 | ↓ | < | 0.49 |
| PRODUCTION LEVEL | | 50.0 | 23.5 | 46.9 | 47.2 | ↑ | < | 44.9 | ↓ | < | 0.44 |
| DEMAND COMPARED TO THE EXPECTED DEMAND | | 40.0 | 23.0 | 36.5 | 37.1 | ↑ | < | 34.5 | ↓ | < | 0.68 |
| PURCHASING ORDERS COMPARED TO THE PREVIOUS MONTH | | 51.2 | 27.5 | 46.5 | 44.9 | ↓ | < | 45.2 | ↑ | < | 0.52 |
| UNWANTED INVENTORY DAYS[2/] | | 8.9 | 5.9 | 10.8 | 8.4 | ↓ | < | 11.5 | ↑ | < | -0.36 |
| **EXPECTATION:** | | | | | | | | | | | |
| ECONOMIC SITUATION: | IN 3 MONTHS | 50.8 | 21.8 | 43.9 | 44.5 | ↑ | < | 42.8 | ↓ | < | 0.63 |
| | IN 12 MONTHS | 61.5 | 41.5 | 53.7 | 56.3 | ↑ | > | 51.2 | ↓ | > | 0.42 |
| SECTOR: | IN 3 MONTHS | 51.5 | 28.5 | 46.2 | 47.5 | ↑ | < | 44.7 | ↓ | < | 0.67 |
| | IN 12 MONTHS | 61.5 | 43.4 | 54.3 | 58.0 | ↑ | > | 54.5 | ↓ | > | 0.33 |
| COMPANY'S SITUATION: | IN 3 MONTHS | 56.1 | 28.3 | 49.4 | 51.1 | ↑ | > | 46.3 | ↓ | < | 0.66 |
| | IN 12 MONTHS | 66.6 | 46.4 | 58.0 | 61.6 | ↑ | > | 57.1 | ↓ | > | 0.66 |
| ABOUT DEMAND: | IN 3 MONTHS | 55.1 | 30.7 | 50.6 | 50.8 | ~ | > | 49.6 | ↓ | < | 0.66 |
| | IN 12 MONTHS | 68.0 | 47.4 | 59.6 | 62.5 | ↑ | > | 60.1 | ↓ | > | 0.66 |
| NEW PERSONNEL HIRED: | IN 3 MONTHS | 48.6 | 35.9 | 46.5 | 46.7 | ~ | < | 46.5 | ~ | < | 0.66 |
| | IN 12 MONTHS | 54.0 | 39.6 | 53.9 | 54.4 | ↑ | > | 51.6 | ↓ | > | 0.58 |
| COMPANY'S INVESTMENT: | IN 3 MONTHS[3/] | 51.3 | 29.9 | 45.5 | 47.4 | ↑ | < | 45.4 | ↓ | < | 0.65 |
| | IN 12 MONTHS[3/] | 59.3 | 40.0 | 55.0 | 54.1 | ↓ | > | 54.5 | ↑ | > | 0.65 |
| **EXPECTATION OF THE AVERAGE PRICE:** | | | | | | | | | | | |
| SUPPLIES IN 3 MONTHS | | 51.5 | 52.9 | 54.9 | 51.9 | ↓ | > | 52.2 | ↑ | > | 0.63 |
| SALE IN 3 MONTHS | | 56.4 | 49.7 | 57.0 | 55.0 | ↓ | > | 54.2 | ↓ | > | 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.

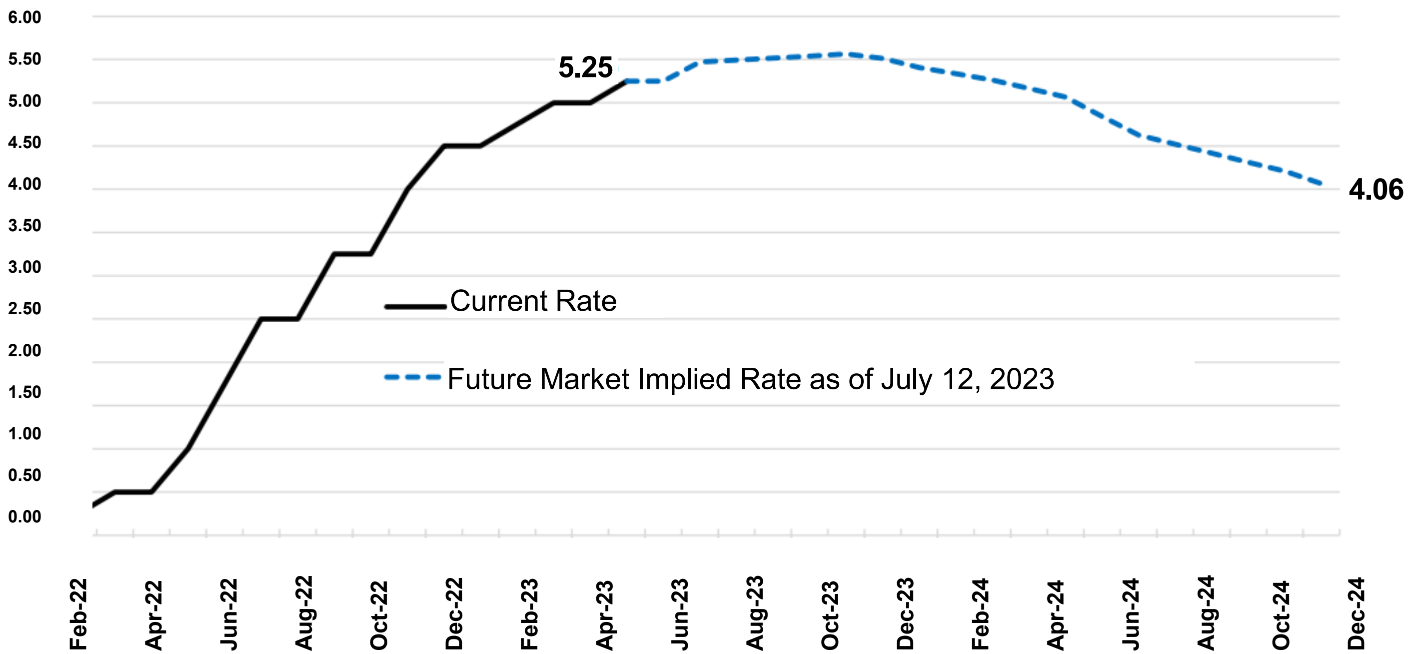
2/ Days of unwanted inventories show the difference between the days of inventories corresponding to each month minus the days of desired inventories according to the companies.

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

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




* The data corresponds to the upper band of the Fed's reference rates.

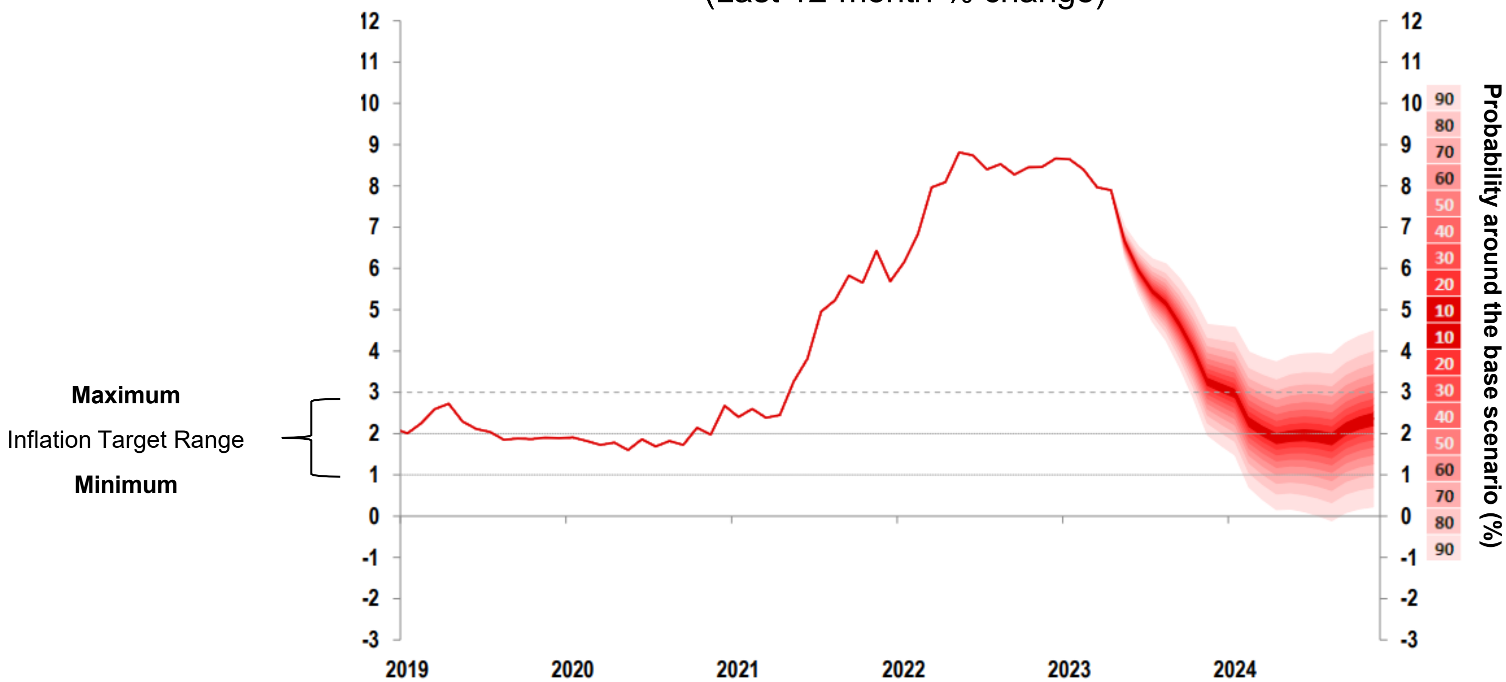
Source: BCRP, FED, Reuters

CENTRAL RESERVE BANK OF PERU

**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

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