



CENTRAL RESERVE BANK OF PERU

Monetary Policy Statement

November 2023

November 10, 2023

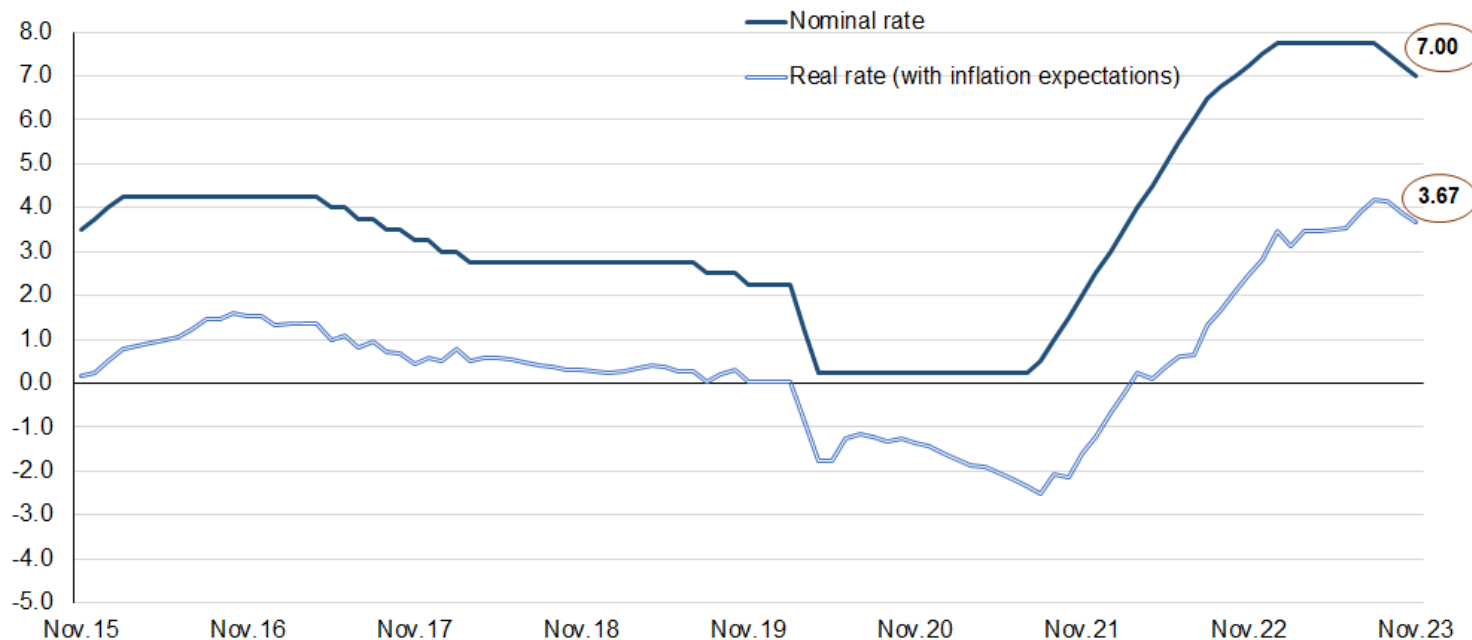


CENTRAL RESERVE BANK OF PERU

The Board of Directors of the Central Reserve Bank of Peru (BCRP) decided to reduce the reference rate by 25 bps to 7.00 percent. This decision does not necessarily imply a sequence of interest rate reductions. Future reference rate adjustments will be conditional on new information about inflation and its determinants.

Policy interest rate

(%)

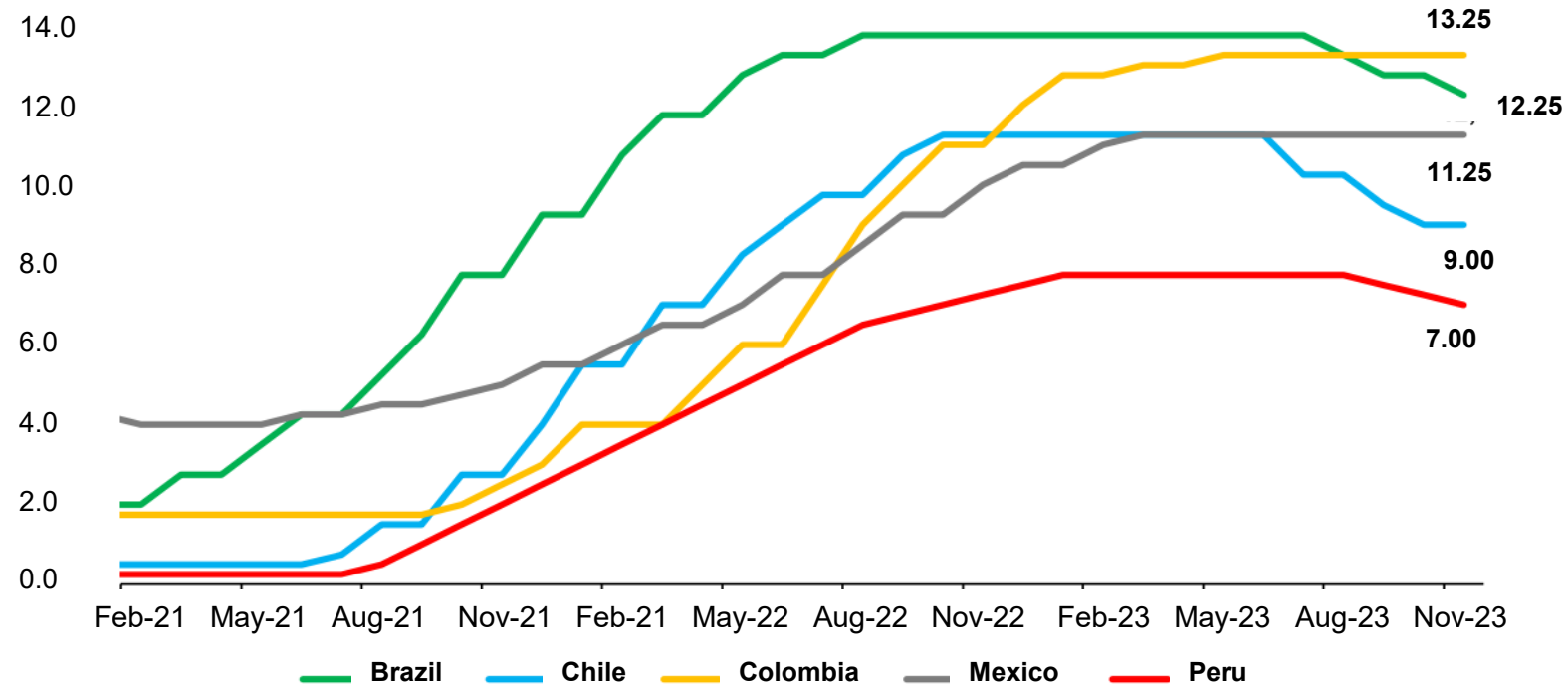


	Nov.22	Dec.22	Jan.23	Feb.23	Mar.23	Apr.23	May.23	Jun.23	Jul.23	Aug.23	Sep.23	Oct.23	Nov.23
(I) Nominal rate	7.25	7.50	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.50	7.25	7.00
(II) Inflation expectations	4.78	4.68	4.30	4.62	4.29	4.30	4.25	4.21	3.83	3.57	3.36	3.38	3.33
(III) Real rate: (I)-(II)	2.47	2.82	3.45	3.13	3.46	3.45	3.50	3.54	3.92	4.18	4.14	3.87	3.67



Since 2021, central banks in the region have raised their interest rates to counteract the effects of inflation. In this context, the Central Reserve Bank of Peru's (BCRP) interest rate has consistently been the lowest among the region's larger economies.

Monetary Policy Interest Rates in Latin America* (In percentage)



*As of November 10.
Sources: Central Banks.



Central banks in the region have begun to reduce their interest rates in 2023, 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	12.25	4.03	8.22
Colombia	13.25	5.74	7.51
Mexico	11.25	4.10	7.15
Chile	9.00	3.40	5.60
Peru	7.00	3.33	3.67

* Policy rates as of November 10, 2023 and inflation expectations as of October 2023.

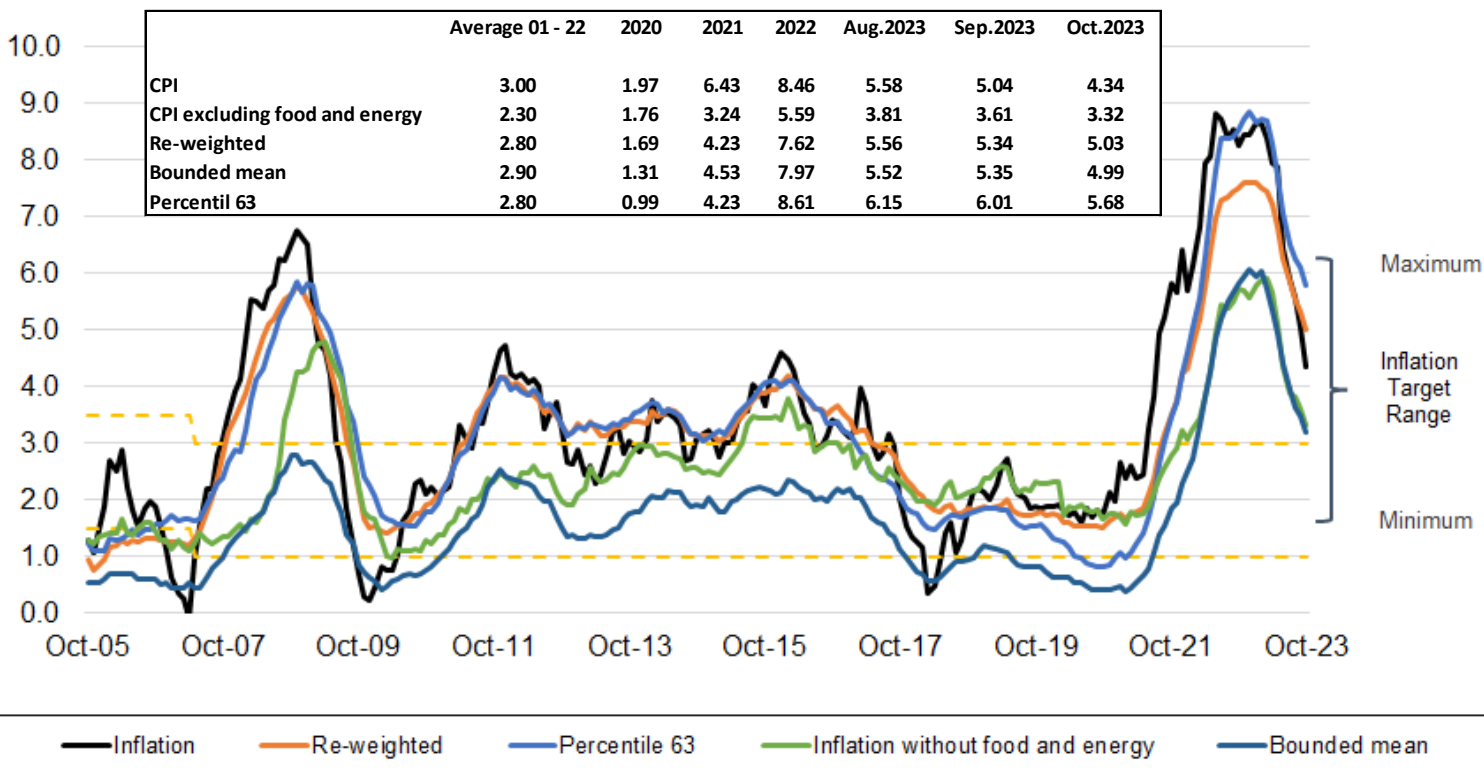
** Obtained by interpolation based on expectations as of December 2023 and 2024 in the cases of Brazil and Mexico (the other central banks publish the data directly).

Source: Central Banks



In October, month-on-month inflation was -0.32 percent and core inflation was 0.22 percent. Year-on-year inflation fell from 5.0 percent in September to 4.3 percent in October, while core inflation decreased from 3.6 percent in September to 3.3 percent in October. Both indicators have been decreasing since the beginning of 2023 but remain 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.

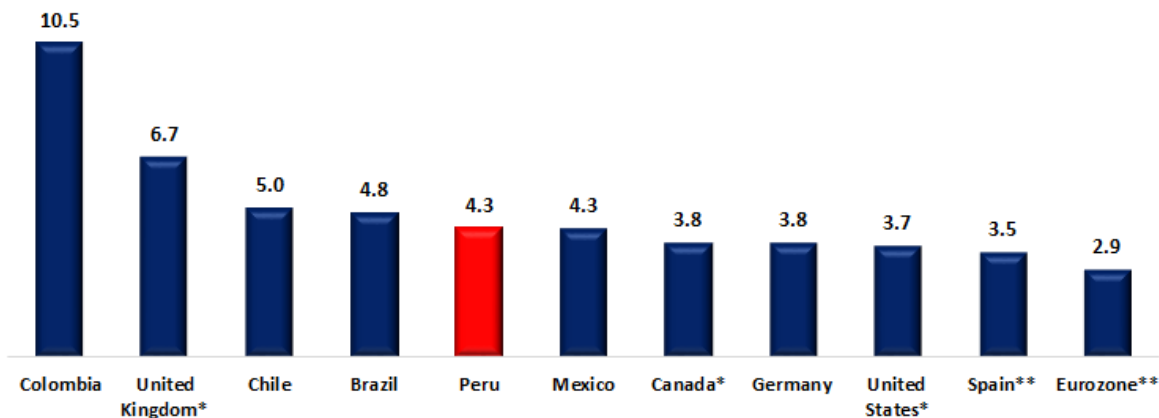
CPI excluding food and energy: CPI excluding food, fuel and electricity



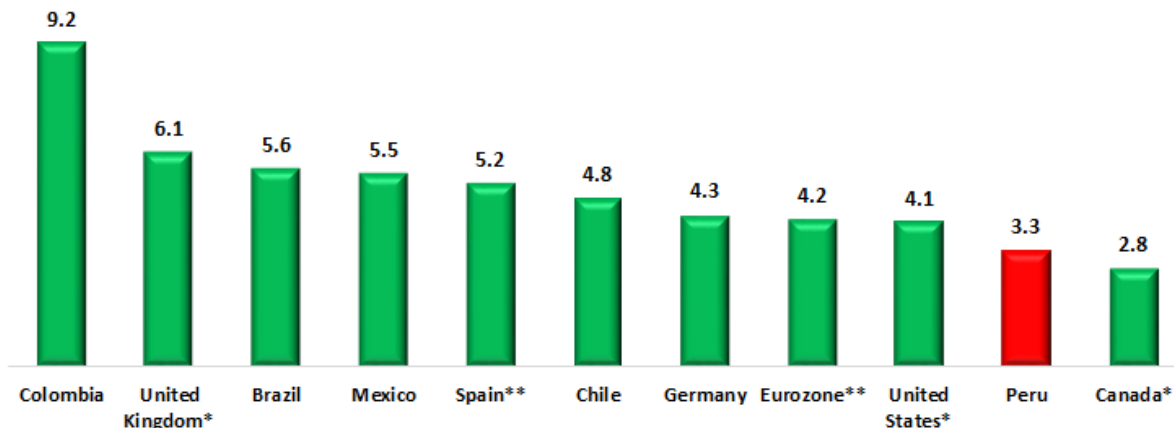
CENTRAL RESERVE BANK OF PERU

Following the significant increase in global inflation rates since the second half of 2021, most countries have observed a downward trend throughout the year. Peru has the lowest core inflation rate among the countries in the region and most advanced economies.

Total Inflation: October 2023
(% Change)



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

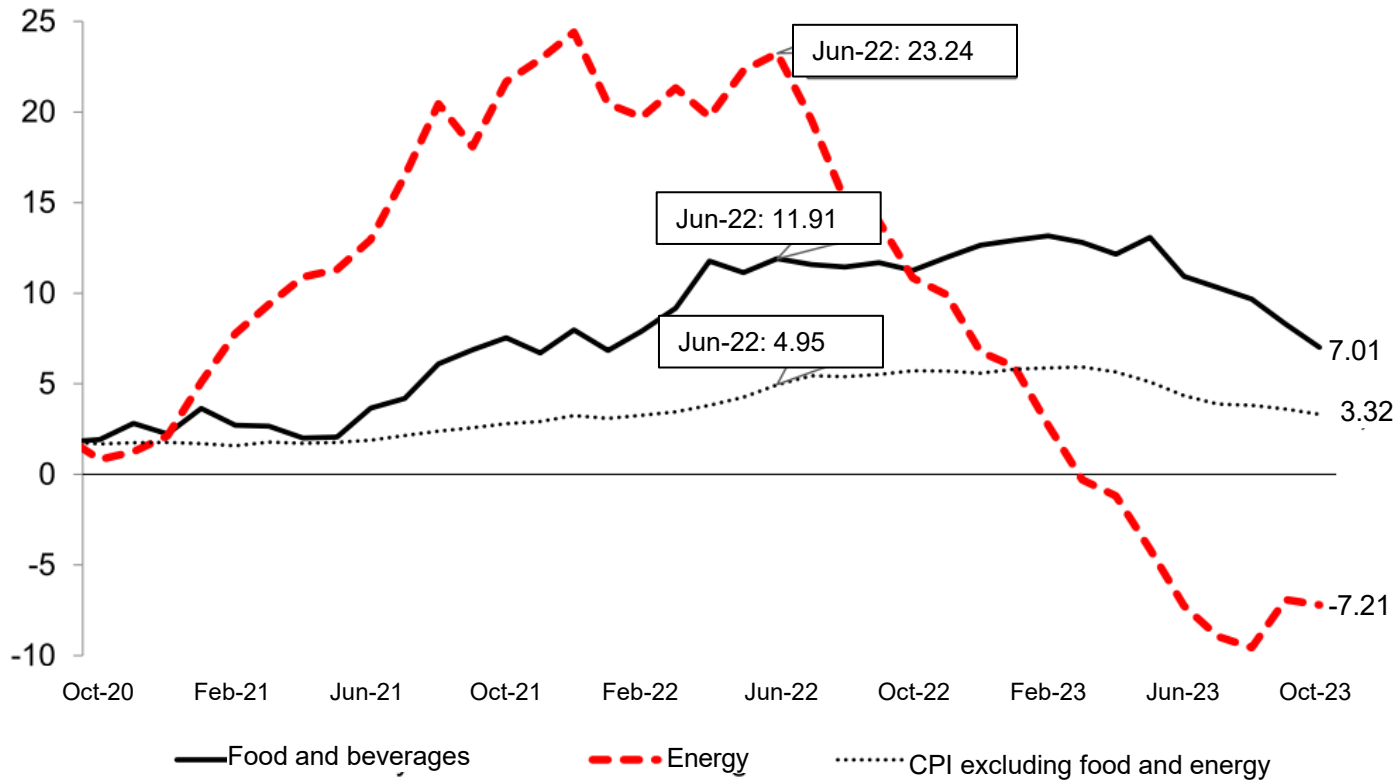


* Information as of September 2023. Preliminary to October 2023. Source: Statistical institutes and central banks.



In Peru, there is a more marked downward trend in inflation since June 2023, as some of the transitory effects caused by restrictions in the supply of certain food items recede.

Food and Energy (Last 12-month % change)



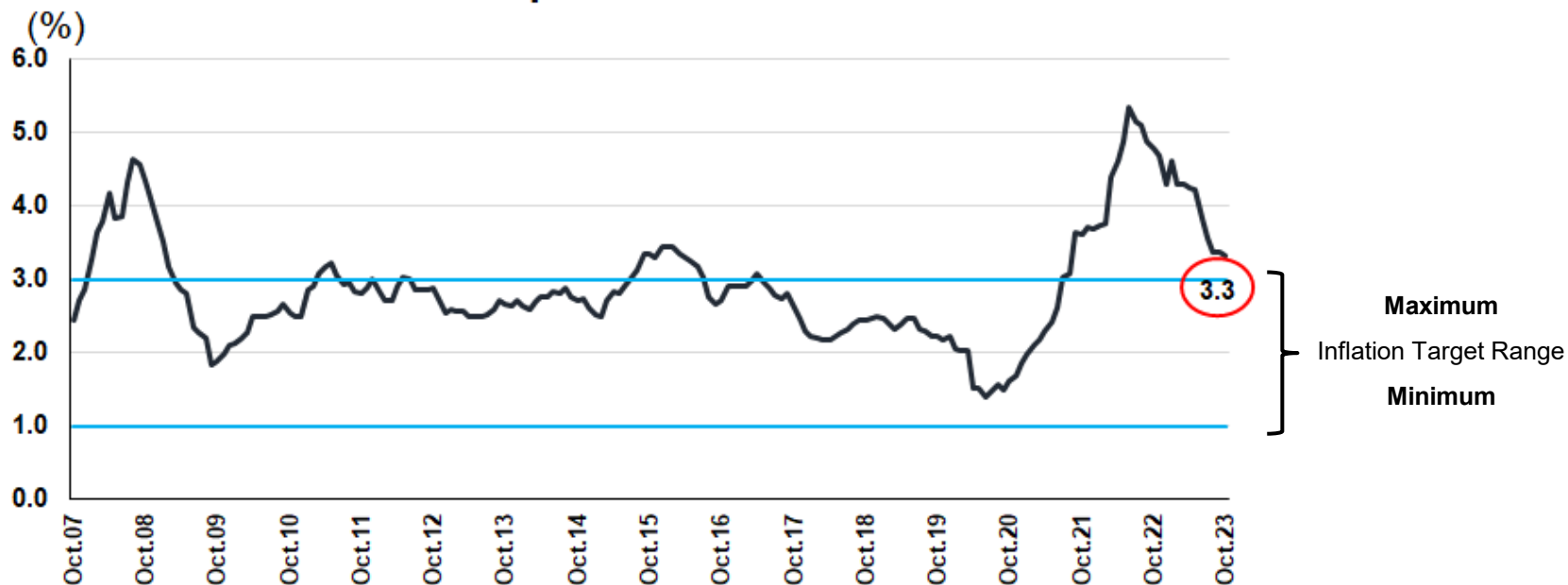
Source: INEI



CENTRAL RESERVE BANK OF PERU

One-year-ahead expected inflation fell from 3.4 percent to 3.3 percent between September and October, approaching the upper limit of the inflation target range. The downward trend in year-on-year inflation is forecast to continue, reaching the target range at the beginning of next year, due to a moderation in the impact of several international prices, a reversal of agricultural supply shocks, and lower projected inflation expectations.

1-Year ahead inflation expectations*



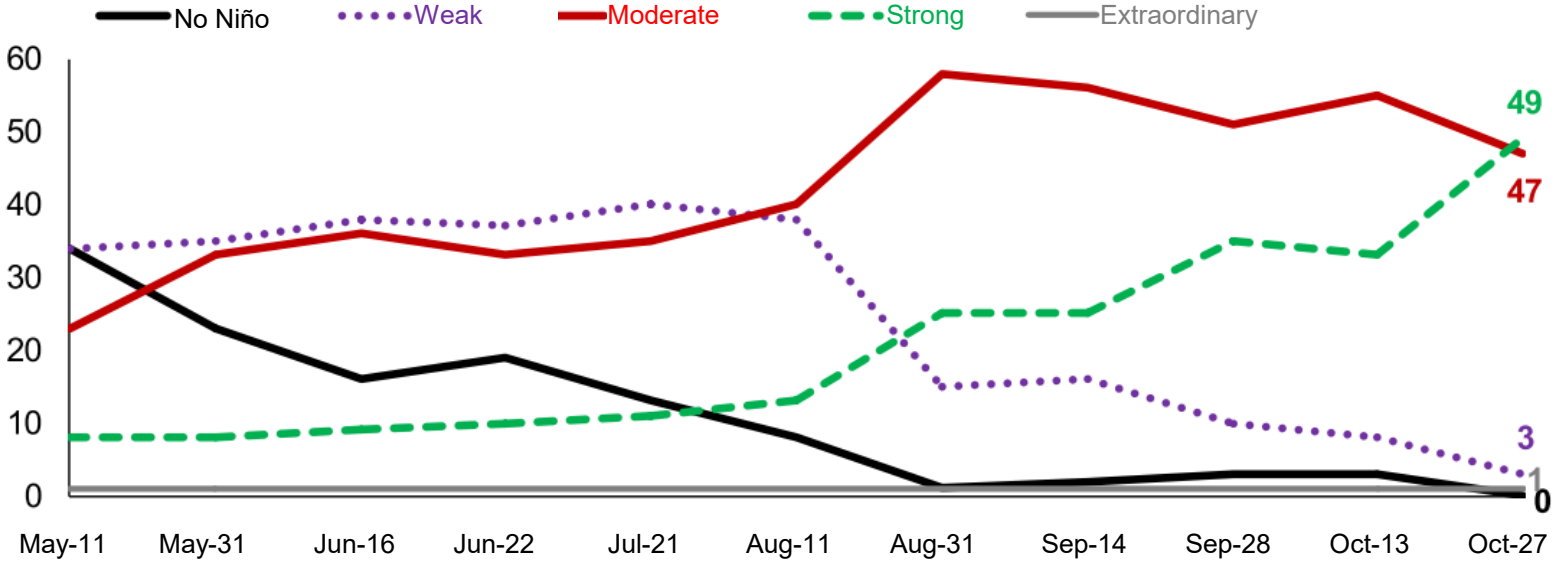
* Corresponds to the average on expectations of financial entities and economic analysts.

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.



However, there are risks related to climatic factors, mainly from El Niño phenomenon effects.

Probability of Occurrence of Coastal El Niño in Peru for Summer 2024 (%)



Date of the ENFEN statement	Region	Probability	Of which:		
			Weak	Moderate	Strong / Extraordinary
May 31	Eastern Pacific (Niño 1+2)	77	35	33	9
September 28		97	10	51	36
October 27		100	3	47	50
May 31	Central Pacific (Niño 3.4)	82	39	35	8
September 28		99	16	57	26
October 27		100	2	48	50

Note: Shaded cells indicate the most likely scenario



CENTRAL RESERVE BANK OF PERU

The leading and expectations indicators for economic activity in October deteriorated relative to the previous month and most of them remain in pessimistic territory. Economic activity and domestic demand have been affected by shocks arising from social conflicts and the coastal El Niño, the impacts of which were greater than expected.

Macroeconomic Expectations: Survey Results

	Dec.2019	Mar.2020	Aug.2023	Sep.2023		Oct.2023		Correlation with GDP ^{1/}	
CURRENT SITUATION:									
BUSINESS SITUATION	53.4	41.1	47.8	44.3	↓	<	43.5	↓ <	0.56
LEVEL OF SALES	54.2	30.3	49.6	47.2	↓	<	42.5	↓ <	0.49
PRODUCTION LEVEL	50.0	23.5	45.9	47.7	↑	<	44.2	↓ <	0.44
DEMAND COMPARED TO THE EXPECTED DEMAND	40.0	23.0	33.9	32.8	↓	<	33.0	~ <	0.68
PURCHASING ORDERS COMPARED TO THE PREVIOUS MONTH	51.2	27.5	48.2	45.4	↓	<	43.3	↓ <	0.52
UNWANTED INVENTORY DAYS ^{2/}	8.9	5.9	13.3	8.0	↓	<	11.2	↑ <	-0.36
EXPECTATION:									
ECONOMIC SITUATION:									
IN 3 MONTHS	50.8	21.8	44.1	40.4	↓	<	38.7	↓ <	0.63
IN 12 MONTHS	61.5	41.5	55.7	52.0	↓	>	49.8	↓ >	0.42
SECTOR:									
IN 3 MONTHS	51.5	28.5	46.8	42.8	↓	<	41.4	↓ <	0.67
IN 12 MONTHS	61.5	43.4	56.3	53.1	↓	>	50.6	↓ >	0.33
COMPANY'S SITUATION:									
IN 3 MONTHS	56.1	28.3	49.6	48.3	↓	<	44.7	↓ <	0.66
IN 12 MONTHS	66.6	46.4	58.9	59.3	↑	>	56.6	↓ >	0.66
ABOUT DEMAND:									
IN 3 MONTHS	55.1	30.7	52.6	50.9	↓	>	45.0	↓ >	0.66
IN 12 MONTHS	68.0	47.4	61.5	61.9	↑	>	57.9	↓ >	0.66
NEW PERSONNEL HIRED:									
IN 3 MONTHS	48.6	35.9	47.1	45.9	↓	<	47.1	↑ <	0.66
IN 12 MONTHS	54.0	39.6	54.7	52.9	↓	>	52.0	↓ >	0.58
COMPANY'S INVESTMENT:									
IN 3 MONTHS ^{3/}	51.3	29.9	47.3	44.9	↓	<	44.2	↓ <	0.65
IN 12 MONTHS ^{3/}	59.3	40.0	54.0	53.6	↓	>	52.6	↓ >	0.65
EXPECTATION OF THE AVERAGE PRICE:									
SUPPLIES IN 3 MONTHS	51.5	52.9	53.0	54.2	↑	>	53.9	↓ >	0.63
SALE IN 3 MONTHS	56.4	49.7	56.1	55.7	↓	>	53.9	↓ >	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



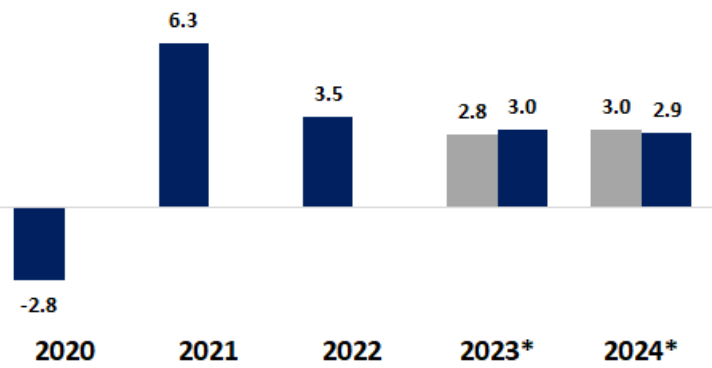
The outlook for global economic activity has moderated ...

Growth by Region and Country, 2020-2024 (Annual Percentage Change)

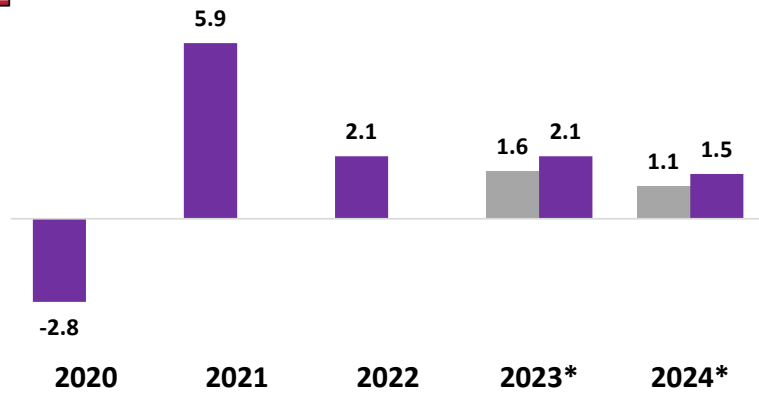
■ Previous Forecast
■ Current Forecast



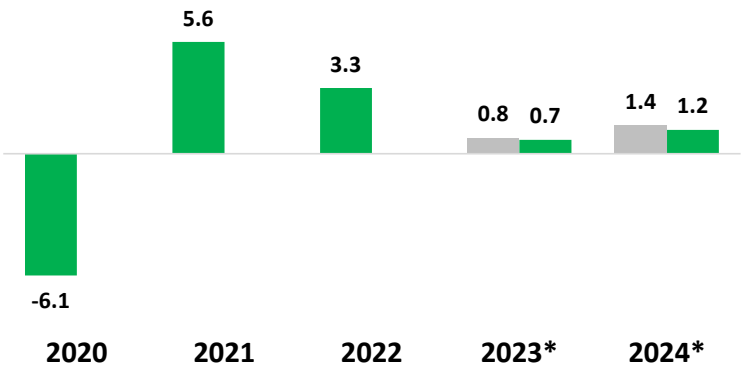
World



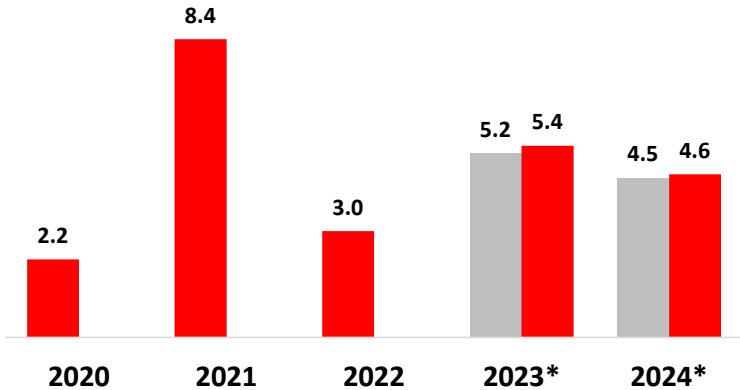
United States



Eurozone



China



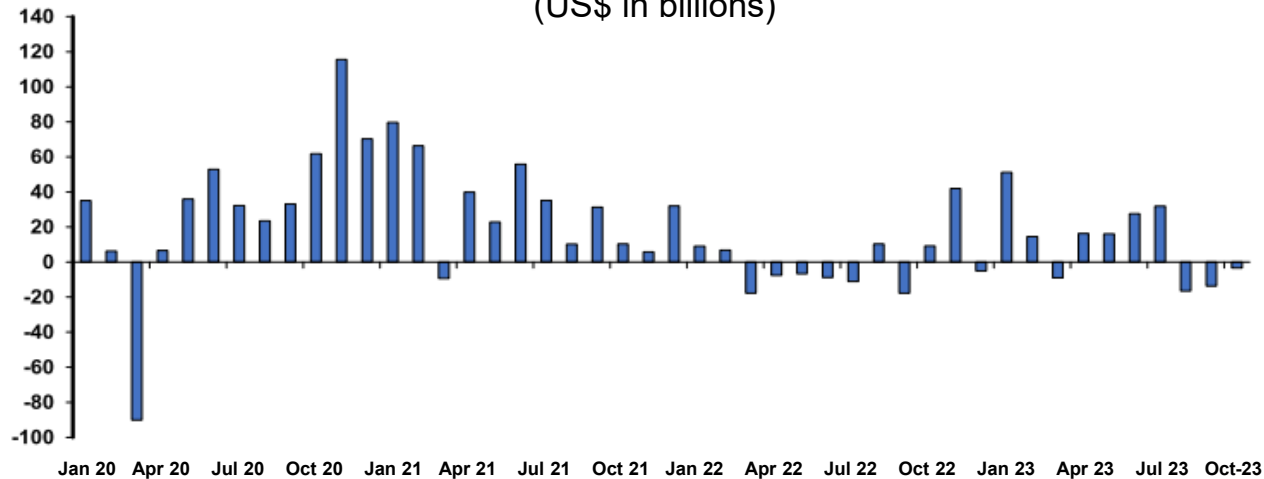
* Forecast. Source: World Economic Outlook (October 2023 and April 2023) and Article IV of China Consultation (November 2023)



Additionally, there is more volatility in the international financial markets, and global risks remain due to the effects of international conflicts, and lower growth rates in China.

Non-Resident Flows to Emerging Markets*

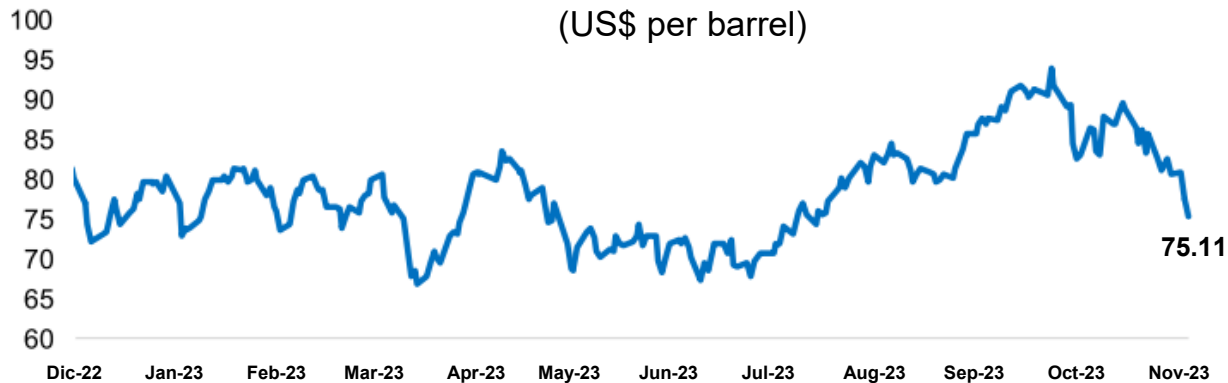
(US\$ in billions)



*The October 2023 figure is an estimate.
Source: IIF.

WTI Oil Price

(US\$ per barrel)



* As of November 8.
Source: Reuters



CENTRAL RESERVE BANK OF PERU

The interest rate on Peruvian sovereign bonds remains among the lowest in the region and has declined so far this year. The exchange rate continued to show less volatility compared to other currencies in the region.

10-Year Sovereign Bond Yield

	%					
	Dec. 19	Dec. 20	Dec. 21	Dec. 22	Oct. 23	Nov. 23*
Perú	4.2	3.5	5.9	8.0	7.6	7.1
Colombia	6.3	5.4	8.3	13.1	11.8	11.0
Mexico	6.9	5.5	7.6	9.0	9.7	9.6
Brazil	6.8	6.9	10.8	12.7	10.2	11.4
Chile	3.2	2.7	5.7	5.3	6.7	6.4
USA	1.9	0.9	1.5	3.9	4.9	4.6

Exchange rate

Currency per dollar (Index 100 = Dec. 31, 2008)

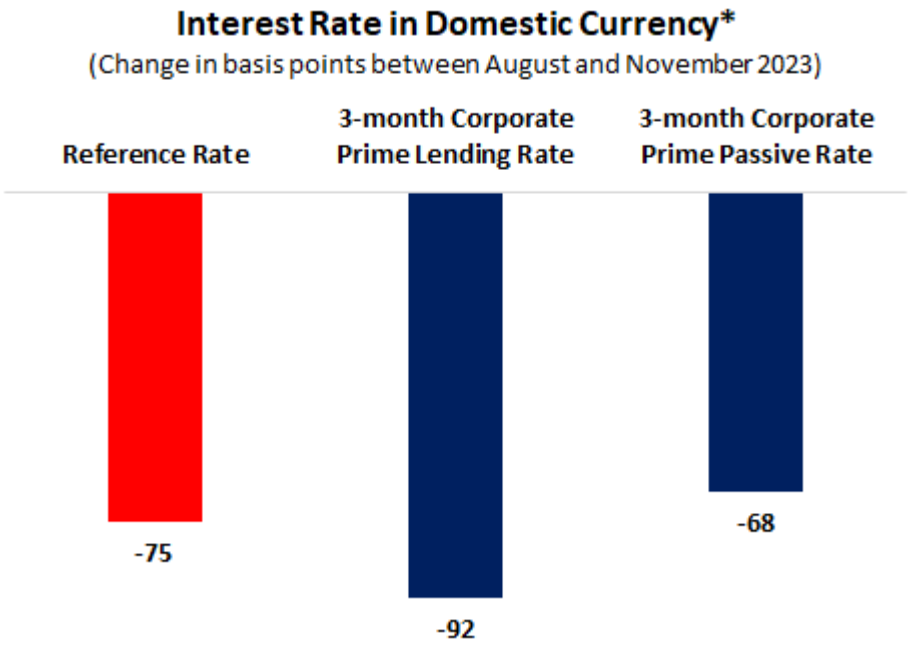
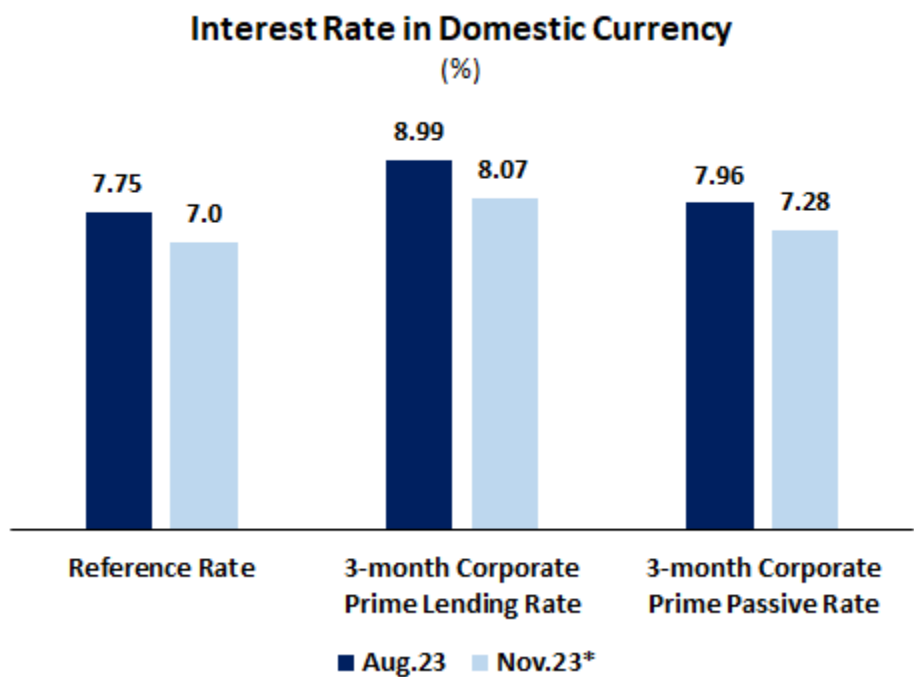
	Nov.23*/ Dec.99 (%)	Nov.23*/ Dec.19 (%)	Nov.23*/ Dec.21 (%)	Nov.23*/ Dec.22 (%)
Perú (PEN)	8.5	14.8	-4.7	-0.1
Chile (CLP)	72.3	21.2	7.1	7.2
Colombia (COP)	114.6	22.2	-1.2	-17.2
Mexico (MXN)	87.5	-5.9	-13.2	-8.6
Brazil (BRL)	174.6	22.7	-11.3	-6.6

* As of November 9.
Source: Reuters



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Interest rates in the financial system have been decreasing in recent months, in line with the evolution of the BCRP's reference interest rate.



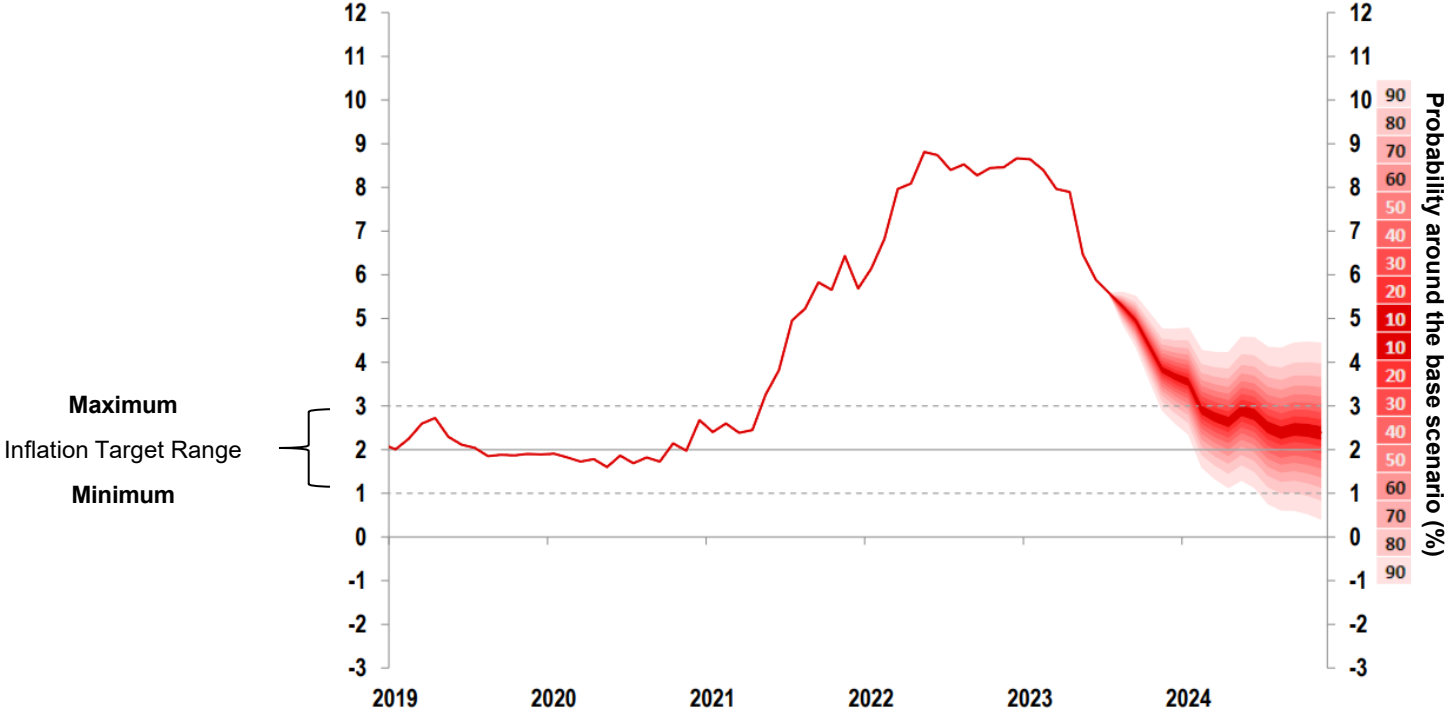
* As of November 9.
Source: BCRP



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, additional 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: September 2023 Inflation Report.



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