



CENTRAL RESERVE BANK OF PERU

Monetary Policy Statement

October 2023

October 6, 2023

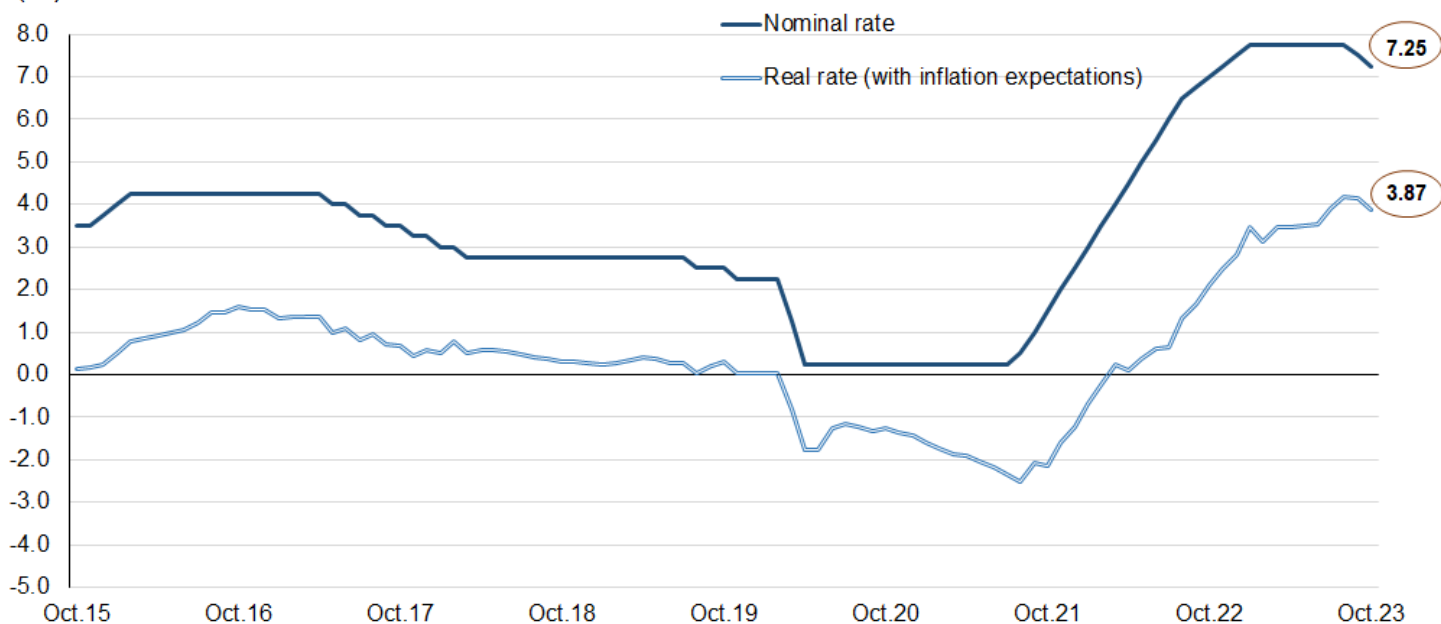


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The Board of Directors of the Central Reserve Bank of Peru (BCRP) decided to reduce the reference rate by 25 bps to 7.25 percent. This decision does not necessarily imply a sequence of interest rate reductions. Future reference rate adjustments will be conditional on new information about inflation and its determinants.

Policy interest rate

(%)



	Oct.22	Nov.22	Dec.22	Jan.23	Feb.23	Mar.23	Apr.23	May.23	Jun.23	Jul.23	Aug.23	Sep.23	Oct.23
(I) Nominal rate	7.00	7.25	7.50	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.50	7.25
(II) Inflation expectations	4.89	4.78	4.68	4.30	4.62	4.29	4.30	4.25	4.21	3.83	3.57	3.36	3.38
(III) Real rate: (I)-(II)	2.11	2.47	2.82	3.45	3.13	3.46	3.45	3.50	3.54	3.92	4.18	4.14	3.87



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	12.75	4.12	8.63
Colombia	13.25	5.78	7.47
Mexico	11.25	4.17	7.09
Chile	9.50	3.50	6.00
Peru	7.25	3.38	3.87

* Policy rates as of October 5, 2023 and inflation expectations as of September 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).

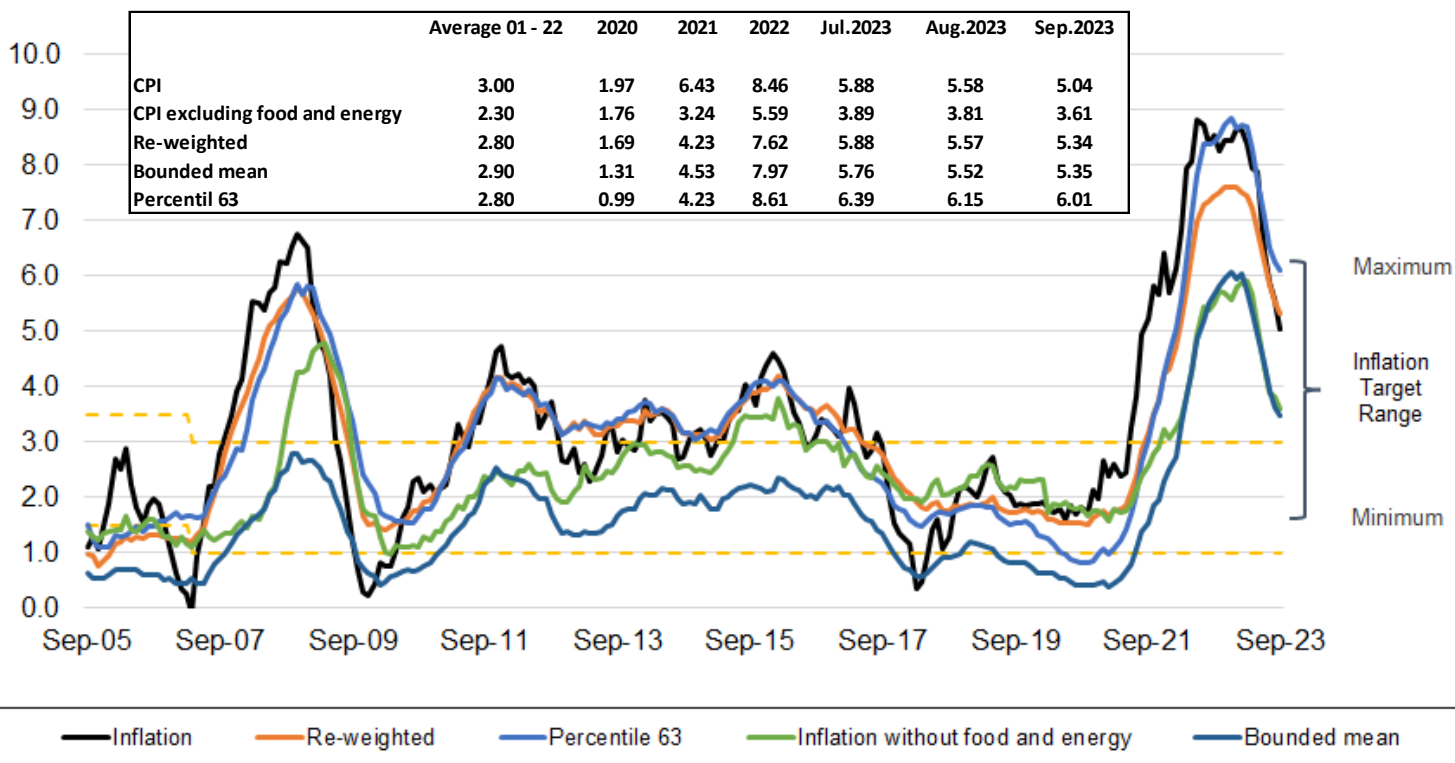
Source: Central Banks



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In September, month-on-month inflation was 0.02 percent and core inflation was 0.13 percent. Year-on-year inflation fell from 5.6 percent in August to 5.0 percent in September, while core inflation decreased from 3.8 percent in August to 3.6 percent in September. 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)



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.

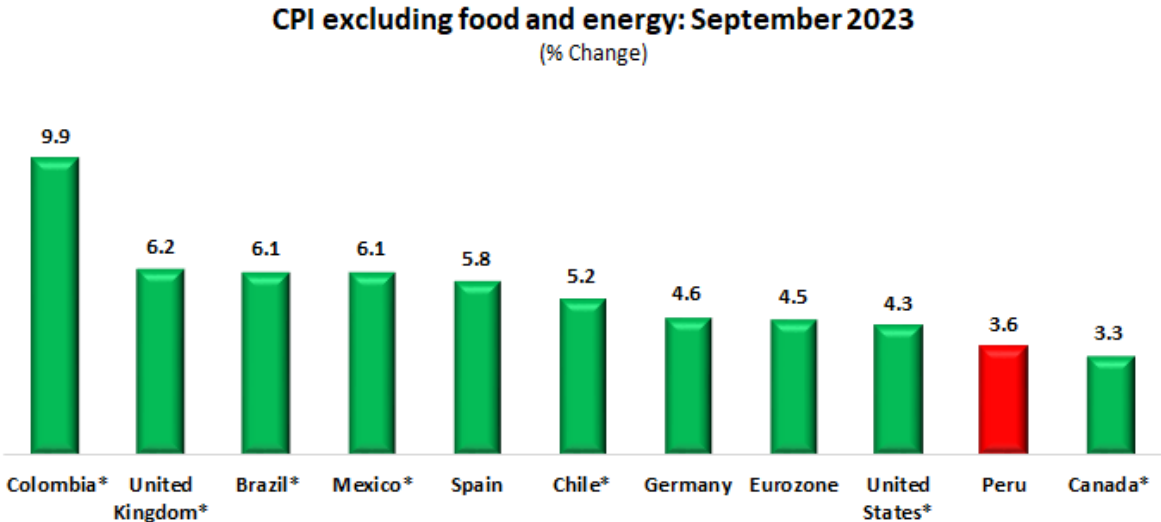
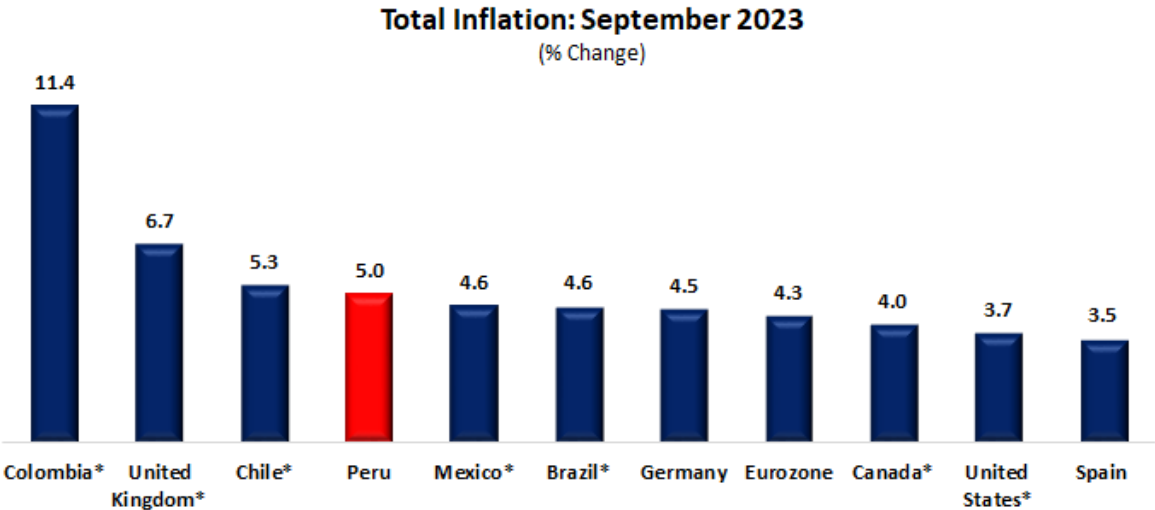
Percentile 63: Corresponds to the percentage changes of the item placed in the 63rd percentile.

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



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Following a surge in global inflation since the latter half of 2021, inflation in most countries has shown a decreasing trend throughout the year.

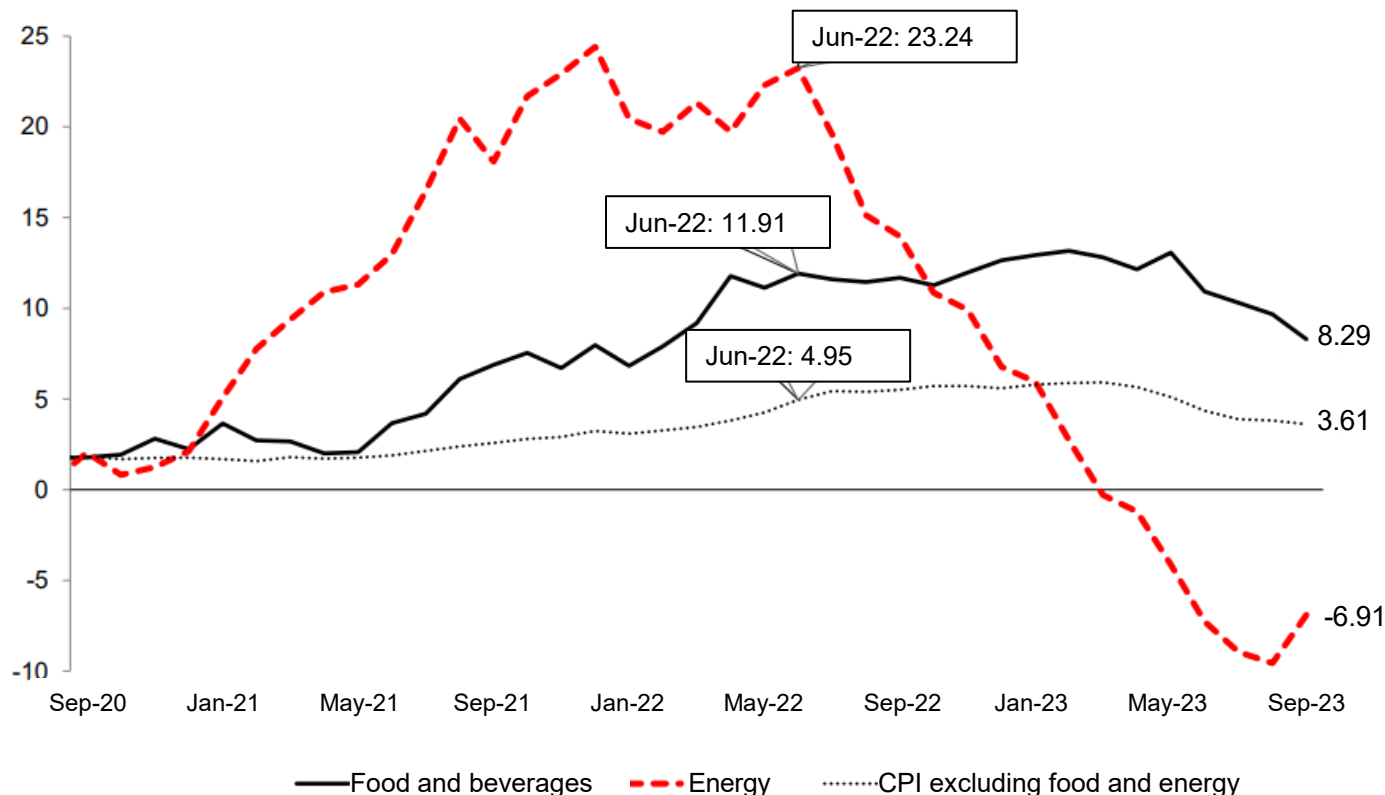


* Information as of August 2023. Source: Statistical institutes and central banks.



In Peru, transitory effects caused by restrictions in the supply of certain food items persist, although some of them have begun to recede since June.

Food and Energy (Last 12-month % change)



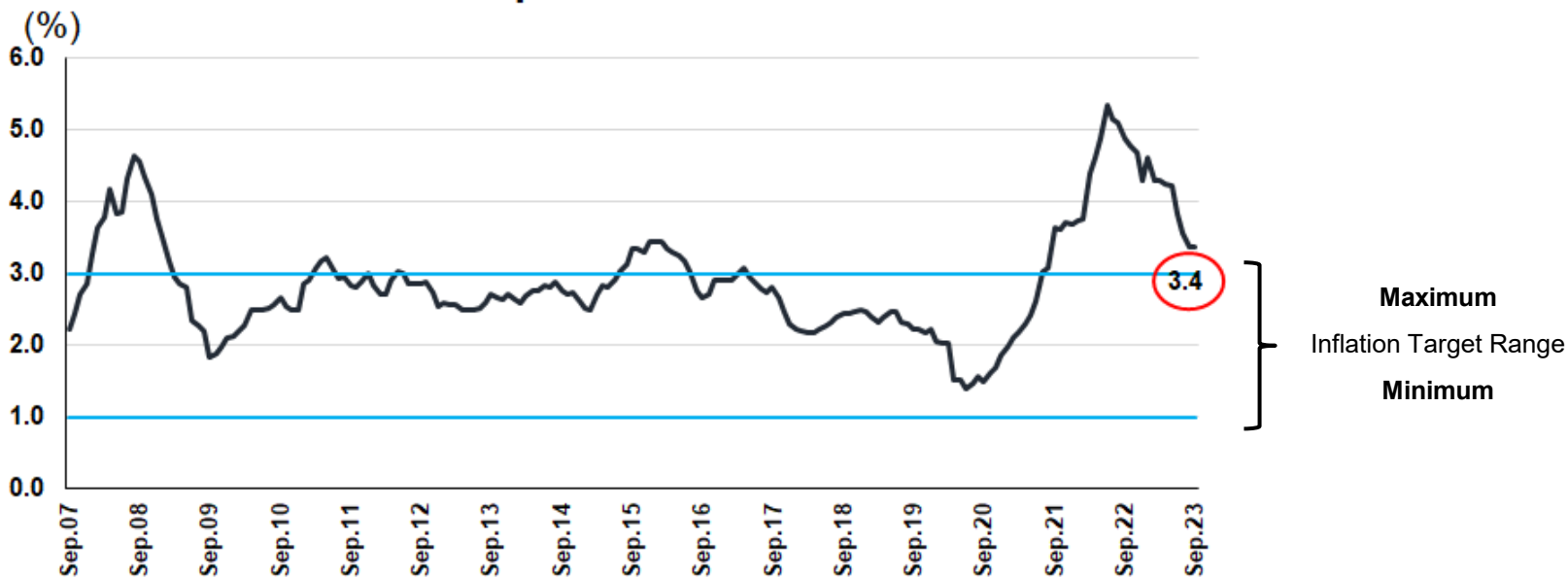
Source: INEI



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One-year-ahead expected inflation remained stable at 3.4 percent, 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*



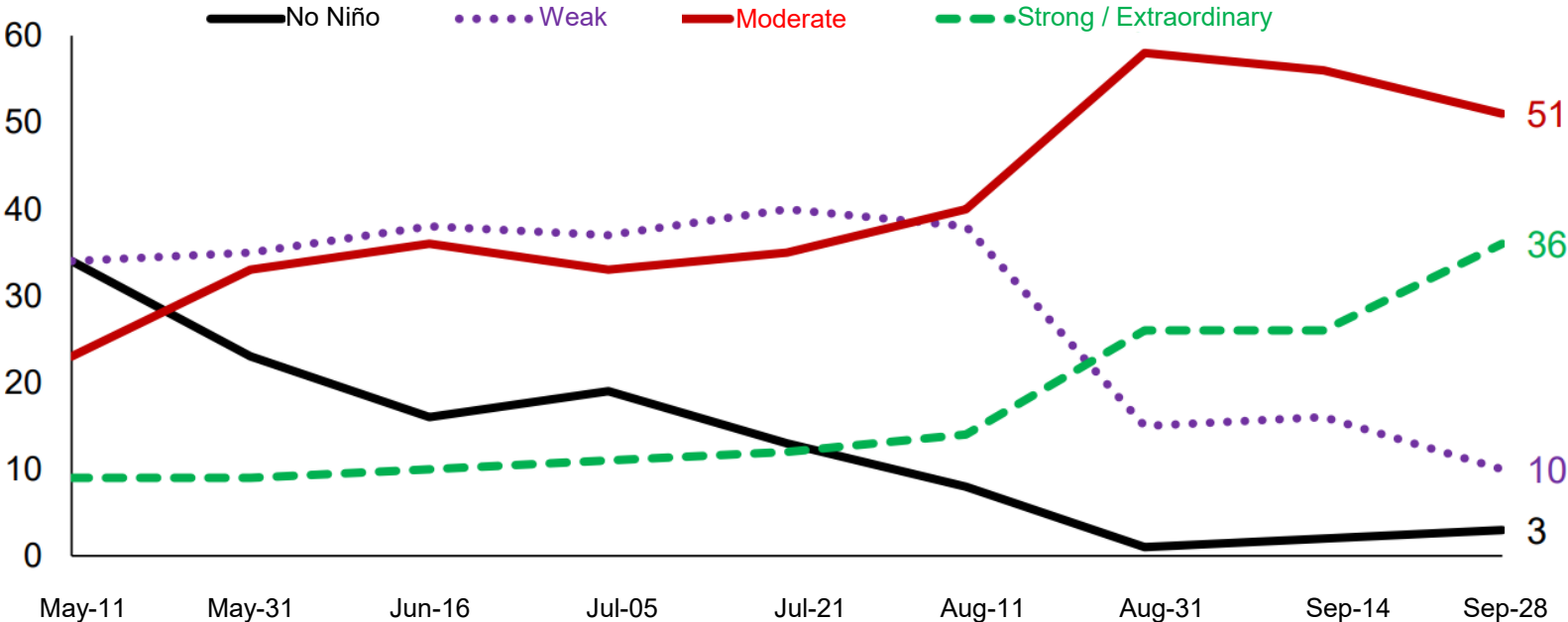
* Corresponds to the average on expectations of financial entities and economic analysts.

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.

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
May 31	Central Pacific (Niño 3.4)	82	39	35	8
September 28		99	16	57	26

Note: Shaded cells indicate the most likely scenario



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The leading and expectations indicators for economic activity in September deteriorated relative to the previous month and most of them 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	Jul.2023	Aug.2023			Sep.2023		Correlation with GDP ^{1/}		
<u>CURRENT SITUATION:</u>											
BUSINESS SITUATION	53,4	41,1	45,6	47,8	↑	<	44,3	↓	<	0,56	
LEVEL OF SALES	54,2	30,3	44,6	49,6	↑	<	47,2	↓	<	0,49	
PRODUCTION LEVEL	50,0	23,5	44,1	45,9	↑	<	47,7	↑	<	0,44	
DEMAND COMPARED TO THE EXPECTED DEMAND	40,0	23,0	33,4	33,9	↑	<	32,8	↓	<	0,68	
PURCHASING ORDERS COMPARED TO THE PREVIOUS MONTH	51,2	27,5	45,5	48,2	↑	<	45,4	↓	<	0,52	
UNWANTED INVENTORY DAYS ^{2/}	8,9	5,9	13,4	13,3	~	<	8,0	↓	<	-0,36	
<u>EXPECTATION:</u>											
ECONOMIC SITUATION:	IN 3 MONTHS	50,8	21,8	44,5	44,1	↓	<	40,4	↓	<	0,63
	IN 12 MONTHS	61,5	41,5	53,9	55,7	↑	>	52,0	↓	>	0,42
SECTOR:	IN 3 MONTHS	51,5	28,5	45,4	46,8	↑	<	42,8	↓	<	0,67
	IN 12 MONTHS	61,5	43,4	54,3	56,3	↑	>	53,1	↓	>	0,33
COMPANY'S SITUATION:	IN 3 MONTHS	56,1	28,3	48,7	49,6	↑	<	48,3	↓	<	0,66
	IN 12 MONTHS	66,6	46,4	59,7	58,9	↓	>	59,3	↑	>	0,66
ABOUT DEMAND:	IN 3 MONTHS	55,1	30,7	51,5	52,6	↑	>	50,9	↓	>	0,66
	IN 12 MONTHS	68,0	47,4	61,5	61,5	≡	>	61,9	↑	>	0,66
NEW PERSONNEL HIRED:	IN 3 MONTHS	48,6	35,9	46,3	47,1	↑	<	45,9	↓	<	0,66
	IN 12 MONTHS	54,0	39,6	52,6	54,7	↑	>	52,9	↓	>	0,58
COMPANY'S INVESTMENT:	IN 3 MONTHS ^{3/}	51,3	29,9	45,6	47,3	↑	<	44,9	↓	<	0,65
	IN 12 MONTHS ^{3/}	59,3	40,0	54,9	54,0	↓	>	53,6	↓	>	0,65
<u>EXPECTATION OF THE AVERAGE PRICE:</u>											
SUPPLIES IN 3 MONTHS		51,5	52,9	53,4	53,0	↓	>	54,2	↑	>	0,63
SALE IN 3 MONTHS		56,4	49,7	55,3	56,1	↑	>	55,7	↓	>	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.

~ : 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.

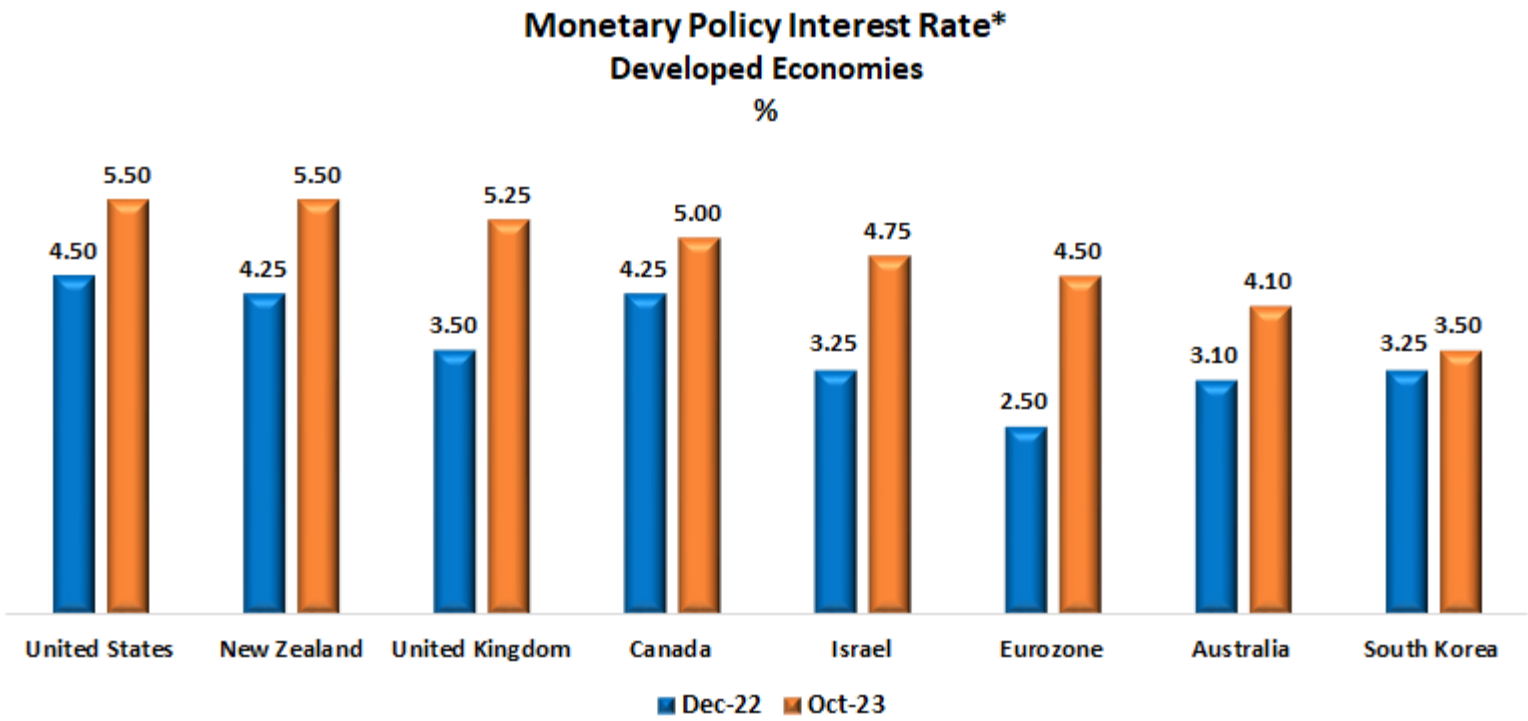
3/ Correlation with Private Investment from September 2017 to December 2019, recording an optimal lag (t=-3 for 3-month investment and t=-6 for 12-month investment).

Source: BCRP



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The outlook for global economic activity has moderated. Additionally, global risks remain due to monetary tightening in advanced economies, lower growth rates in China, and international conflicts.



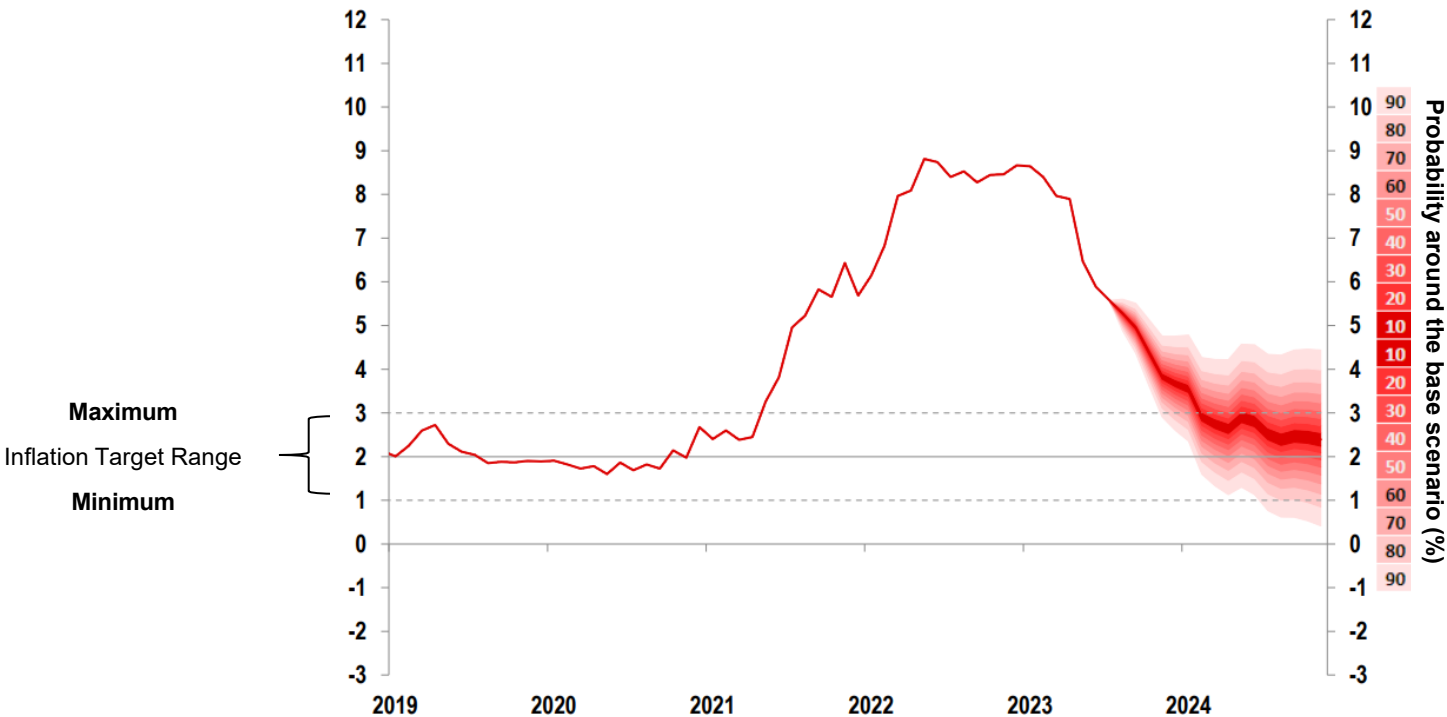
*/ As of October 5.
Source: Central Banks.



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, 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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