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Latam Daily: BCRP Holds, as Expected

Peru: The BCRP keeps reference rate unchanged in June

The Board of the Central Reserve Bank of Peru (BCRP) decided to keep its reference rate unchanged at 4.50% in June, after cutting it by 25 bps the previous month. The decision aligned with our expectations at Scotiabank and with the market consensus (the Bloomberg median). The spread between the BCRP's reference rate and the upper bound of the Fed's target range remains at zero.

The June statement was unchanged from May's and continues to emphasize the following points:

- **Headline inflation** is expected to remain at the lower end of the target range (1%–3%) in the coming months, before moving toward the midpoint (2%).
- **Economic activity expectations**—particularly the 12-month outlook—showed a slight deterioration compared to the previous month. However, most current situation and expectations indicators remained in the optimistic range.
- **Inflation expectations** in several major economies, particularly the U.S., have increased. As a result, the convergence of inflation toward target levels may be slower than anticipated.
- **Global economic outlook** has worsened and **financial market volatility** persists.

As a result of the decision, the real interest rate rose slightly from 2.21% to 2.23%, due to a decline in 12-month inflation expectations from 2.29% in April to 2.27% in May. The real rate remains above the 2.00% level considered neutral, suggesting that the BCRP still has room for one additional 25 bps cut. However, this will depend on the evolution of international trade tensions and whether local economic expectations continue to deteriorate. We maintain our year-end forecast of 4.50%.

On the other hand, regarding June's inflation print, we expect it to be close to +0.1% m/m. With this, annual headline inflation is estimated to be between 1.6% and 1.7% y/y. We maintain our year-end forecast of 2.3% y/y.

Chart 1

Peru: Economic Activity Expectations

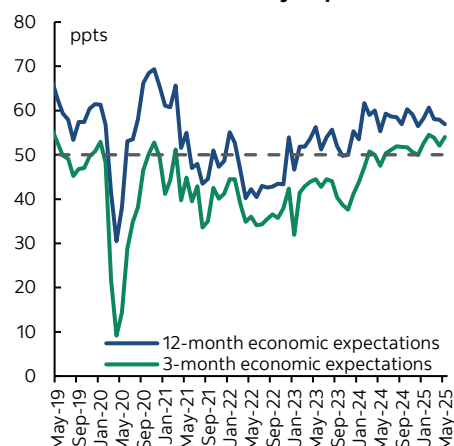
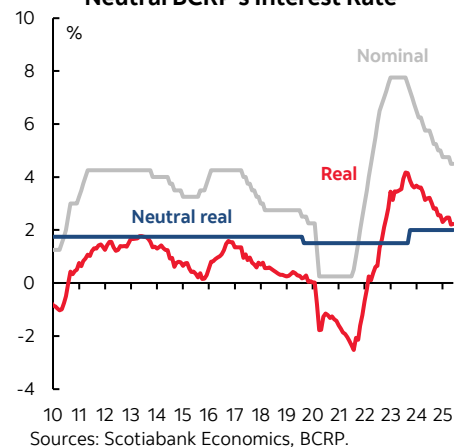


Chart 2

Peru: Nominal, Real and Neutral BCRP's Interest Rate



—Ricardo Avila

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