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Latam Daily: BCRP Cut Recap

Peru: BCRP cuts its policy rate, as expected

The Board of the Central Reserve Bank of Peru (BCRP) decided to cut its benchmark interest rate by 25 basis points to 4.25% in September, after keeping it unchanged for three consecutive months (chart 1). This decision was in line with the market consensus (as reflected in the Bloomberg median). The interest rate differential between the BCRP and the Federal Reserve is now negative—for the time being.

The September statement highlights the following key points:

- **Headline inflation** is expected to approach the midpoint of the target range (1%–3%) by year-end, while core inflation is projected to remain around 2.0% over the coming months.
- **The August monthly figure was transitory** (headline inflation at 1.1% year-on-year), due to a faster-than-expected correction in the prices of certain food items.
- **Economic activity expectations** showed mixed results, while perceptions of the current situation improved, in a context where economic activity is hovering around its potential level (chart 2).
- **Global economic prospects** continue to be affected by restrictive measures on foreign trade, with a downward bias in the medium-term.

As a result of the decision, the real interest rate declined from 2.31% to 2.07%, very close to the neutral rate (2.0%). At present, there is no room for an additional rate cut—the differential is only 7 basis points—and for the time being any further adjustment will depend on how 12-month inflation expectations evolve. In the past, there was some resistance for inflation expectations to remain at or below 2.0%, despite headline inflation having been close to zero. We maintain our terminal rate forecast at 4.25%.

Regarding September's headline inflation, we expect a monthly rate close to +0.2%, similar to the +0.17% average observed over the past 20 years. Based on our daily price monitoring, there is a correction in food and energy prices. Additionally, there is a favourable base effect for the month—headline inflation in September 2024 was -0.24%. As a result, annual headline inflation is projected to increase from 1.1% to approximately 1.6%. We maintain our year-end forecast at 1.9%.

Chart 1

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

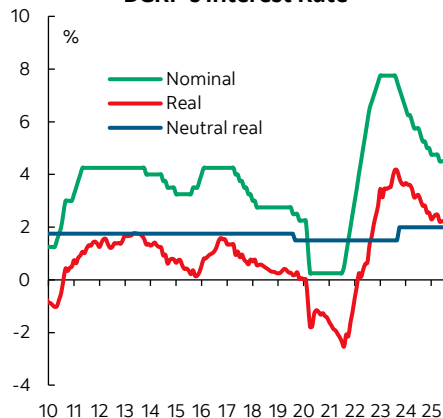
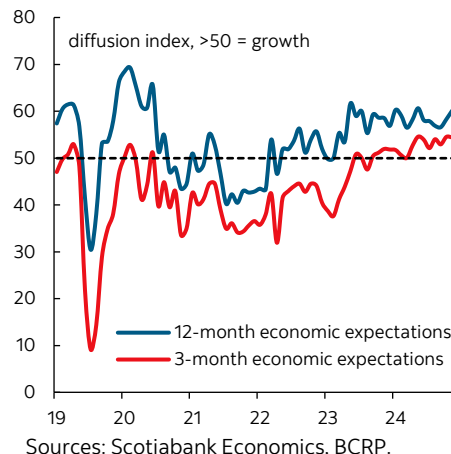


Chart 2

Peru: Economic Activity Expectations



—Ricardo Avila

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