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# Latam Daily: BCRP Holds, Sees Inflation Convergence

- **Peru: BCRP keeps its policy rate unchanged and reaffirms inflation convergence by 2027**

The Board of the Central Reserve Bank of Peru (BCRP) decided to keep its policy interest rate unchanged at 4.25% in June, marking the third consecutive quarter without adjustments. This decision was in line with our expectations and with market consensus (as reflected in the Bloomberg median).

The Central Bank reiterated that most inflationary pressures are driven by temporary supply-side factors. In this context, it projects that both headline and core inflation will converge to the target range within the forecast horizon, reaching around 2% by 2027 as these shocks gradually dissipate.

In addition, the following points stand out:

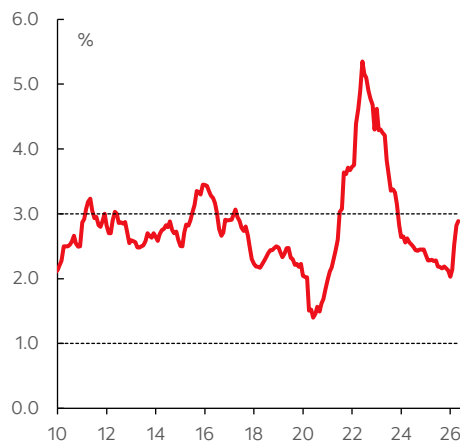
- **Inflation:** A recent moderation in monthly inflation is observed; however, year-on-year levels, particularly core inflation, remain above the target range. Inflation expectations continue to lie within the target range, although showing a recent upward trend.
- **Economic activity:** Leading indicators as of May continue to show solid performance. Most indicators of current conditions and expectations remain in optimistic territory, with a recovery observed in several expectation indicators.
- **International environment:** Global risk remains elevated, mainly due to the conflict in the Middle East, which has increased volatility in financial markets and international oil prices. Nevertheless, global growth prospects remain positive, and Peru's terms of trade continue to be favourable.

With the increase in 12-month inflation expectations and the policy rate anchored at 4.25% (charts 1 and 2), the real interest rate remains below the neutral rate after nearly four years (since August 2022). If this situation persists, it could open the door to future increases in the policy rate, although not in the short term.

In the coming months, the inflation path will depend mainly on the evolution of international oil prices and their pass-through to domestic prices. In addition, the strengthening of the El Niño phenomenon poses a risk to agricultural production and to food prices in the months ahead.

Chart 1

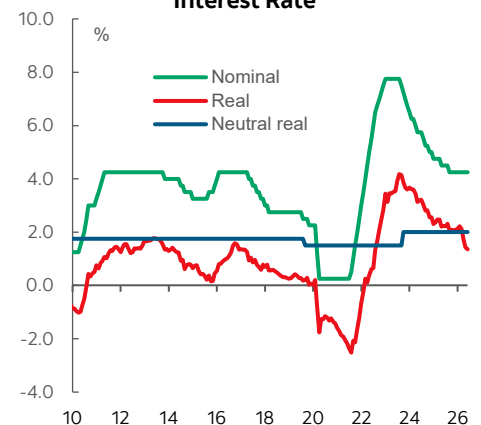
Peru: 12 Month Expected Inflation



Sources: Scotiabank Economics, BCRP.

Chart 2

Peru: Nominal, Real and Neutral Interest Rate



Sources: Scotiabank Economics, BCRP.

—Grecia Fajardo

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