Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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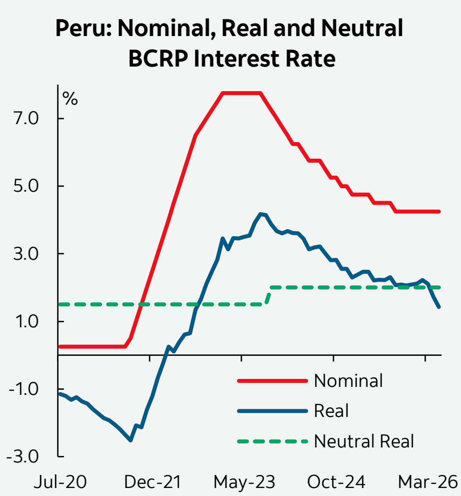
Chart 1



Sources: Scotiabank Economics, BCRP.

Latam Daily: BCRP Holds with Little Fanfare

- **Peru: BCRP keeps policy rate unchanged once again**

The Board of the Central Reserve Bank of Peru (BCRP) decided to maintain its policy interest rate at 4.25% in August, marking 11 consecutive months without adjustments (chart 1). This decision was in line with our expectations and market consensus (as reflected in Bloomberg's median forecast).

We do not see any noteworthy changes in the August statement compared to July. The communiqué reiterates data already released in recent days, including the following:

- **Inflation:** Headline and core monthly inflation in July stood at 0.3%, mainly driven by higher food prices and increased domestic transport fares, reflecting seasonal demand during the long holiday associated with Independence Day. On an annual basis, headline inflation (4.1%) and core inflation (4.6%) remain above the target range (1%–3%), largely due to elevated readings in March and April. Conversely, annual core inflation excluding transport continues below the midpoint of the target range, at 1.7% in July.

- **Inflation expectations:** Twelve-month inflation expectations rose from 2.8% to 3.0%, reaching the upper bound of the target range. Nonetheless, the BCRP expects inflation to return to the target during the projection horizon (2026–2027).

- **Economic expectations:** Leading indicators of economic activity in July continue to show solid performance. According to the BCRP survey, most current-situation indicators improved, while expectations indicators registered significant gains, all moving into the optimistic zone.

- **International environment:** Global risks have recently moderated due to the relative normalization of hydrocarbon supply. However, uncertainty persists regarding the outcome of negotiations in the Middle East.

In summary, the BCRP notes that inflation remains above the target range. However, this is attributed to temporary factors in March and April—monthly inflation since May has been consistent with the historical average of the past 20 years. Excluding food, energy, and transport components, inflation shows no disruptions—unlike the period following the onset of the Russia-Ukraine conflict, when it reached around 5.0%. Regarding economic activity, despite global uncertainty, performance remains solid and expectations are optimistic.

—Ricardo Avila