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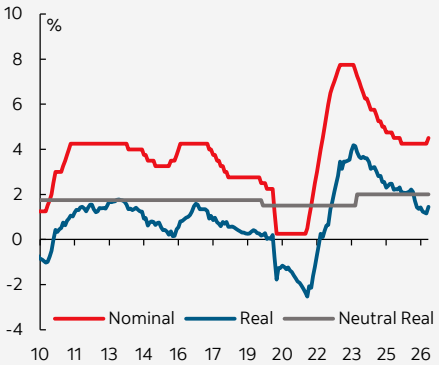
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Chart 1
Peru: Nominal, Real and Neutral BCRP's Interest Rate



Sources: Scotiabank Economics, BCRP.

BCRP Hikes with Little Guidance

- **Peru: BCRP raises its policy rate by 25 bps, in line with consensus**

The Board of Directors of the Central Reserve Bank of Peru (BCRP) decided to raise its policy rate from 4.25% to 4.50% in November, marking the first adjustment in the past 14 months (chart 1). The decision was in line with market consensus expectations, according to the Bloomberg survey.

Along with the rate hike, the BCRP noted that the decision does not necessarily imply the beginning of a cycle of successive policy rate increases. However, it is worth noting that similar guidance was provided in the past, particularly in 2021 and 2010, and was subsequently followed by further rate adjustments as inflationary pressures and 12-month inflation expectations continued to rise. This suggests that the BCRP intends to contain expectations of a sustained rate-hiking cycle while retaining flexibility to react to the latest available information.

The BCRP also highlighted the following points:

- **Inflation**: Headline and core inflation stood at 0.57% and 0.16% MoM in October, respectively. In annual terms, headline inflation increased from 4.5% to 5.3%, mainly due to higher food and energy prices. Meanwhile, annual inflation excluding food, energy, and transportation edged up to the midpoint of the target range, reaching 2.0% YoY in October.

- **Inflation expectations**: Twelve-month inflation expectations remained at 3.1%, slightly above the target range. The BCRP expects inflation to return to the target range over the forecast horizon (2026–2027).

- **Inflation risks**: The risk remains that El Niño and geopolitical tensions in the Middle East could have more persistent effects on inflation, some of which have already materialized in recent months.

- **Economic activity**: Most leading indicators of economic activity through October continue to point to solid performance.

- **External environment**: Global risks remain elevated, as reflected in increased financial market volatility and oil price fluctuations.

—Ricardo Avila

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