

LATAM Market Update

- **Peru: The Central Bank market survey mildly favours a higher reference rate**

The Central Bank published its market consensus survey, taken in December. The most important feature is the slow increase over time of inflation expectations for the next 12 months (coinciding, this month, with full-year 2019), from 2.30% a year ago, to 2.50%. This is important in that it is what the Central Bank uses to determine the real interest rate. For the CB, the neutral reference rate is 1.75% in real terms (defined as nominal reference rate minus expected inflation). Therefore, with the nominal reference rate at 2.75%, the real reference rate would be 0.25% (2.75–2.50), which is significantly below the neutral rate of 1.75%, meaning that monetary policy is currently expansionary. This mildly strengthens the likelihood that the CB will raise its reference rate twice in 2019.

Other indicators included in the survey:

GDP 2019: between 3.8% and 4.0%

FX rate eop 2019: between 3.35% and 3.40%

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