

Contributors

**Guillermo Arbe**, Head Economist, Peru  
+51.1.211.6052 (Peru)  
[guillermo.arbe@scotiabank.com.pe](mailto:guillermo.arbe@scotiabank.com.pe)

**Sergio Olarte**, Head Economist, Colombia  
+57.1.745.6300 Ext. 9166 (Colombia)  
[sergio.olarte@scotiabankcolpatria.com](mailto:sergio.olarte@scotiabankcolpatria.com)

**Jorge Selaive**, Head Economist, Chile  
+56.2.2619.5435 (Chile)  
[jorge.selaive@scotiabank.cl](mailto:jorge.selaive@scotiabank.cl)

**Eduardo Suárez**, VP, Latin America Economics  
+52.55.9179.5174 (Mexico)  
[esuarezm@scotiabank.com.mx](mailto:esuarezm@scotiabank.com.mx)

TODAY'S CONTRIBUTORS:

**Mario Guerrero**, Deputy Head Economist  
+51.1.211.6000 Ext. 16557 (Peru)  
[mario.guerrero@scotiabank.com.pe](mailto:mario.guerrero@scotiabank.com.pe)

**Miguel Saldaña**, Economist  
+52.55.5123.0000 (Mexico)  
[msaldanab@scotiabank.com.mx](mailto:msaldanab@scotiabank.com.mx)

# Latam Daily: Peru's BCRP Hikes Policy Rate; Mexico's Mixed Messages on Inflation

- **Peru: BCRP raises policy rate on concerns of global price pressures**
- **Mexico: Headline inflation eases, while core increases**

## PERU: BCRP RAISES POLICY RATE ON CONCERNS OF GLOBAL PRICE PRESSURES

The Board of Peru's central bank (BCRP) raised its key interest rate by 50 bps to 5.50% on Thursday, June 9, in line with the market consensus (Bloomberg), the interest rate swap market and the Scotiabank forecast. The decision is consistent with the hawkish stance that the BCRP has adopted since the beginning of the year and continues the normalization of monetary policy that began in August 2021. Following the decision, Peru's monetary policy interest rate (5.50%) remains one of the lowest in the region.

Our policy rate forecast remains at 5.75% for end-2022, as presented in the [Latam Weekly \(May 27, 2022\)](#), from which it follows that we expect a policy rate increase of only 25 bps in July. This call reflects our belief that the annual rate of inflation will peak in June.

The BCRP statement continues to express concern about the significant and persistent increases in international energy and food prices, which have pushed inflation to 8.1% y/y in May. Reflecting these effects, 12-month inflation expectations continued to rise in May, from 4.62% to 4.89%, remaining above the inflation target range for the eleventh consecutive month. The increase in inflation expectations was less than the 50 bps jump in the policy rate, so the real rate rose from 0.38% to 0.61%. The monetary policy stance nevertheless remains expansionary, however, as the real policy rate is below the real neutral rate of 1.5% (chart 1).

Year-over-year inflation should start to decline in July, as base effects kick in and factors driving inflation higher, such as the FX rate and international energy and soft commodity prices, begin to ease. The BCRP maintained its expectation that inflation will return to the target in Q2-2023 and Q3-2023, for the third consecutive month.

Given the persistence of inflationary pressures, the BCRP reiterated that it will remain attentive to new information on inflation expectations and the evolution of economic activity, indicating that it is prepared to consider additional measures to ensure that inflation returns to the target range. This wording suggests that the BCRP could evaluate

Chart 1

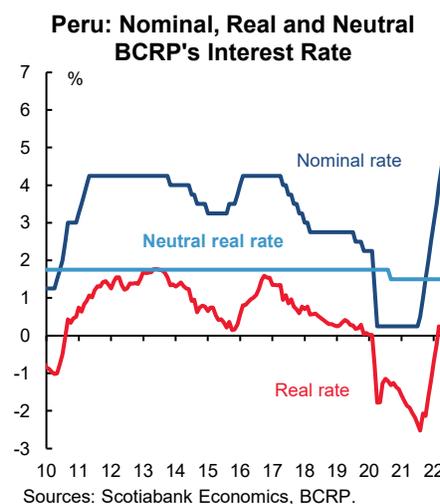
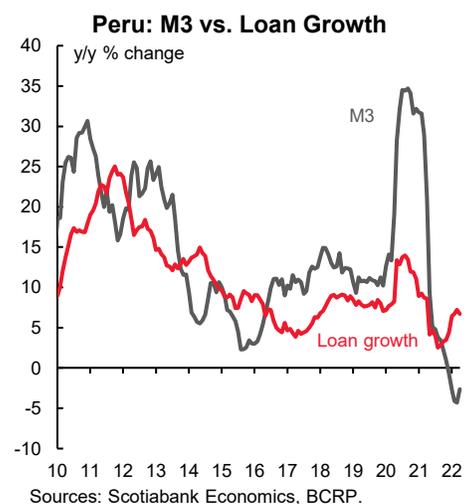


Chart 2



an additional hike in the reference rate at its meeting on July 7. That said, to the extent that we expect inflation to reach its highest rate in June, we see the BCRP possibly moderating the pace of monetary policy normalization, going with an increase of only 25 bps.

**The quantity of money (M3) contracted -2.7% y/y in April, recovering after four consecutive months of decline, within the process of monetary normalization (chart 2).** Loan growth slowed, going from 7.2% y/y in March to 6.7% y/y in April.

—Mario Guerrero

**MEXICO: HEADLINE INFLATION EASES, WHILE CORE INCREASES**

According to **INEGI**, annual headline inflation decelerated slightly from 7.68% y/y to 7.65% in May, in line with expectations (7.64%) (chart 3). However, core inflation rose from 7.22% y/y to 7.28%, its highest level since January 2001, with merchandise items driving the increase, accelerating from 9.33% y/y to 9.53%, followed by services, which moderated from 4.83% y/y to 4.74% (chart 4). Non-core inflation fell from 9.07% y/y to 8.77% owing to a deceleration in food, from 14.36% y/y to 13.08%, despite higher energy prices, which increased from 5.91% y/y to 6.30% (chart 5).

**In its sequential monthly comparison, inflation stood at 0.18% m/m (compared to the 0.13% consensus and 0.54% previously).** The core component moderated from 0.78% m/m to 0.59%, with merchandises at 0.59% m/m and services at 0.33% m/m. Non-core inflation declined from -0.14% m/m to -1.02%, owing to the implementation of the summer electricity subsidies program, which lowered energy prices -3.49% m/m (compared to -1.53% in April), while food also moderated from 1.05% m/m to 0.78%.

**Participants in Citibanamex Survey continue to revise upwards their inflation forecasts**, with the average estimate for end-2022 rising from 6.78% y/y to 6.89%.

**Given global inflationary pressures, and in a context of persistent uncertainty, the Board of Banxico has commented on the possibility of a 75 bps hike at its next meeting at the end of June.** With this signal of possible policy action, we now expect an increase of that magnitude, with subsequent hikes of 50 bps, in line with the Fed’s expected pace, which would bring the spread between US and Mexico to 600–650 basis points, and Banxico’s policy rate to 9.50% by the end of 2022.

—Miguel Saldaña

Chart 3

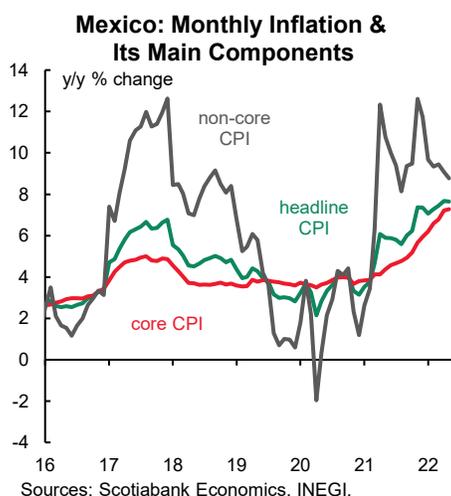


Chart 4

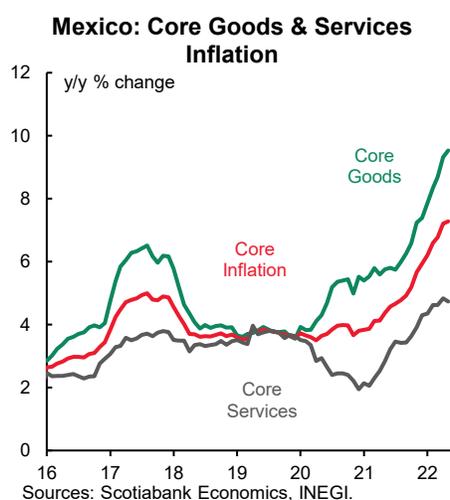
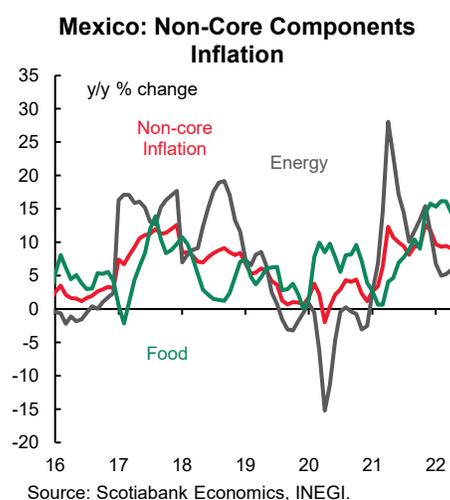


Chart 5



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