

Latam Daily: Peru's BCRP Raises 2021 Inflation Forecast; Arequipa in Isolation

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PERU: BCRP RAISES ITS INFLATION FORECAST; AREQUIPA IN ISOLATION

Peru's central bank (BCRP) increased its inflation forecast for 2021 from 2% to 3% in its [monthly report](#) released on June 18. The new forecast is now at the higher end of the BCRP's target range for the year, though the Bank's Chairman underscored the transitory effects driving the increase.

Two points stand out in this month's report: the greater variance in the BCRP's inflation projection (signaling greater uncertainty), and an upwards bias. The BCRP also removed its earlier references to a "prolonged period" of expansionary monetary policy, suggesting it may begin evaluating raising the reference rate (currently at a historical low of 0.25%) sooner rather than later. This is consistent with our [assessment](#), where we maintain our call for a rate hike in mid-2022 (chart 1).

While the BCRP is now signaling concerns about inflation, it maintained its view that the increase is temporary, driven by this year's sharp increase in soft commodity prices, which Peru imports. Any changes, however, are likely to be in the remit of the BCRP's next board of directors and not the current one. The new Board will be appointed in August.

A new surge of COVID-19 infections and the appearance of the delta variant have driven the government to impose isolation measures in Arequipa, an important agricultural, mining, and industrial hub, halting all transport to and from the region. The measures began on June 21 and will last for 15 days.

—Guillermo Arbe

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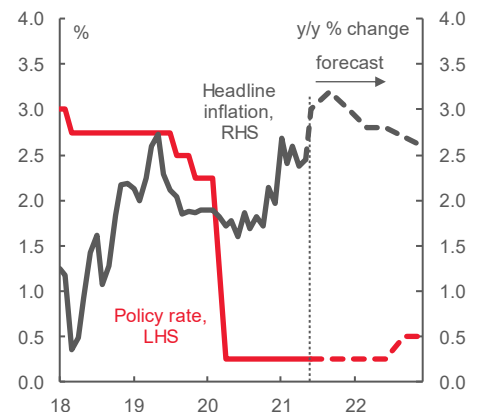
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Chart 1

Peru: BCRP Reference Rate vs Headline Inflation



Sources: Scotiabank Economics, BCRP, INEI.

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