

## Contributors

**Juan Manuel Herrera**

Senior Economist/Strategist  
Scotiabank GBM  
+44.207.826.5654  
[juanmanuel.herrera@scotiabank.com](mailto:juanmanuel.herrera@scotiabank.com)

**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)

## Latam Daily: BCRP Hikes 25bps in the Shadow of Unrest

- **Peru: BCRP hikes 25bps as expected, leaves door open to more**

**Markets traded in a narrow channel for most of the Asia session amid a quiet backdrop post US CPI, before a sharp U-turn in the USD with the start of the London hours.** The dollar is heading into the North American session with solid momentum amid underwhelming US company earnings reports that are weighing on US equity futures that have fallen to around post-CPI levels yesterday.

The focus for global markets in the day ahead will be the US U Michigan survey results at 10ET and monitoring comments from Fed speakers as the bank's communications blackout period approaches next weekend.

**In Latin America, we're watching how protests evolve in Peru as the Las Bambas mine has stopped shipments of copper concentrate** owing to security concerns. This is one of the first clear signs of disruptions to the extraction sector this year compared to December's protests that had a bigger economic drag.

**The government has also closed the Cusco international airport temporarily** (as it did in December) as "a preventative measure" after a protestor died on Wednesday as a group attempted to take over the airport.

**Peru's Labour Minister Garcia resigned last night** due to the death of protesters and that the current situation requires a change of guard "in the country's direction and **earlier elections that cannot wait until April 2024.**"

**It may just be that protesters will only accept the President's resignation and the dissolution of Congress**, but this so far does not seem to be the view shared by the majority of Peruvians. What's more, we fear that executive and legislative branches that are amenable to the insurgent minority in the south of the country would set Peru on a worrisome path economically and politically.

—Juan Manuel Herrera

### PERU: BCRP HIKES 25BPS AS EXPECTED, LEAVES DOOR OPEN TO MORE

**The board of Peru's central bank (BCRP) raised its key interest rate by 25bps to 7.75% on Thursday, in line with our expectations and the market consensus.** This is the fifth consecutive time that the BCRP raises its benchmark interest rate by 25bps, after 50bps increases in each of the previous twelve decisions. **The key rate had not reached this level since March 2001.**

**In its statement, the BCRP kept the same tone as in previous decisions, leaving the door open to the possibility of additional hikes** dependent on data. Although inflation has already shown signs of slowing, it has been without conviction, and the central bank will seek to ensure that inflation returns to the target range.

**Twelve-month inflation expectations remain key**, going from a record of 5.35% in June to 4.30% in December according to the latest BCRP survey, still well above the target range (between 1% and 3%).

**Inflation in January is due to pick up again**, owing to the impact of locally produced food prices amid social protests and anti-government road blockades, as well as a low base of comparison (inflation in January 2022 was only 0.04% m/m), so it would not help materially to reduce inflation expectations, at least at the speed that the BCR would like.

**Inflation remained high in December** (8.46% YoY), while inflation excluding food and energy fell from 5.71% in November to 5.59% in December. Other price indices, such as wholesale prices and those linked to construction materials and machinery, continue to slow down. At the regional level, 3 of the 26 largest cities in the country maintain year-on-year inflation above 10%.

The real interest rate went from 2.82% to 3.45% (chart 1), standing above its neutral level (1.50%) for the fifth consecutive month. The BCRP kept the forward guidance used in previous statements, which leaves open the possibility of a new hike in February, again depending on the data.

**Our baseline scenario has been readjusted to 7.75%, considered as the terminal rate. This statement poses upside risks to this forecast, but the deviation should not be too large.**

Like us, the central bank forecasts a trend towards lower year-on-year inflation, visible from March, and maintains the expectation of an expected return to the target range during the fourth quarter of 2023. Our inflation forecast was revised in December from 4.00% to 4.50% for 2023, although the BCRP maintained its forecast at 3% in its December report but assigning an upward bias. The BCRP sees a risk that this episode of inflation could exceed the previous record of duration (21 months, to date there are 19).

**The statement maintained its pessimistic outlook for global and local economic activity,** emphasizing the effects of restrictive monetary policy in advanced economies, the impact of inflation on consumption (purchasing power) and ongoing international conflicts, while for the on the local side, although the leading indicators and expectations about the economy recovered in December, they remain in the pessimistic range. On the quantitative side, PEN liquidity growth (M2, chart 2) accumulated in the twelve months to November (0.1% YoY) for the third consecutive month remains positive, while credit expansion remains above 5% y/y for the third consecutive month.

—Mario Guerrero

Chart 1

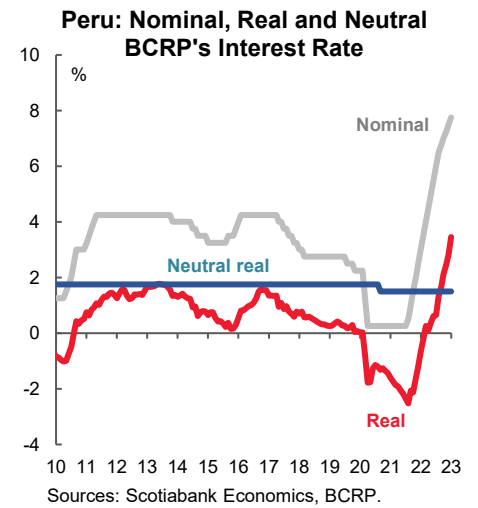
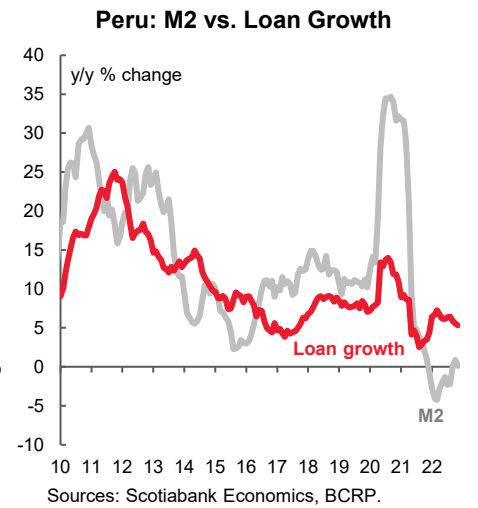


Chart 2



This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

**This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.**

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.