

5 Inflation contained within the central bank's target band

In November, consumer prices rose 0.4% MoM. This means that YoY inflation was 2.9% (see Table 5.1), which is below the middle of the target band established by the central bank (4.5%). Over the year, certain one-off supply factors have exerted a favourable influence on the CPI reading (a record wheat harvest and an oversupply of dairy products, that were prompted by the weather conditions) and the low world cereal price, which has been reflected in lower food prices (mainly those of meat and food derivatives). On the other hand, an offsetting influence in the aggregate figure was provided by the rises in other components of the CPI basket which are more closely tied to exchange rate movements, such as imported goods¹ (with the exception of fuels, which continued to fall). Given this situation, we have changed our 2015 inflation forecast to 3.6% from 4.3% in July. Our estimate remains in line with the market consensus (3.7%, according to the November survey of Expectations of Economic Variables).

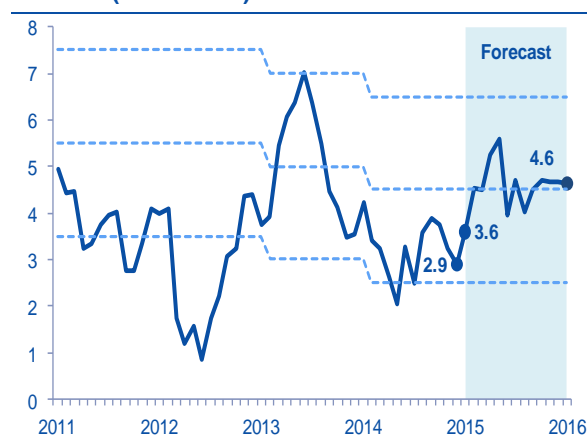
For the subsequent months, we estimate that inflation should continue at around the middle of the target range established by the central bank (see Figure 5.1). Specifically, the mildly negative GDP gap, inflation expectations in line with the target and continuing low world prices of commodities (especially those imported by Paraguay, such as oil and foods) will partially offset the depreciation of the PYG and the turnaround of the supply shocks observed in 2015. We therefore expect inflation to pick up speed towards the middle of 2016, although without posing a risk to achieving the central bank's target. Towards the end of 2016, inflation will be 4.6%, which is similar to the expectations of other economic agents on average.

Table 5.1
Inflation (% var. YoY)

Items	1Q15	2Q15	3Q15	Oct 15	Nov 15
Nontradable goods	4,2	4,0	4,1	4,1	4,0
Domestic products	2,9	2,4	2,6	2,6	2,3
General Index	3,1	2,6	3,7	3,2	2,9
Core	2,2	2,0	2,5	2,8	2,8
Fruits y vegetables	14,1	9,5	21,5	8,4	8,4
Tariffed services	-0,8	-1,5	-0,7	-0,6	-0,6
Fuels	-9,0	-12,9	-12,1	-13,0	-13,0

Source: BCP and BBVA Research

Figure 5.1
Inflation (% var. YoY)



Source: BCP and BBVA Research

1: It should be pointed out that, even though the PYG has weakened against the USD, the depreciations experienced by the Brazilian real and the Argentine peso have been far greater. This ultimately implies an appreciation (in nominal and real terms) of the PYG against these currencies, which also constitutes a depressing influence on local inflation.

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This report has been produced by the Peru Unit

Chief Economist for Peru

Hugo Perea
hperea@bbva.com
+51 1 2112042

Francisco Grippa
fgrippa@bbva.com

Yalina Crispin
Yalina.crispin@bbva.com

Vanessa Belapatiño
Vanessa.belapatinho@bbva.com

Ismael Mendoza
Ismael.mendoza@bbva.com

Marlon Broncano
Marlon.broncano@bbva.com

BBVA Research

Group Chief Economist

Jorge Sicilia Serrano

Developed Economies Area

Rafael Doménech
r.domenech@bbva.com

Spain

Miguel Cardoso
miguel.cardoso@bbva.com

Europe

Miguel Jiménez
mjimenezg@bbva.com

US

Nathaniel Karp
Nathaniel.Karp@bbva.com

Emerging Markets Area

Cross-Country Emerging Markets

Analysis
Alvaro Ortiz
alvaro.ortiz@bbva.com

Asia

Le Xia
le.xia@bbva.com

Mexico

Carlos Serrano
carlos.serrano@bbva.com

Turkey

Alvaro Ortiz
alvaro.ortiz@bbva.com

LATAM Coordination

Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina

Gloria Sorensen
gsorensen@bbva.com

Chile

Jorge Selaive
jselaive@bbva.com

Colombia

Juana Téllez
juana.tellez@bbva.com

Peru

Hugo Perea
hperea@bbva.com

Venezuela

Julio Pineda
juliocesar.pineda@bbva.com

Financial Systems and Regulation Area

Santiago Fernández de Lis
sfernandezdelis@bbva.com

Financial Systems

Ana Rubio
arubiog@bbva.com

Financial Inclusion

David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy

María Abascal
maria.abascal@bbva.com

Digital Regulation

Álvaro Martín
alvaro.martin@bbva.com

Global Areas

Economic Scenarios

Julián Cubero
juan.cubero@bbva.com

Financial Scenarios

Sonsoles Castillo
s.castillo@bbva.com

Innovation & Processes

Oscar de las Peñas
oscar.delaspenas@bbva.com

Contact details:

BBVA Research Perú

Av. República de Panamá 3055
San Isidro
Lima 27 - Perú
Tel: + 51 1 2112042
E-mail: bbvaresearch_peru@bbva.com
www.bbvaresearch.com