

## 5 Inflation will remain close to the centre of the BCP target range

### Inflation rose above 5% in the first months of the year, but has begun to yield

So far this year, year-on-year inflation has registered significant increases over the rates implemented during 2015 (during the first months of 2016 it showed growth above 5%). In general, this inflationary momentum has been linked to the increased prices of some foods, affected by weather anomalies (the El Niño phenomenon). In addition, various services, such as transportation and personal care, showed increases in prices and had a significant impact on overall inflation (see Table 5.1).

However, since early 2016 inflation has followed a downward trend (a high of 5.2% was registered in January). Thus, in April prices rose 4.5% year-on-year (the lowest rate so far this year). This more favourable trend has been linked to the fall in prices of domestic transport services due to lower fuel costs (in line with the lower international prices of petroleum), and less upward pressure on the exchange rate (slower rate of depreciation), which influenced lower prices on imported goods and services that are priced in US dollars (see Figure 5.1).

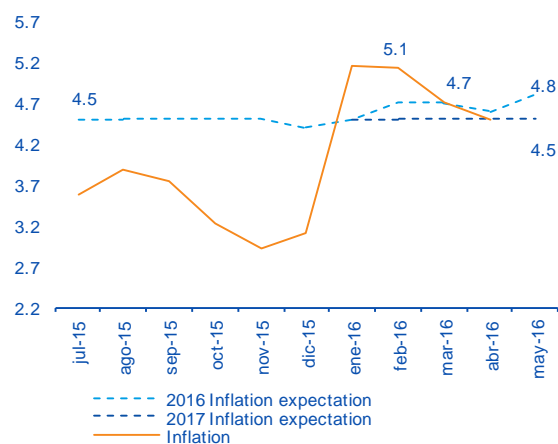
Notably, in this context inflationary expectations have remained within the central bank's target range (between 2.5% and 6.5%). For 2016, the expectation of closing for inflation remains near the centre of the target range (4.5%); while the closing for 2017 remains at the centre of this range (see Figure 5.1).

Table 5.1  
**Inflation by main groups**  
(chge.% YoY)

	Weighting 2009=100	Jan-16	Feb-16	Mar-16	Apr-16
<b>Inflation</b>	<b>100.0</b>	<b>5.2</b>	<b>5.1</b>	<b>4.7</b>	<b>4.5</b>
Food	32.0	6.4	5.7	5.6	5.5
Transport	14.8	2.2	2.8	2.5	0.9
Accommodation and housing	8.9	3.2	3.4	3.2	3.1
Home furnishings	7.7	6.9	6.8	5.9	6.3
Miscellaneous goods and services	7.3	7.3	8.2	8.6	9.1
Note					
Core inflation	94.5	3.7	3.8	3.8	3.5
Non-core inflation	5.5	21.8	18.5	15.7	17.6

Source: BCP and BBVA Research

Figure 5.1  
**Inflation and Expectations**  
(%)



Source: BCP and BBVA Research

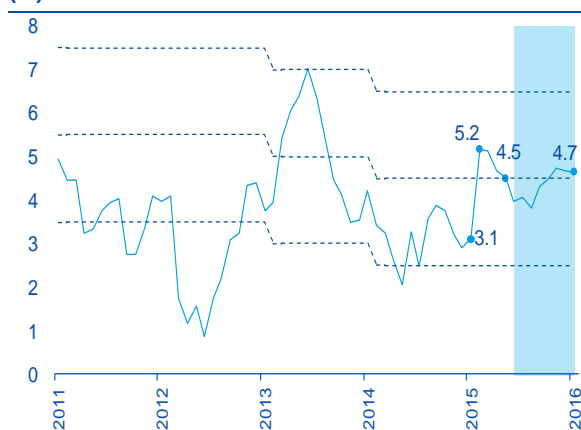
### In the coming months, inflation will remain near the middle of the target range

In the short term, we estimate that inflation will ease somewhat and by the end of the second quarter will be below 4.5%, in a context in which we expect a further decline to be recorded in food prices and for the pressures on the currency to continue being relatively limited.

However, during the latter part of the year inflation recorded a slight upturn and will thus close 2016 at around 4.7% (see Figure 5.2). This forecast considers the return of the currency to a depreciatory path (as mentioned in the previous section) and greater implementation of international oil prices (see Figure 5.3). It should be noted that, during Q4 2015, an upward statistical effect on inflation will be observed, given the low comparison base in some products such as food prices (at the end of 2015 specific supply factors were recorded that had a downward influence on these prices).

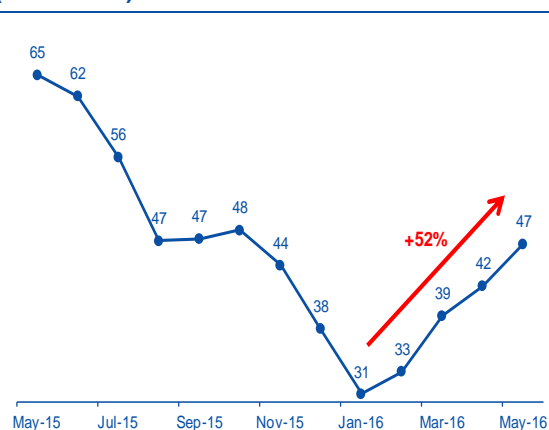
For 2017, we project that inflation will remain around the mid-range of the target, in a scenario where expectations will remain aligned and will have lower inflationary pressures. This will be partly offset by a recovery in oil prices, at end of period, of around 30%, which will have a noticeable impact on inflation (see Figure 5.3).

Figure 5.2  
Inflation  
(%)



Source: BCP and BBVA Research

Figure 5.3  
International oil price  
(USD/barrel)



Source: BCP and BBVA Research

**DISCLAIMER**

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.

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.belapatinio@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.serranoh@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

Azul Street, 4  
La Vela Building - 4 and 5 floor  
28050 Madrid (Spain)  
Tel.: +34 91 374 60 00 and +34 91 537 70 00  
Fax: +34 91 374 30 25  
bbvaresearch@bbva.com  
[www.bbvaresearch.com](http://www.bbvaresearch.com)