

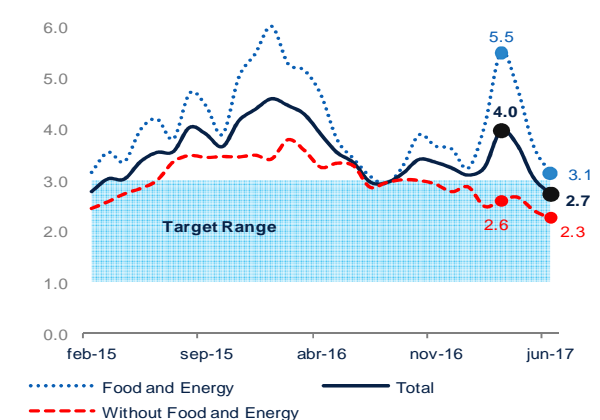
7 Inflation will continue to fall over the coming months

The downward trend could even reach the floor of the target range in the first quarter of 2018

Having peaked at 4.0% YoY in March, inflation fell over the following months, to 2.7% in June (see Figure 7.1). This fall includes the reversal of the supply shock to the prices of some foodstuffs during the El Niño Costero - which has been quicker and more intense than expected - a more contained rise in fuel prices, and a downward trend in other components of the consumer basket excluding food and fuel, in part reflecting the continuing weakness of domestic demand. Inflation has returned to its target range.

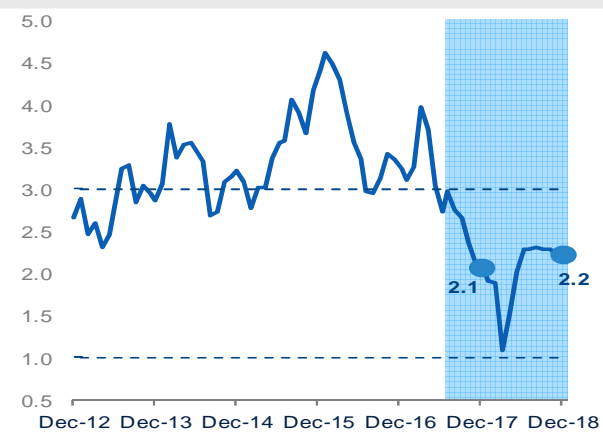
We are likely to see inflation fluctuating between this level and the ceiling of the target range (or perhaps slightly higher than this), falling again in the fourth quarter (due to the high base for the year-on-year comparison). Demand pressures on prices are contained, the depreciation of the local currency we expect to see over the coming months is limited, and we do not expect a marked recovery in oil prices. Absent any significant shocks from foodstuffs, inflation is likely to end the year around the middle of its target range, with perhaps even a downward trend at the start of 2018 (see Figure 7.2). The outlook for inflation is relatively benign and gives the Central Bank some scope to increase the flexibility of monetary policy (refer to the Monetary Policy section).

Figure 7.1 Inflation: total, without food or energy, only food and energy (% YoY change)



Source: INEI, Central Bank of Peru and BBVA Research

Figure 7.2 Projected inflation (% YoY change)



Source: INEI, Central Bank of Peru and BBVA Research

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