



# Peru

The Central Bank of Peru (BCRP) is responsible for managing monetary and exchange rate policies. Monetary policy is carried out under an inflation-targeting regime. The inflation target is 2% +/- 1% and applies to inflation (Lima CPI) throughout the year—not only for year-end inflation. The main instrument of monetary policy is the BCRP’s overnight reference interest rate. In addition, the bank also targets interest rates on overnight repo loans and interest rates paid on overnight deposits made by financial sector institutions in the BCRP.

The exchange rate operates in a floating regime with active BCRP intervention. Exchange rate policy is aimed at limiting extreme volatility and maintaining a high level of international reserves, without defending any specific FX level. As in many other countries, limiting volatility and maintaining international reserves are important to moderate the impact from external shocks, but they are critical in Peru because of the still-high level of financial dollarization among corporates and pension funds.

FX intervention is done through three mechanisms: a) Direct purchases/sales in the spot market; b) Auctions of USD-linked CD’s (BCRP sells USD via CDRs or buys USD via CDLs); and c) Auctions of FX Swaps in the forward market (BCRP sells USD in the spot at the fixing rate, then receives OIS PEN rate and pays a fixed USD rate). Although there are no capital controls, the monetary authority often manages the reserve requirements on local deposits of nonresidents in order to limit foreign portfolio investment in local markets.

In 2016, Peru actively unwound its heavy short USD position in derivatives and started to rebuild its external assets. Outstanding swaps fell to PEN1.1 billion (\$330 million) in December 2016 from PEN26.4 billion (\$7.7 billion) in December 2015 and USD-linked CD’s dropped to PEN805 million (\$234 million) from PEN7.1 billion (\$2.3 billion) during the same period. Moreover, after having lost \$12.3 billion in international reserves in 2013-2015, the BCRP accumulated \$2 billion in reserves since it turned a net purchaser of US dollars in the spot market last June.

The daily market turnover is approximately USD350m, with an average ticket size of USD10=20mn and a bid/ask spread of around 20bp. Onshore forward market is settled in PEN and it is mainly concentrated in 1m instruments. The offshore NDF market posts a daily trading average of USD300mn. While contracts exist for tenors between 1m and 12m, liquidity is concentrated in 1m (with bid/ask spread of 30bp in yield for a USD20mn ticket). The offshore forwards settle T+2 and the fixing rate is the “promedio

intercambiarío” published around 13:30 local time. FX options market is yet to be developed.

