

# Macro scenario - Peru



July 12, 2024

## A faster recovery

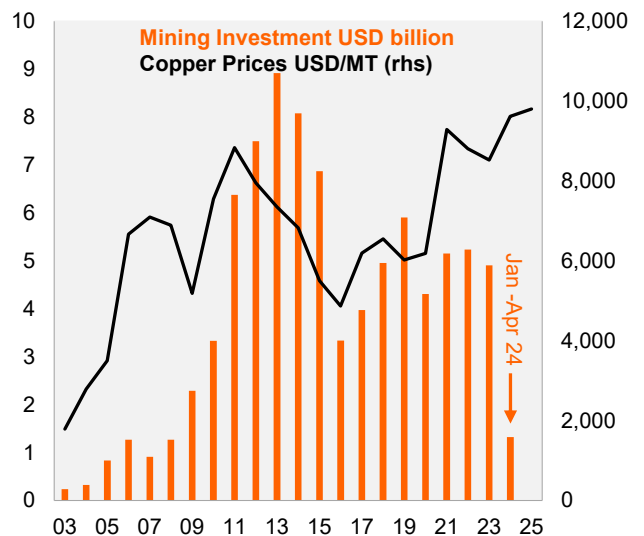
- ▶ Positive terms of trade, the La Niña phenomenon, and better-than-expected activity data led us to raise our 2024 GDP growth forecast to 3.1%, up from 2.7% in our previous scenario. We maintained our 2025 GDP growth call at 3.0%.
- ▶ The BCRP extended the pause for second consecutive month, but it is still open for further rate cuts. We expect the central bank to resume its easing cycle during the rest of the year amid well-behaved headline inflation and below trend activity. Higher odds of the Fed starting its easing cycle in 3Q24 also support our call. Our end of year policy rate forecast is at 5.00%, which imply three more rate cuts of 25-bp during the rest of the year. The timing of other rate cuts will be dependent on improvements in core inflation readings, in our view.

## Positive activity drivers

**Activity at the start of 2Q24 started off with an unexpectedly strong print, supported mainly by the primary sector.** The monthly GDP proxy rose by 5.3% YoY in April, driven in part by a favorable calendar base effect (Easter holidays). Using seasonally adjusted series, the monthly GDP expanded 1.7% mom/sa, taking the quarter-over-quarter non-annualized growth rate to 1.1%. While the primary sector increased significantly (4.9% yoy, 3mma), services and commerce are starting to recover more clearly, rising by 2.2% yoy 3mma and 2.7%, respectively, compared with their 10-year historical averages of 3.1% and 3.5%, respectively. Following the greater-than-expected activity print in April, the statistical carryover for the year reached 2.7%.

**The La Niña weather phenomenon and positive terms of trade should strengthen the activity recovery during the rest of the year.** According to the authorities, a weak *La Niña* weather anomaly has been present since May and is expected to continue until September. This phenomenon tends to boost fishing output, which although it accounts for less than 1% in the GDP, spills over to primary manufacturing activity, which weighs 3%. Separately, still-high copper prices should support mining investment and copper production. We forecast copper prices to average USD 9,708/MT in 2024 and 2025, above the 10-year average of USD 6,878/MT. Although prices are above the ten-year average, persistent uncertainty from the political environment could dent the mining investment outlook relative to previous cycles (for example, 2011-2015).

## Positive terms of trade



Source: MINEM, Itaú

## BCRP extended the pause

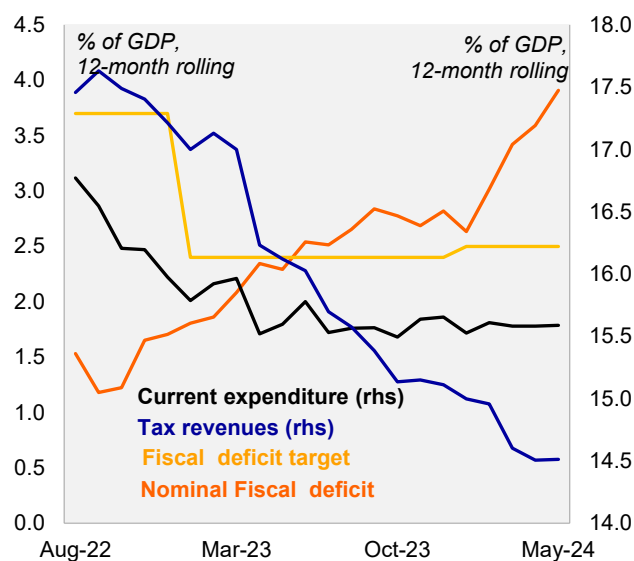
**In its July meeting, the Central Bank of Peru (BCRP) kept its policy rate unchanged at 5.75%.** This is the third monetary pause in the year (second consecutive). The statement kept the doors open for further rate adjustments depending on inflation (emphasizing the core index) and its determinants. The BCRP extended the pause despite headline inflation inside the target range (2+/-1%) for third consecutive month although with core inflation slightly above the upper bound target. Headline and core inflation stood at 2.3% and 3.1% in

June, respectively. The central bank expects annual inflation to remain around the central target. Twelve-month inflation expectations fell further to 2.53% in June (from 2.56% in May) taking the real ex-ante rate to 3.22% (previously 3.19%), above the neutral rate of 2.0%.

### Fiscal deficit deviated further from target

**On a 12-month rolling basis, the nominal fiscal deficit in May increased to 3.9% of GDP, compared with a deficit of 2.8% of GDP at the end of 2023, deviating further from the Ministry of Finance (MoF) target of 2.5% of GDP for 2024.** The main drag on the fiscal accounts has been soft revenues, as was the case in other economies in the region that experienced a growth slowdown last year. By the end of May, revenues fell to 19.0% of GDP (from 19.8% of GDP in 2023), also on a 12-month rolling basis. Total expenditures have been relatively stable at 21.1% of GDP. We note that the MoF's 2024 nominal fiscal deficit target of 2.5% of GDP was increased recently from a deficit of 2.0% of GDP (with a more gradual fiscal consolidation path for the following years), after missing last year's target (a deficit of 2.8% of GDP versus 2.4% of GDP previously). Looking forward, high copper prices and the recovery of activity should contribute to an improvement in revenues during the rest of the year, leading to a narrowing of the large deficit accumulated in May. While rating agencies seem comfortable with the fiscal accounts (based on recent credit rating actions), mainly due to the low levels of public debt, missing the deficit target for a second consecutive year would increase the odds of a rating action, in our view. The S&P rating is at BBB-, one notch above investment grade with a stable outlook, while Fitch (BBB) and Moody's (Baa1) are two and three notches above investment grade, respectively, but both with a negative outlook.

Weak revenues



Source:BCRP.

### Higher GDP growth

**We increased our GDP growth forecast for 2024 to 3.1%, compared to our previous scenario of 2.7%.** The change in our call is explained mainly by better-than-expected data at the start of 2Q24, as positive terms of trade and the La Niña phenomenon should support fishing output.

**We expect the central bank to continue easing its monetary policy stance during the rest of the year amid well-behaved headline inflation and below trend activity.** Higher odds of the Fed starting its easing cycle in 3Q24 also supports our call, reducing concerns of the narrowing of the BCRP-Fed rate differential. Our end of year policy rate forecast is at 5.00%, which imply three more rate cuts of 25-bp during the rest of the year. The timing of other rate cuts will be dependent on improvements in core inflation, in our view.

**Andrés Pérez M.  
Julio Ruiz**

## Peru | Forecasts and Data

	2019	2020	2021	2022	2023	2024F		2025F	
						Current	Previous	Current	Previous
<b>Economic Activity</b>									
Real GDP growth - %	2.2	-10.9	13.4	2.7	-0.6	<b>3.1</b>	2.7	<b>3.0</b>	3.0
Nominal GDP - USD bn	233	206	226	244	267	<b>281</b>	283	<b>295</b>	297
Population (millions)	33.2	33.5	33.8	34.2	34.5	<b>34.9</b>	34.9	<b>35.2</b>	35.2
Per Capita GDP - USD	7,030	6,156	6,690	7,155	7,747	<b>8,063</b>	8,130	<b>8,392</b>	8,448
Unemployment Rate - year avg	6.6	13.6	10.9	7.7	6.8	<b>6.8</b>	6.8	<b>7.0</b>	7.0
<b>Inflation</b>									
CPI - %	1.9	2.0	6.4	8.5	3.2	<b>2.8</b>	2.8	<b>2.5</b>	2.5
<b>Interest Rate</b>									
Monetary Policy Rate - eop - %	2.25	0.25	2.50	7.50	6.75	<b>5.00</b>	5.00	<b>4.25</b>	4.25
<b>Balance of Payments</b>									
PEN / USD - eop	3.31	3.62	4.00	3.81	3.70	<b>3.80</b>	3.80	<b>3.80</b>	3.80
Trade Balance - USD bn	6.9	8.1	15.1	10.2	17.7	<b>18.5</b>	18.5	<b>18.0</b>	18.0
Current Account - % GDP	-0.6	0.9	-2.1	-4.0	0.8	<b>0.8</b>	0.8	<b>-0.7</b>	-0.7
Foreign Direct Investment - % GD	2.0	0.3	3.2	4.6	1.5	<b>2.5</b>	2.5	<b>3.0</b>	3.0
International Reserves - USD bn	68.4	74.9	78.5	72.2	71.3	<b>74.0</b>	74.0	<b>76.0</b>	76.0
<b>Public Finances</b>									
NFPS Nominal Balance - % GDP	-1.6	-8.9	-2.5	-1.7	-2.8	<b>-2.5</b>	-2.5	<b>-2.2</b>	-2.2
NFPS Primary Balance - % GDP	-0.2	-7.3	-1.0	-0.1	-1.1	<b>-0.8</b>	-0.8	<b>-0.4</b>	-0.4
NFPS Debt - % GDP	26.5	34.5	35.8	33.9	32.9	<b>33.9</b>	33.9	<b>34.1</b>	34.1

Source: IMF, INEI, BCRP, Itaú

## Macro Research – Itaú

## Mario Mesquita – Chief Economist

To access our reports and forecast visit our website:

<https://www.itaubba.com.br/itaubba-pt/macroeconomic-analysis>

**App Itau Economic Analysis**  
Our Research on your mobile.

Download it on the App store or Google Play.



## Relevant Information

1. This report has been prepared and released by the Macro Research Department of Itaú Unibanco S.A. ("Itaú Unibanco"). This report is not a product of the Equity Research Department of Itaú Unibanco or Itaú Corretora de Valores S.A. and shall not be construed as a research report ("relatório de análise") for the purposes of Article 1 of the CVM Instruction NR. 20, dated 2021.
2. The exclusive purpose of this report is to provide macroeconomics information and it does not constitute and shall not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial product, or to participate in any particular trading strategy in any jurisdiction. The information herein is believed to be reliable as of the date on which this report was released and it has been obtained from public sources believed to be reliable. However, Itaú Unibanco does not make any explicit or implied representation or warranty as to the completeness, reliability or accuracy of such information, nor does this report intend to be a complete statement or summary of the markets or developments referred to herein. Itaú Unibanco has no obligation whatsoever to update, modify or amend this report and inform the reader accordingly.
3. The opinions contained herein reflect exclusively the personal views of the analyst responsible for this report and were prepared independently and autonomously, including in relation to Itaú Unibanco, Itaú Corretora de Valores S.A. and any other companies within their economic group.
4. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of Itaú Unibanco. Additional information on the financial products mentioned in this report may be available upon request. Itaú Unibanco and/or any other company within its economic group is not and shall not be liable for any investment decisions (or otherwise) based on the information provided herein.

**Additional Note:** This material does not take into consideration the objectives, financial situation or specific needs of any particular client. Clients must obtain financial, tax, legal, accounting, economic, credit and market advice on an individual basis, based on their personal characteristics and objectives, prior to making any decision based on the information contained herein. By accessing the material, you represent and confirm that you understand the risks related to the financial instruments described in this material and the laws in your jurisdiction relating to the provision and sale of financial service products. You acknowledge that this material contains proprietary information and you agree to keep this information confidential for your exclusive use.

For inquiries, suggestions, complaints, criticisms and compliments, talk to Itaú's CICC: 0800 728 0728. Or contact us through our portal <https://www.itaubba.com.br/atenda-itaubba-para-voce/>. If you are not satisfied with the proposed solution, please contact the Itaú Corporate Ombudsman: 0800 570 0011 (on weekdays from 9 AM to 6 PM) or our PO Box 67.600, São Paulo-SP, Zip Code 03162-971. Hearing impaired, every day, 24h, 0800 722 1722.