Macro scenario - Peru

September 19, 2025

Almost done

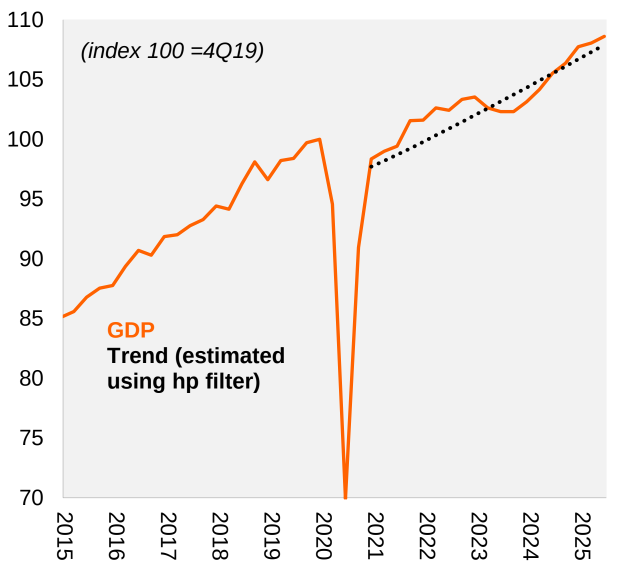
- We left our 2025 GDP growth forecast at 2.9% this year and 2.7% in 2026. The recovery in investment and the labor market continues to support expansion around potential.
- After a significant downside inflation surprise in August, we revised our year-end inflation forecast down to 2% from 2.2%.
- A larger interest rate differential with the US leads to a minor change to the PEN forecast ($ 3.5 per dollar, from $ 3.6).
- This backdrop supports our view that the central bank will continue progressing toward a neutral policy rate of 4% later this year, concluding the cycle.

Activity is well on track

On a sequential basis, activity rose by an upbeat 0.9% month-over-month (MoM) in July, gradually gaining traction after a sluggish start to the year. The main drivers were mining (2.5% MoM), despite disruptions caused by informal miners blocking major copper transport routes, manufacturing (+2.7% MoM), and restaurants and hotels (+6% MoM), boosted by national holidays. On an annual basis, Peru's economy grew by 3.4% year-over-year (YoY) in July.

Going forward, leading indicators suggest the recovery remains on track with a closed output gap. Business confidence indicators remain broadly positive, and the investment recovery is ongoing, as reflected by imports of capital goods. Formal job creation rose by 5.9% YoY in 2Q25. Terms of trade are still near the historical high.

GDP close to the post-pandemic trend



Source: INEI, Itaú

A solid current account surplus

The current account posted a surplus of USD0.7 billion (0.9% of GDP) in 2Q25, down from the USD1.4 billion surplus recorded a year earlier. The year-over-year deterioration in the current account balance was mainly driven by higher profit remittances from companies with foreign direct investment and increased imports of services. On a four-quarter rolling basis, the current account registered a solid surplus of 1.9% of GDP. The capital account remains subdued but showed marginal improvement: Foreign direct investment (FDI) by nonresidents amounted to USD3.6 billion (compared to USD1.3 billion a year ago). Cumulative net FDI over the past four quarters reached USD8.3 billion (2.7% of GDP) in 2Q2025—still below the cyclical peak of USD11.8 billion in 4Q2022.

A fiscal consolidation expected

Following last year's miss, this year's fiscal consolidation is driven by the revenue recovery, as expected. Year-to-date, the nominal fiscal deficit through August stood at 0.6% of GDP, narrowing significantly from the 1.6% deficit recorded during the same period last year. Importantly, revenues continue to improve, with cyclically adjusted real revenues rising by 17.8% year-on-year in the quarter ending in August, supported by higher metal prices. However, non-financial real expenditure growth remains elevated, increasing by 10.2% year-on-year in August. The 12-month accumulated fiscal deficit fell to 3.4% of GDP in August, after being three consecutive months at 3.6%.

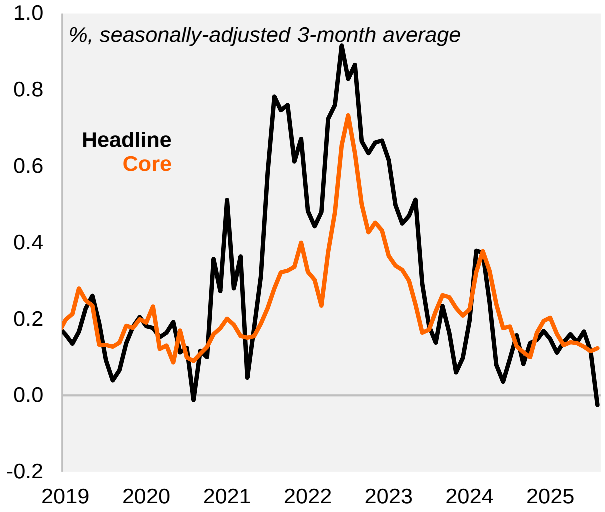
Headline inflation approached lower bound of the target

Consumer prices unexpectedly plunged by 0.3% m/m in August, significantly below market consensus of a 0.3% m/m increase. The downside surprise was driven by non-core items, mainly lower food and electricity prices. Core inflation, which excludes volatile food and energy items, rose by 0.08% m/m.

Sequential price dynamics align with annual inflation hovering near the lower bound of the Central Bank's 2% target range. Annualized headline inflation over the past quarter reached a low 1%, while core inflation stood at 1.5%. On a year-over-year basis, headline inflation declined significantly by 58 basis points to 1.11%, the lowest level since 2018, approaching the lower bound of the Central Bank's target. Core inflation rose slightly to 1.75% YoY, remaining close to the four-year low of 1.6%.

Importantly, survey-based one-year inflation expectations have remained anchored within the target range since December 2023, reaching 2.2% in August.

Sequential pressures remain well-behaved



Source: INEI, Itaú

Monetary policy at the fine-tuning stage

At its September monetary policy meeting, the Central Reserve Bank of Peru (BCRP) cut the policy rate by 25bps to 4.25%, after three consecutive months at 4.5%. The policy guidance remained data-dependent, with the BCRP noting it is "close to neutral."

The BCRP reiterated its concerns about the external environment, marked by restrictive measures on foreign trade, with a downward bias only over the medium term, rather than over an indefinite horizon as previously stated. Domestically, the Board continues to project that headline inflation to rise due to adverse base effects and eventually stabilize at the midpoint of the target. Overall, the one-year ex-ante real interest rate reaches 2.07%, essentially at the 2% neutral real rate.

Lower inflation

As mentioned earlier, the economic recovery is well on track, consolidating a closed output gap, leading us to maintain our 2025 GDP growth forecast at 2.9%. If activity remains at 2Q25 levels for the rest of the year, the economy will grow by 2.4%. For 2026, we expect GDP growth of 2.7%, slightly below the potential growth rate of 3%. The recent approval of an eighth pension fund withdrawal, which could amount to roughly 3% of GDP, takes place in the context of low presidential and congressional approval with elections scheduled for April 2026.

On the external sector, we expect the current account surplus to narrow to approximately 1.2% of GDP this year (2024: 2.2% of GDP), as domestic demand continues to recover and global export momentum moderates.

Our international scenario now considers interest rate differentials to widen between the US and Peru, which will support the PEN throughout the year. We now forecast the PEN at $3.50 per dollar by the end of 2025 and 2026.

The well-behaved PEN performance, along with the downside inflation surprise in August and a lower oil price forecast, led us to revise our 2025 year-end inflation forecast down to 2% from 2.2%. We still expect inflation is going to rise from the 1.1% YoY in the coming months, partly due to base effects.

Overall, this context supports our view that the Central Bank will continue progressing toward a neutral policy rate of 4%. We anticipate that the Central Bank will implement another 25-bp rate cut in December 2025, closing the cycle at 4.0%. Global developments remain a key watchpoint for the medium-term outlook and the BCRP's policy response.

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Peru | Forecasts and Data

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	*Previous*	*Current*	*Previous*
Economic Activity									
Real GDP growth - %	-10.9	13.4	2.8	-0.4	3.3	**2.9**	2.9	**2.7**	2.7
Nominal GDP - USD bn	210	230	248	272	295	**327**	328	**343**	346
Population (millions)	33.5	33.8	34.2	34.5	34.9	**35.2**	35.2	**35.2**	35.2
Per Capita GDP - USD	6,156	6,690	7,159	7,764	8,305	**9,300**	9,313	**9,732**	9,842
Unemployment Rate - year avg	12.8	11.3	7.7	6.9	6.6	**6.5**	6.5	**6.5**	6.5
Inflation									
CPI - %	2.0	6.4	8.5	3.2	2.0	**2.0**	2.2	**2.0**	2.0
Interest Rate									
Monetary Policy Rate - eop - %	0.25	2.50	7.50	6.75	5.00	**4.00**	4.25	**4.00**	4.00
Balance of Payments									
PEN / USD - eop	3.62	4.00	3.81	3.70	3.80	**3.50**	3.60	**3.50**	3.60
Trade Balance - USD bn	8.1	15.1	10.2	17.7	24.0	**24.0**	24.0	**22.0**	22.0
Current Account - % GDP	0.9	-2.1	-4.0	0.8	2.2	**1.2**	1.2	**0.6**	0.6
Foreign Direct Investment - % GDP	0.3	3.2	4.6	1.5	2.4	**3.0**	3.0	**3.0**	3.0
International Reserves - USD bn	74.9	78.5	72.2	71.3	79.0	**80.0**	80.0	**80.0**	80.0
Public Finances									
NFPS Nominal Balance - % GDP	-8.9	-2.5	-1.7	-2.8	-3.6	**-2.7**	-2.7	**-2.4**	-2.4
NFPS Primary Balance - % GDP	-7.3	-1.0	-0.1	-1.1	-1.9	**-0.7**	-0.7	**-0.5**	-0.5
NFPS Debt - % GDP	34.5	35.8	33.9	32.9	32.7	**34.2**	34.2	**34.0**	34.0

Source: IMF, INEI, BCRP, Itaú

Macro Research – Itaú

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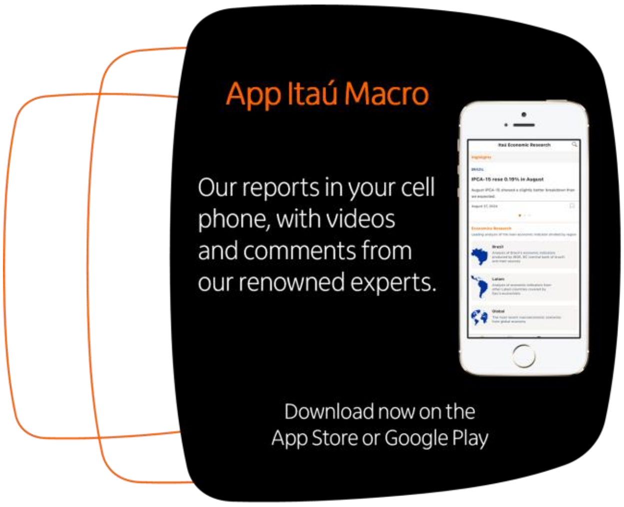

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