Macro scenario - Peru

July 14, 2025

Growth revised up

▶ Even though tariff uncertainty remains high, we revised our 2025 GDP growth forecast up slightly to 2.9%, in the context of record high terms-of-trade, an improving labor market, and positive private sector sentiment. Sequential core and overall inflation readings are consistent with annual inflation stabilizing near the 2% target, and we revised our year-end inflation call down slightly to 2.2%, from 2.3%. We anticipate that the central bank will likely implement one additional 25bp rate cut this year, bringing the policy rate to 4.25%, followed by a further reduction to 4.0% in early 2026. Risks appear skewed toward a front-loaded easing cycle.

Activity momentum remains positive

Sequentially, activity rose by 0.4% MoM/SA in April, breaking a string of subdued growth figures that had averaged 0.1% since December 2024. On an annual basis, the monthly GDP proxy rose by 1.5% YoY/SA, primarily driven by the services sector. Overall, activity momentum remains positive. As such, the statistical carryover for the year maintaining end-April levels reaches 2.6%. Separately, the unemployment rate continues to gradually decline towards the NAIRU estimate, driven by job creation, supporting the recovery of the real wage bill. Business confidence remains in optimistic territory and imports of capital goods continue to grow at a rapid pace which indicates that the recovery of private investment is ongoing.

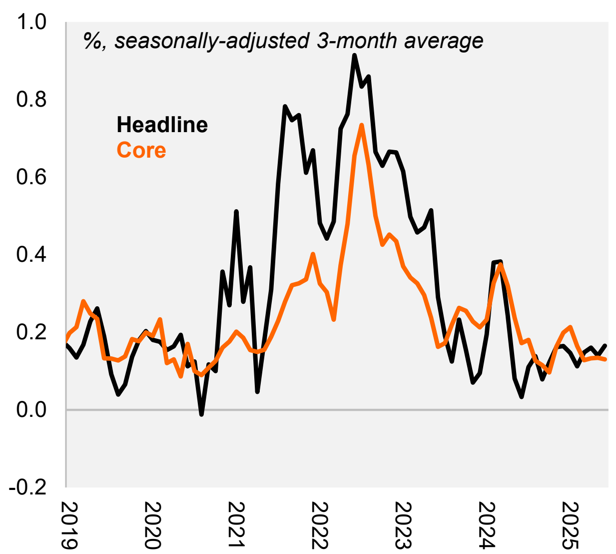
Better positioned to face global shocks

Peru's strong external position continued in May, as terms-of-trade have reached historical highs. In May, the 12-month cumulative trade surplus rose to USD 26.2 billion (9 % of GDP), up from USD 18 billion a year earlier. At the margin, however, exports fell by 1.5% YoY mainly due to lower mining-related export volumes. Peru's goods exports to the US reached USD 4 billion through May, up by 34% with respect to the same period in 2024, likely indicating a frontloading of exports, particularly copper.

Well behaved inflation

Consumer prices rose by 0.13% from May to June, primarily driven by higher food prices. Excluding volatile food and energy items, core inflation was a soft 0.1% m/m. Sequential price dynamics are consistent with annual inflation near or below the 2% target; annualized headline inflation over the last quarter reached 1.9%, while core is lower at 1.6%. On an annual basis, inflation edged up 1bp to 1.69% in June. Overall, inflation has printed in the bottom half of the ±1% tolerance range of the BCRP's 2% inflation target for seven consecutive months. Core inflation (excluding food and energy) rose by 1.7% y/y, approaching a four-year low. Survey-based one-year inflation expectations have remained within the inflation target's tolerance range since December 2023, declining slightly to 2.28% in June.

Sequential pressures remain well-behaved

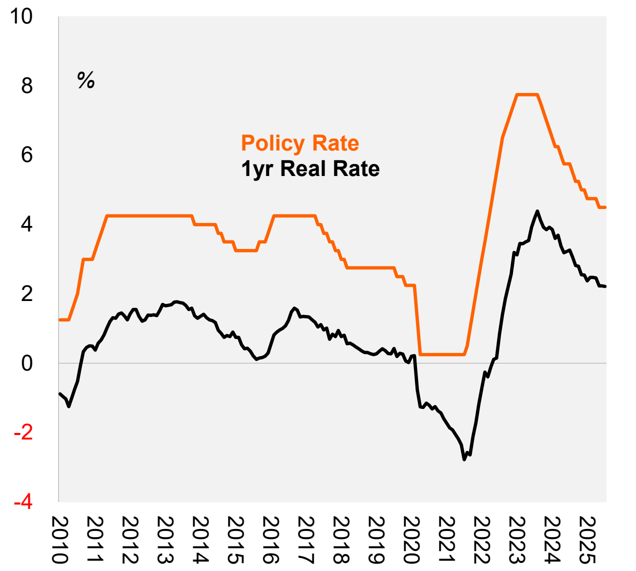


Source: INEI, Itaú

Fiscal deficit fell at the margin

Revenues continue to improve, with cyclical real revenues rising by 16% YoY in the quarter ending in May. In parallel, non-financial real expenditure increased by 5.1% YoY during the same period. As a result, the 12- month accumulated fiscal deficit fell by 20 basis points to 2.7% of GDP in May, still well above the 2.2% official target. Importantly, the authorities plan on revising the 2025 fiscal deficit target to 2.8% of GDP. This proposal comes in the context of two consecutive annual fiscal misses, even when the fiscal deficit target was eased in 2024. The Fiscal Council flagged elevated fiscal risks related to Congress' initiatives that reduce revenues and increase structural expenditures. While public debt remains low, persistent misses of the fiscal deficit targets pose the risk of eroding the fiscal institutional framework, one of the key pillars that has contributed to Peru's macro stability over time.

Real interest rate close to neutral



Source: BCRP, Itaú

Not in a rush to cut

In its July monthly monetary policy meeting, the Central Bank of Peru (BCRP) expectedly maintained its policy rate at 4.5%. The guidance remained data-dependent, offering no clear indication of the next policy move. The BCRP reiterated concerns about the external environment, characterized by a slower convergence of inflation toward target levels in several economies and a more subdued outlook for global economic activity amid persistent uncertainty and restrictive trade measures. In this context, the BCRP acknowledged ongoing volatility in global financial markets and a deterioration in global growth prospects.

Growth revised up slightly

We revised our 2025 GDP growth forecast upward 2.9% from 2.8%, as a result of stronger tracking. Given that demand for copper is relatively inelastic (with average estimates ranging from -0.3 to -0.4), a decline in U.S. imports is expected to be gradual. For 2026, we project a slight moderation in Peru's GDP growth rate to 2.7%, amid expectations of a global slowdown. Terms of trade are projected to remain elevated, and the current account is forecasted at a surplus of 1.2% of GDP this year. Despite near term tariff-related pressure on the currency, we revised our year-end exchange rate forecast from 3.8 to 3.6, due to our view for a weakening of the global dollar.

We also revised our year-end CPI call down to 2.2%, from 2.3%, driven by tracking, global oil price dynamics, and the currency's performance. We maintained our year end 2026 CPI call at the BCRP's inflation target of 2%.

The benign inflation outlook, in the context of activity growing close to potential, supports our view that the central bank will maintain its plan to take the policy rate to the 4% neutral over time. We forecast an additional 25 basis point rate cut this year to 4.25%. The timing and magnitude of further easing will likely depend on external conditions. We maintain our forecast that the easing cycle will conclude with the policy rate at 4% in early 2026.

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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**	2.8	**2.7**	2.7
Nominal GDP - USD bn	210	230	248	272	295	**328**	304	**346**	319
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	**9,313**	8,643	**9,842**	9,049
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	**2.2**	2.3	**2.0**	2.0
Interest Rate									
Monetary Policy Rate - eop - %	0.25	2.50	7.50	6.75	5.00	**4.25**	4.25	**4.00**	4.00
Balance of Payments									
PEN / USD - eop	3.62	4.00	3.81	3.70	3.80	**3.60**	3.80	**3.60**	3.80
Trade Balance - USD bn	8.1	15.1	10.2	17.7	24.0	**24.0**	21.0	**22.0**	18.0
Current Account - % GDP	0.9	-2.1	-4.0	0.8	2.2	**1.2**	0.5	**0.6**	0.2
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**	78.0	**80.0**	78.0
Public Finances									
NFPS Nominal Balance - % GDP	-8.9	-2.5	-1.7	-2.8	-3.6	**-2.7**	-2.5	**-2.4**	-2.2
NFPS Primary Balance - % GDP	-7.3	-1.0	-0.1	-1.1	-1.9	**-0.7**	-0.6	**-0.5**	-0.4
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

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