

Macro scenario - Peru



February 17, 2025

Minor revision of forecasts

- ▶ Following an estimated rise of 3.0% in 2024, we forecast GDP growth of 2.8% for this year. Upbeat business confidence and rising capital goods imports are consistent with our view of an improvement in investment, given our expectation that the recovery in real wages will support private consumption. In the context of persistent downside inflation surprises, we forecast a CPI of 2.0% for YE25, in line with the BCRP's inflation target. Facing a balanced economy growing at potential, inflation expectations in the target range, and the real policy rate at neutral, we believe that the BCRP is likely to hold its monetary policy at 4.75% for the rest of the year.

Well-behaved inflation

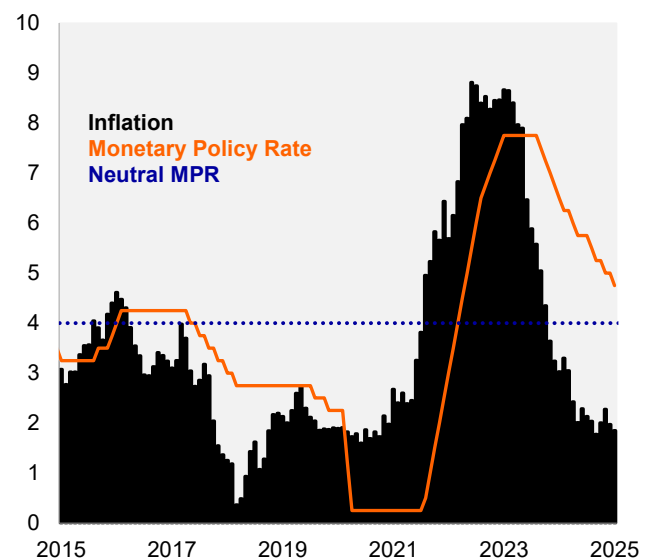
Following the significantly below-expectation print in December, coming in at 0.11% MoM (vs. consensus of 0.3%), headline inflation declined by 0.09% in January (vs. consensus of +0.04%), driven by declines in transportation and food, as well as the normalization of post-holiday travel demand. On an annual basis, headline inflation dropped by 12 bps to 1.85%, slightly below the midpoint of the BCRP's 2% (+/- 1%) target; CPI has remained within the target range for ten consecutive months. Peru has delivered most downside surprises to inflation in the region over the past two years. Importantly, core inflation fell by 0.15% MoM and 2.4% YoY in January, the lowest level of the last three years. Survey-based inflation expectations for the one-year horizon have remained within the inflation target since December 2023. Led by Don Julio Velarde, the Peruvian Central Bank continues to outperform its regional peers in terms of inflation control.

Monetary policy on hold

In its February meeting, the Central Bank of Peru (BCRP) maintained the policy rate at 4.75%. The communiqué removed the wording from the January meeting that the policy rate is near neutral levels. The statement mentions that the external scenario became more challenging since the last meeting, due to a moderation in inflationary convergence to the target in some economies and uncertainty about the impact of trade policies. The BCRP repeated the data dependent guidance, keeping the door open for further rate adjustments depending on inflation (emphasizing the

core index) and its determinants, inflation expectations, and activity. The BCRP has eased by a total of 300bp (peak at 7.75%) throughout the easing cycle that began in September 2023.

Monetary Policy Rate edging close to neutral



Source: BCRP

Activity

Monthly real GDP increased by 4.9% YoY in December. Primary activities benefited from a strong expansion in agriculture (+7.5%), fishing (+76% YoY) and mining (2% YoY in). Secondary activities were positive. Manufacturing rose 11.85% YoY in December, up from 7% YoY in November. Commerce rose 3.6% YoY (3.5% YoY in November), while Hotels

and Restaurants grew by 4.5% YoY in December (4.8% in November), both benefited by withdrawals from pension funds and the recovery of real wages. In contrast, construction contracted 1% YoY (-2.8% in November).

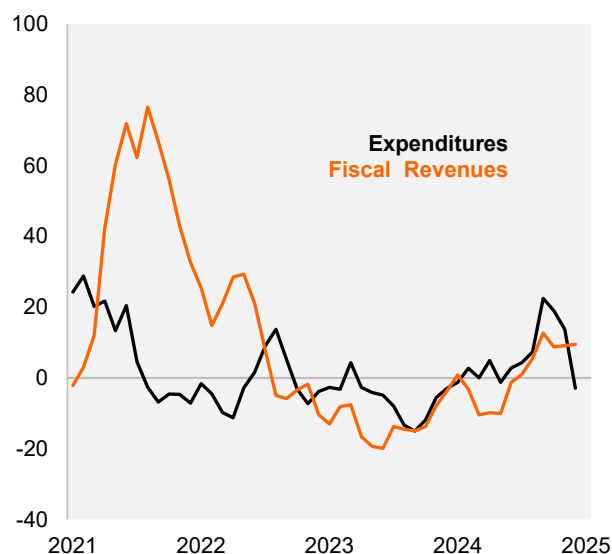
Sequentially, activity fell by 0.2% MoM in December, moderating from the 2% MoM increase in November. Activity momentum remained positive; 4Q2024 variation is tracking at 0.9% qoq sa (3Q24: 1%qoq sa).

The recovery in activity is on track. Most business confidence indicators remain in positive territory. Capital goods imports rose by 9% in 2024, due to expectations of a recovery in private investment.

Fiscal blues take a toll

As anticipated in previous reports, Peru's nominal fiscal deficit ended 2024 at 3.6% of GDP, above the 2.8% official target that had been watered down earlier in the year, mainly driven by lower revenues and increased public investment. The above-target deficit is the country's second consecutive fiscal miss. Following the release, the Minister of Finance was replaced in a cabinet change. The good news is that fiscal revenues improved in 4Q24, with cyclically-related real revenues rising by 9.4% YoY. Still, weak revenue performance during 1H24 led to a modest 2% increase in 2024. Non-financial real expenditures fell by 2.86% YoY in 4Q24, reflecting an expected base effect. Overall, non-financial real expenditures grew by 5% YoY in 2024 relative to 2023.

Low revenues explain part of the 2024 deficit



Source: BCRP, Itaú

Minor changes in our forecasts

We expect inflation to remain within the BCRP's inflation target range through 2025, with activity around its potential level of 3%. That said, the 10% nominal minimum wage hike poses an upside risk to inflation, while base effects from last year's downside inflation surprises could lead to transitory bumps in the inflation path. We believe that the BCRP is likely to hold its monetary policy rate at 4.75% amid a challenging external scenario and high trade uncertainty.

We forecast GDP growth of 2.8% for 2025, similar to last year's estimated pace of 3%. Mining and infrastructure projects are expected to support growth on the supply side, while the recovery in real income and employment, as well as lower borrowing costs, are likely to support private consumption. Strikes related to security concerns and high political uncertainty could pose transitory headwinds to confidence and activity.

A renewed U.S.-China trade war poses downside risks to the growth outlook for Peru. One-third of the country's exports are destined for China, and Chinese companies have significant investments in strategic sectors like mining, energy and logistics. An escalation in the trade war is likely to affect Peru's GDP through a weaker external impulse and less favorable terms of trade.

On the fiscal front, high copper prices and the recovery of economic activity are expected to bolster the improvement in revenues. However, social unrest, and the coming 2026 election could lead to higher tax expenditures.

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Peru | Forecasts and Data

	2020	2021	2022	2023	2024F		2025F		2026F	
					Current	Previous	Current	Previous	Current	Previous
Economic Activity										
Real GDP growth - %	-10.9	13.4	2.7	-0.6	3.0	2.9	2.8	2.8	3.0	3.0
Nominal GDP - USD bn	206	226	244	267	284	284	296	296	311	311
Population (millions)	33.5	33.8	34.2	34.5	34.9	34.9	35.2	35.2	35.0	35.2
Per Capita GDP - USD	6,156	6,690	7,155	7,747	8,140	8,140	8,413	8,413	8,834	8,834
Unemployment Rate - year avg	13.6	10.9	7.7	6.8	6.6	-	7.0	7.0	7.0	7.0
Inflation										
CPI - %	2.0	6.4	8.5	3.2	2.0	-	2.0	2.0	2.0	2.0
Interest Rate										
Monetary Policy Rate - eop - %	0.25	2.50	7.50	6.75	5.00	-	4.75	4.50	4.75	4.50
Balance of Payments										
PEN / USD - eop	3.62	4.00	3.81	3.70	3.80	-	3.80	3.80	3.80	3.80
Trade Balance - USD bn	8.1	15.1	10.2	17.7	24.0	-	19.0	19.0	18.0	18.0
Current Account - % GDP	0.9	-2.1	-4.0	0.8	1.1	0.9	0.3	0.3	0.2	0.2
Foreign Direct Investment - % GDP	0.3	3.2	4.6	1.5	2.5	2.5	3.0	3.0	3.0	3.0
International Reserves - USD bn	74.9	78.5	72.2	71.3	79.0	78.0	78.0	78.0	78.0	78.0
Public Finances										
NFPS Nominal Balance - % GDP	-8.9	-2.5	-1.7	-2.8	-3.6	-	-2.5	-2.5	-2.2	-2.2
NFPS Primary Balance - % GDP	-7.3	-1.0	-0.1	-1.1	-1.9	-	-0.6	-0.6	-0.4	-0.4
NFPS Debt - % GDP	34.5	35.8	33.9	32.9	34.0	34.0	34.2	34.2	34.0	34.0

Source: IMF, INEI, BCRP, Itaú

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