Macro scenario - Peru

September 13, 2024

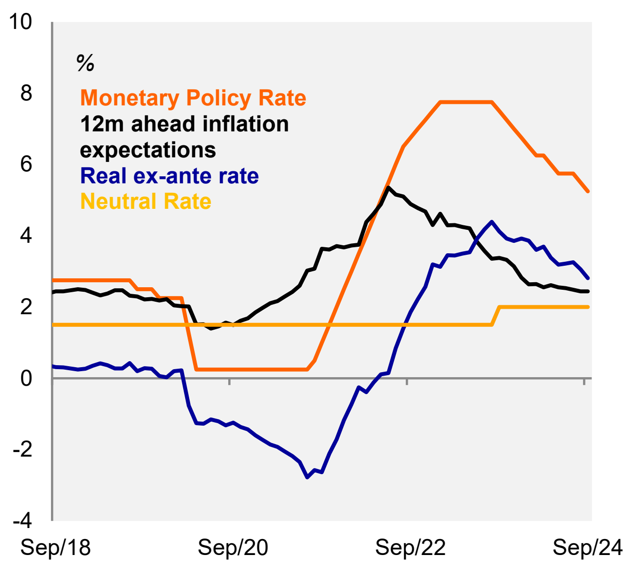
More easing down the road

- Even though the BCRP has cut the policy rate and adjusted the reserve requirement down this year, weaker-than-expected activity data, well-behaved inflation, and expectations of the Fed commencing its easing cycle in September, lead us to expect them to ease again this year with further 25-bp rate cuts (our end-of-year policy rate is at 5.00%).

BCRP lowers the policy rate again

Following the 25-bps surprise cut in August, the Central Bank of Peru (BCRP) cut again in September, taking the policy rate to 5.25%. The statement repeated the data dependent guidance, keeping the door open for further rate adjustments, depending on inflation (emphasizing the core index) and its determinants. In parallel, the BCRP also cut its reserve requirement rate to 5.75%, from 6.0%, after reducing it by the same amount in August. Following the decision, the real ex-ante rate fell to 2.81% (from 3.06%), still above the 2.0% neutral real rate. The BCRP has reduced the policy rate from a nominal peak of 7.75% in September 2023 to the current 5.25% and has gradually reduced the reserve requirement rate from 6.75% in March to 5.75%.

Real rate heading towards neutral



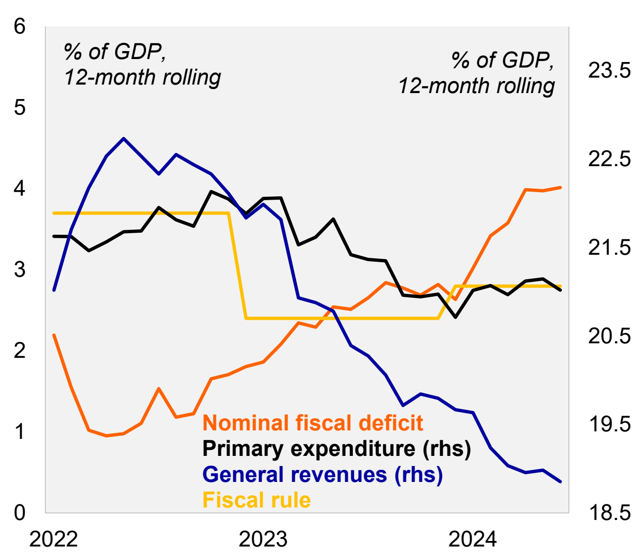
Source: BCRP.

Weaker-than-expected activity data, well-behaved inflation, and the imminent start of the Fed's easing cycle should allow the BCRP to cut the policy rate again later this year. The monthly GDP proxy for June surprised to the downside, falling by 0.2% YoY (down from 5.0% in May), compared with the market consensus of 2.0% and our call of 1.8%. The headline figure was dragged mainly by the agriculture, mining and construction sectors, although we note the services sector is gaining momentum. Sequentially, the monthly GDP fell by 3.3% MoM/SA in June, taking the quarter-over-quarter (non-annualized) growth rate to 1.8% in 2Q24 (from 0.5% in 1Q24). Meanwhile, headline inflation stood at 2.03% YoY in August (from 2.13% in July), still inside the central bank range, while core inflation (excluding energy and food items) stood at 2.78% (from 3.01%).

Fiscal headwinds persist

On a 12-month rolling basis, the nominal fiscal deficit stood at a deficit of 4.0% of GDP in July, practically unchanged compared with June and substantially above the deficit of 2.8% of GDP at the end of 2023. The nominal fiscal deficit is deviating further from the Ministry of Finance's (MoF) target which was recently updated again to 2.8% of GDP (previously at 2.5%) for this year-end. The MoF's nominal fiscal deficit target was increased at the beginning of the year from a deficit of 2.0% of GDP to 2.5% of GDP after missing last year's target (a deficit of 2.8% of GDP, above the deficit target of 2.4% of GDP). The main drag to the fiscal deficit has been soft tax revenues, as they stood at 14.5% of GDP in July, also on a 12-month rolling basis, below a figure of 15.1% of GDP in 2023. Meanwhile, primary expenditures stood at 21.1% of GDP in July, practically unchanged from 2023. High copper prices and activity recovery in 2H24 (although there are risks after June's negative surprise) should help to close the fiscal gap during the rest of the year. While rating agencies seem comfortable with the fiscal accounts (based on recent credit rating actions), another fiscal miss could trigger a reassessment of their views. S&P rates the sovereign 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.

Downside activity bias

Our 2024 GDP growth forecast of 3.1% has a downside bias after June's unexpectedly weak activity print. However, given positive terms of trade and considering that the services sector is gaining momentum, we prefer to wait to assess activity indicators from the beginning of 3Q24 before adjusting our call.

We expect the central bank to cut its policy rate again later this year to 5.00%. Recent activity weakness, well behaved inflation and high odds of the Fed cutting its policy rate in September support our call.

We increased our nominal fiscal deficit forecast to 2.8% of GDP, previously at a deficit of 2.5% of GDP), in line with the fiscal updates of the Ministry of Finance. As a result, our gross debt estimates for 2024 stand at 34.0% of GDP (previously at 33.9% of GDP).

Andrés Pérez M.

Peru | Forecasts and Data

	2019	2020	2021	2022	2023	2024F		2025F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	2.2	-10.9	13.4	2.7	-0.6	**3.1**	3.1	**3.0**	3.0
Nominal GDP - USD bn	233	206	226	244	267	**284**	283	**296**	295
Population (millions)	33.2	33.5	33.8	34.2	34.5	**34.9**	34.9	**35.2**	35.2
Per Capita GDP - USD	7,030	6,156	6,690	7,155	7,747	**8,140**	8,114	**8,413**	8,391
Unemployment Rate - year avg	6.6	13.6	10.9	7.7	6.8	**6.8**	6.8	**7.0**	7.0
Inflation									
CPI - %	1.9	2.0	6.4	8.5	3.2	**2.8**	2.8	**2.5**	2.5
Interest Rate									
Monetary Policy Rate - eop - %	2.25	0.25	2.50	7.50	6.75	**5.00**	5.00	**4.25**	4.25
Balance of Payments									
PEN / USD - eop	3.31	3.62	4.00	3.81	3.70	**3.80**	3.80	**3.80**	3.80
Trade Balance - USD bn	6.9	8.1	15.1	10.2	17.7	**18.5**	18.5	**18.0**	18.0
Current Account - % GDP	-0.6	0.9	-2.1	-4.0	0.8	**0.8**	0.8	**-0.7**	-0.7
Foreign Direct Investment - % GDP	2.0	0.3	3.2	4.6	1.5	**2.5**	2.5	**3.0**	3.0
International Reserves - USD bn	68.4	74.9	78.5	72.2	71.3	**74.0**	74.0	**76.0**	76.0
Public Finances									
NFPS Nominal Balance - % GDP	-1.6	-8.9	-2.5	-1.7	-2.8	**-2.8**	-2.5	**-2.2**	-2.2
NFPS Primary Balance - % GDP	-0.2	-7.3	-1.0	-0.1	-1.1	**-1.1**	-0.8	**-0.4**	-0.4
NFPS Debt - % GDP	26.5	34.5	35.8	33.9	32.9	**34.0**	33.9	**34.2**	34.1

Source: IMF, INEI, BCRP, Itaú

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