

Macro scenario - Peru



April 16, 2025

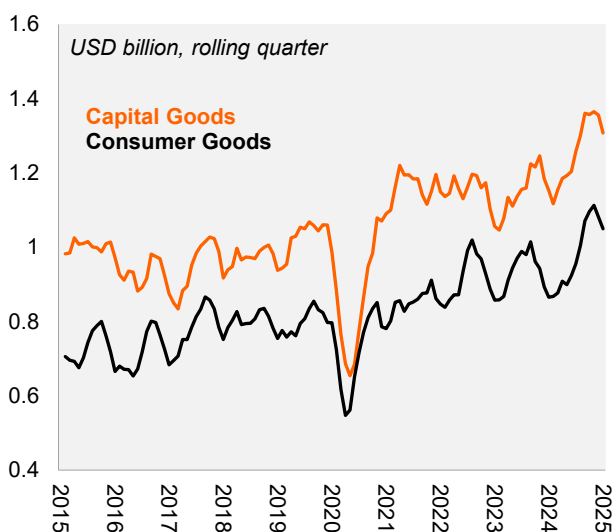
Opening the door for more cuts

- ▶ As a result of changes to our global scenario, we have removed the upside bias from our 2025 GDP forecast, setting it at 2.8%. We also slightly revised our 2026 GDP growth forecast down to 2.7% from 3.0%. Recent volatility in copper prices and elevated trade policy uncertainty may lead to delays in the projected recovery of mining-related investment.
- ▶ Well-behaved inflation and inflation expectations, combined with the anticipated deterioration of the global economic outlook and our call for Fed cuts this year, lead us to expect the BCRP to cautiously resume its easing cycle later this year towards the 4.25% level.

Activity evolved favorably at the start of 2025

A good start to the year ... Following a strong end to 2024, with GDP rising by 1.3% QoQ SA in 4Q24, the monthly real GDP proxy has increased by 0.2% MoM/SA this year through February. Including February's data, the carryover for 2025 stands at an elevated 1.8%. Leading indicators point to good momentum. Most business confidence indicators remain in positive territory, while capital goods imports rose by 14% YoY in the rolling quarter ending in February. However, these leading indicators likely do not yet reflect the intensification of global trade tensions, which could delay the expected recovery of mining-related investment.

Import growth driven by investment recovery



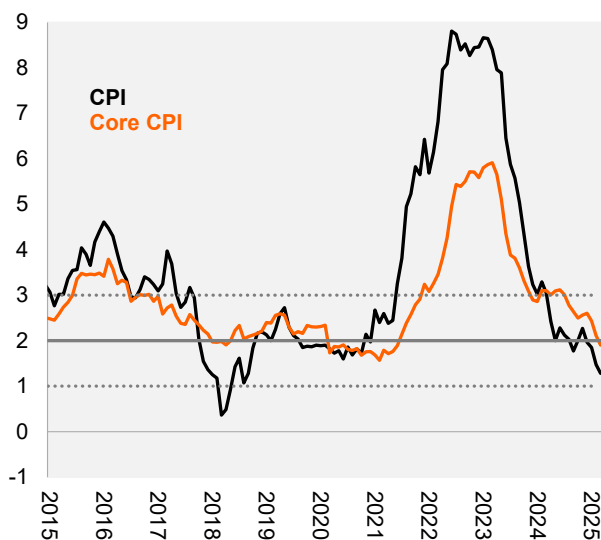
Source: BCRP, Itaú

Peru also targeted with a 10% tariff. Even though the economy has a free trade agreement with the US, a 10% tariff was imposed on Peruvian exports to the US. However, copper and other goods were exempt. Peru's exports to the US, mainly minerals and agricultural products, amounted to USD 9.3 billion in 2024, equivalent to 12% of Peru's exports and roughly 3% of GDP. Peru appears less vulnerable to external shocks than other regional peers, with international reserves at 28% of GDP and a current account surplus of 2.2% of GDP in 2024.

Inflation control in a class of its own

Peru is the only economy in the region where inflation has fallen below the center of the inflation target – an ongoing masterful performance by Governor Velarde. In this context, inflation rose by a temporarily high 0.81% m/m in March, mainly driven by food, alcoholic beverages, and education due to the annual adjustment. On an annual basis, inflation fell by 20 basis points to 1.28%, edging further towards the lower bound of the BCRP's 2% (+/- 1%) target. Headline inflation has remained within the target range for twelve consecutive months. Core inflation (excluding food and energy) rose by 0.64% in March, leading to a 1.9% YoY increase, its lowest level since 2021. Inflation expectations for the one-year horizon have remained within the inflation target since December 2023, declining to 2.28%.

Ex-food & energy inflation reached its lowest level since 2021



Source: INEI, Itaú

Policy rate still on hold

In its monthly monetary policy meeting held in April, the Peruvian Central Bank (BCRP) maintained the policy rate at 4.75%. The rate has been at this level since January, bringing the real ex-ante rate to 2.47%, slightly above the 2% neutral rate. The BCRP's communique noted that hard data suggested economic activity in Peru had been gaining traction in recent months, with output expanding near potential. However, the BCRP highlighted the deterioration in the global economic outlook due to rising policy uncertainty and trade tensions, along with increased inflation expectations in several economies, including the US. In this context, the BCRP kept the neutral guidance from last month's statement unchanged.

Forecasts

A more cautious activity outlook. Last month, we highlighted upside risks to our activity outlook. However, due to changes in our global scenario, we have maintained our 2025 GDP forecast at 2.8% and removed the upside bias. We also slightly revised our 2026 GDP growth forecast down to 2.7% from 3.0%. Recent volatility in copper prices and elevated trade policy uncertainty may lead to delays in the projected recovery of mining-related investment.

Well-behaved inflation. Our forecast for year-end 2025 inflation stands at 2.3%, while for year-end 2026, we have revised it to 2.0%, driven by somewhat weaker domestic demand and lower oil prices. In the near term, we anticipate a moderation in inflation in April, followed by a rebound in the coming months due to adverse base effects.

Opening the door for more rate cuts. With well-behaved inflation and inflation expectations, along with the anticipated deterioration of the global economic outlook and our forecast for Fed cuts, we expect the BCRP to cautiously resume its easing cycle. We anticipate two additional cuts of 25 basis points this year, bringing the rate to 4.25%, and then to 4.0% in 2026, moving the policy rate towards neutral.

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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	2.8	2.8	2.7	3.0
Nominal GDP - USD bn	206	226	245	268	289	304	295	319	310
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	8,643	8,381	9,049	8,800
Unemployment Rate - year avg	12.8	11.3	7.7	6.9	6.6	7.0	7.0	7.0	7.0
Inflation									
CPI - %	2.0	6.4	8.5	3.2	2.0	2.3	2.3	2.0	2.2
Interest Rate									
Monetary Policy Rate - eop - %	0.25	2.50	7.50	6.75	5.00	4.25	4.75	4.00	4.75
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	21.0	21.0	18.0	18.0
Current Account - % GDP	0.9	-2.1	-4.0	0.8	2.2	0.5	0.5	0.2	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	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	32.7	34.2	34.2	34.0	34.0

Source: IMF, INEI, BCRP, Itaú

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