

Macro scenario - Peru



June 13, 2025

Recovery on Track

- ▶ Sequential core and headline inflation readings are stable, while medium-term inflation expectations remain comfortably within the BCRP's target range. In this context, we see room for an additional 25-bp cut to 4.25% before year-end and to 4.0% in early 2026, with risks leaning towards a frontloading of the cycle. Peru's massive chest of foreign exchange reserves (28% of GDP) provides good insurance for a shrinking of the interest rate differential.

Growth moderated at the margin

GDP grew by 3.9% YoY in 1Q25, and sequentially decelerated expanding by 0.6% QoQ/SA, down from 1.2% QoQ/SA in the previous quarter. Activity was supported by strong public investment (+23.4% QoQ/SA), solid export growth (+9.5% QoQ/SA), and a further pickup in public consumption (+3.2% QoQ/SA). Private consumption rose by 0.7% QoQ/SA, marking its sixth consecutive quarterly gain, while imports increased by 2.1% QoQ/SA. Although gross capital formation contracted sharply (-9.5% QoQ/SA), total fixed investment posted a solid 4.2% gain, implying a drag from inventories. From the supply side, mining and construction were key drivers, offsetting softness in agriculture and manufacturing. National accounts data were revised slightly, implying a 0.1pp slower growth in 2024, and a more gradual sequential acceleration of activity towards yearend.

High copper prices are supporting a recovery in mining investment. Imports of capital goods continue to increase at a double-digit annual pace, and business confidence remains positive following "Liberation Day." However, elevated local and global policy uncertainty may dampen confidence and activity in the coming months.

Headwinds to a still solid external sector

A USD 1.03 billion surplus (1.4% of GDP) was registered at the start of the year, higher than the USD 0.5 billion surplus a year ago (0.8% of GDP). This surplus was driven by a trade surplus in goods (USD 6.9 billion). Part of the surplus was offset by a growing income deficit (USD 5.6 billion) as high copper prices boosted FDI profits. The rolling four-quarter current

account balance showed a solid surplus of 2.3% (compared to 2.2% in 2024), the highest balance since 2006, benefiting from positive terms of trade.

Deja vu: Official fiscal deficit forecast revised higher

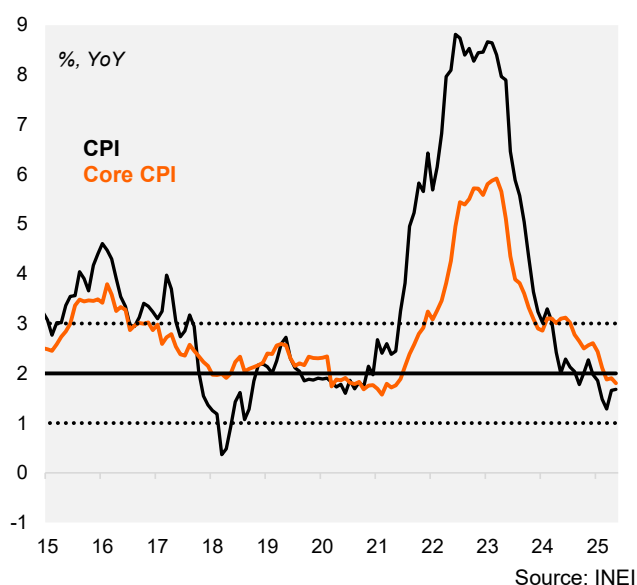
As we anticipated, revenues continue to improve, with cyclical real revenues rising by 16% YoY in the quarter ending in May. Non-financial real expenditure increased by 5.1% YoY in the same period. As a result, the 12-month accumulated fiscal deficit fell by 20 basis points to 2.7% of GDP in May, still well above the 2.2% official target. Despite the revenue improvement, the authorities plan on revising the 2025 fiscal deficit target to 2.8% of GDP. This proposal comes in the context of two consecutive fiscal misses, even when the fiscal deficit target was eased in 2024. The Fiscal Council flagged elevated fiscal risks related to above-consensus official growth forecasts and Congress-related 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.

Inflation pressures remain well contained

Consumer prices fell by 0.06% from April to May, following two upside surprises. The decline was primarily driven by lower food prices—due to the dissipation of food supply disruptions—and lower energy prices. Excluding volatile food and energy items, inflation rose essentially at the same modest monthly pace (0.05%). On an annual basis, inflation increased by 3 basis points to 1.68%. Inflation remains

comfortably within the BCRP's target range of 2% (+/- 1%). Headline inflation has accumulated six consecutive months below the midpoint of the Central Bank's target range, contrasting with the region, which continues to struggle with above-target inflation. Core inflation (excluding food and energy) rose by 1.8% year-over-year, nearing a fourth-year low. Importantly, survey-based one-year inflation expectations have remained within the target since December 2023, declining to 2.27% in May.

Inflation comfortably within target range

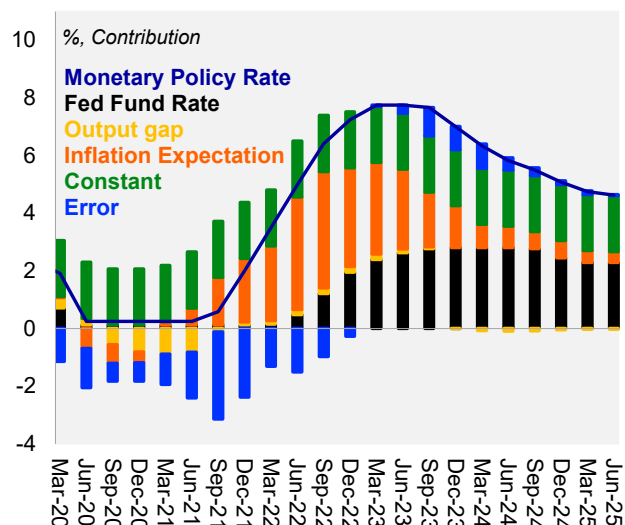


Monetary policy

At its monthly monetary policy meeting, the Central Bank of Peru (BCRP) maintained its policy rate at 4.5%, in line with our expectations and the Bloomberg consensus. The guidance remained data-dependent, offering no clear indication of the next policy move. Notably, the BCRP's communiqué removed the statement that the policy rate is approaching neutral.

Despite the recent de-escalation of trade policy uncertainty, the BCRP expressed continued concern 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.

The Fed's dynamics will play a role in future decisions



Minor revision to the forecasts

We added an upward bias to our 2.8% GDP forecast for 2025, supported by the investment recovery, a robust labor market, and positive terms of trade, among others. The potential approval of another pension fund withdrawal this year could boost private consumption in the short term, though it may further erode domestic savings. Domestic policy uncertainty may rise as presidential and legislative elections approach. Additionally, uncertainty regarding global trade tensions could impact private sentiment and slow the pace of the activity recovery next year, which we project at 2.7%.

We expect a narrower current account surplus of around 0.5% of GDP this year as the domestic demand recovery continues and the global export pull moderates. We foresee downside risks to the forecast from the potential slowing of US workers' remittances and the impact of US tariffs.

We anticipated year-on-year headline inflation to rise moderately in the coming months due to base effects, reaching 2.3% by the end of the year. Inflation is projected to fall to the midpoint of the BCRP's target by 2026. The balance of risks tilts to the downside, especially if more favorable Sol dynamics persist and global demand weakens as expected.

Following the recent 25 bp rate cut surprise in May, the interest rate differential between the Fed and the BCRP has closed. Given that inflationary pressures remain under control, there is room for at least one more 25 bp rate cut this year. We anticipate the cycle ending 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	2.8	2.8	2.7	2.7
Nominal GDP - USD bn	206	226	245	268	289	304	304	319	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	8,643	8,643	9,049	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	2.3	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	3.80	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

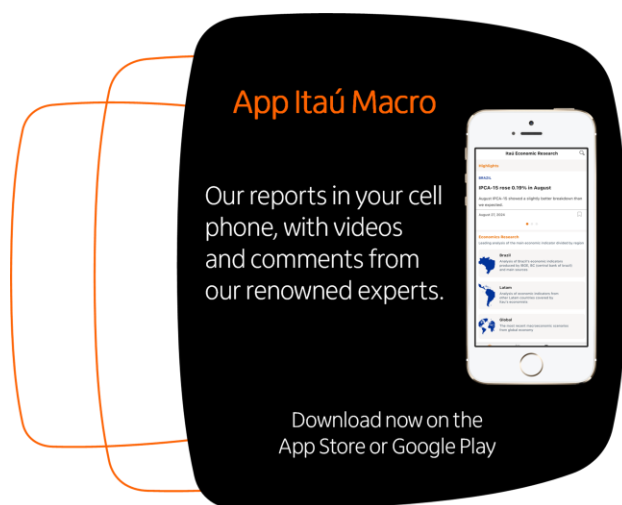
Source: IMF, INEI, BCRP, Itaú

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