

Macro scenario - Peru



March 17, 2025

A most successful central bank

- ▶ Following a faster-than-expected GDP recovery in 2024, we forecast GDP growth of 2.8% for 2025, as leading indicators suggest that the momentum remains solid. Inflation is likely to remain at the BCRP's 2% (+/- 1%) target in 2025. We expect the central bank to maintain the monetary policy rate at 4.75% this year, amid a challenging external backdrop and greater global policy uncertainty.

A faster recovery

GDP posted sequential growth of 1.3% QoQ SA in 4Q24 (up from 0.4% QoQ SA in 3Q24), led by investment and private consumption. Gross fixed investment increased by 4% QoQ, reflecting the improvement in business confidence and lower borrowing costs. Private consumption rose by 0.7% QoQ in 4Q24, marking the fifth consecutive sequential expansion, supported by the real wage bill. Public consumption rose by 0.6% QoQ in 4Q24, after three consecutive declines. This drove domestic demand up by 2.9% QoQ in 4Q24. Overall, GDP increased by 4.2% YoY in 4Q24, beating market expectations.

As a result, GDP grew by 3.3% in 2024, marking a swifter-than-expected rebound from the 0.6% contraction in 2023. In January, the monthly GDP proxy rose by 0.3% MoM/SA, lifted by construction and fishing. Based on the January data, the statistical carryover for 2025 stands at 2.1%. Leading indicators suggest that the economic momentum remains healthy, with business confidence in positive territory and capital goods imports rising by 9.6% in the moving quarter through December, but some payback in 1Q25 is expected.

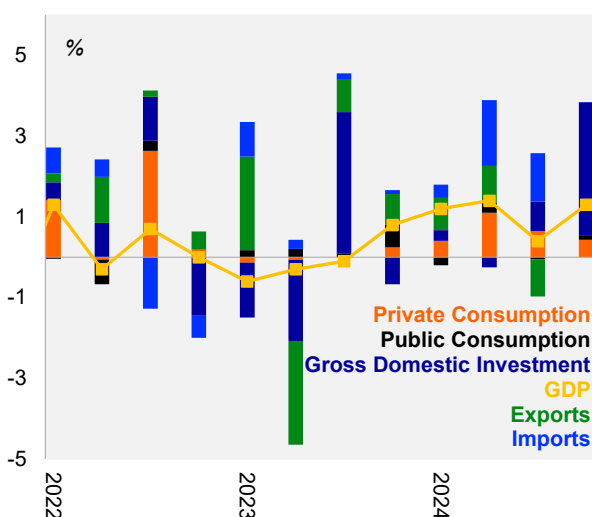
Better revenue dynamics

Fiscal revenues continue to improve, with cyclical real revenues rising by 14.4% YoY in the rolling quarter ending in February. Non-financial real expenditure rose by 1.9% YoY in February, driven by public investment, while current expenditures grew at a slower pace. However, the 12-month accumulated fiscal deficit reached 3.5% of GDP in February, down from 3.7% of GDP in January but further above the 2.2% official target. Compliance with this year's target deficit, following two consecutive years of misses, will require controlled spending and continued revenue momentum.

Inflation control in a class of its own

Headline inflation rose by 0.19% mom in February, essentially in line with market forecasts, driven by restaurants and hotels, food and non-alcoholic beverages, and education. On an annual basis, headline inflation dropped to 1.48% in February (from 1.85% in January), edging toward the bottom half of the BCRP's 2% (+/- 1%) target; CPI has remained within the target range for eleven consecutive months. Core inflation (excluding food and energy) rose by 0.19% and 2.1% YoY in February, the lowest level in three years. Survey-

Contributions to quarterly change in GDP



Source: INEI

based inflation expectations for the one-year horizon have remained within the inflation target since December 2023, having declined at the margin to 2.28%. Very ably led by Don Julio Velarde, the Peruvian Central Bank continues to outperform its regional peers in terms of inflation control.

Holding rates

At the March meeting, the Central Bank of Peru (BCRP) left the policy rate at 4.75%. The statement mentions that the external scenario had become more challenging, due to a moderation in inflationary convergence to the target in some economies and uncertainty about the impact of potential trade policies. The BCRP reiterated 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 one-year real ex-ante rate stands at 2.47%, close to the 2.0% neutral real rate. The BCRP has cut rates by a total of 300 bps (from a peak of 7.75%) throughout the easing cycle that began in September 2023.

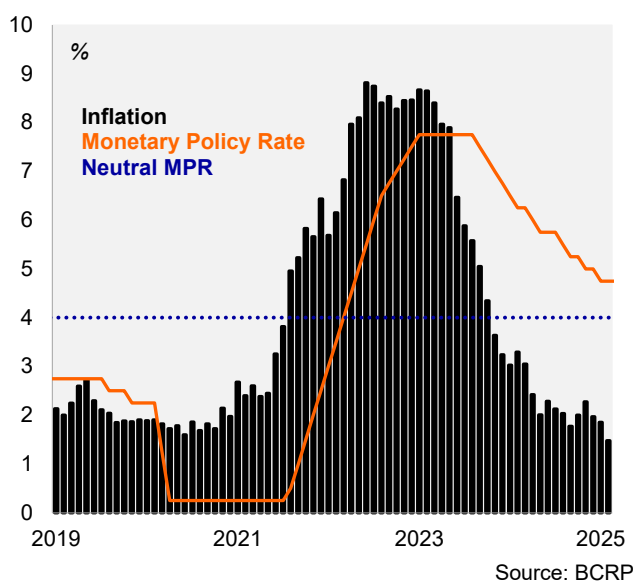
Forecasts

Activity continued to perform favorably. We maintain our 2025 GDP growth forecast of 2.8%, with the risks tilted to the upside. 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. Measures announced by the authorities to boost growth through deregulation and tax incentives may yield positive effects over time.

We raised our 2025 inflation forecast from 2% to 2.3%, recalibrating the base effects from the downside inflation surprises. We anticipate a strong inflation print for March, due to an adjustment in education fees, as the 10% nominal minimum wage hike poses an upside risk to inflation.

The BCRP is likely to keep the monetary policy rate on hold at 4.75% through 2025, amid a challenging external backdrop and higher trade uncertainty. However, downward inflation surprises and well-behaved inflation expectations could lead the BCRP to deliver an additional 25-bp cut, taking the monetary policy rate to 4.5%.

Monetary Policy Rate and inflation



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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	2.7	-0.6	3.3	2.8	2.8	3.0	3.0
Nominal GDP - USD bn	206	226	244	267	282	295	296	310	311
Population (millions)	33.5	33.8	34.2	34.5	34.9	35.2	35.2	35.2	35.0
Per Capita GDP - USD	6,156	6,690	7,155	7,747	8,077	8,381	8,413	8,800	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	2.3	2.0	2.2	2.0
Interest Rate									
Monetary Policy Rate - eop - %	0.25	2.50	7.50	6.75	5.00	4.75	4.75	4.75	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	19.0	18.0	18.0
Current Account - % GDP	0.9	-2.1	-4.0	0.8	2.2	0.5	0.3	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

Macro Research – Itaú

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