

Macroeconomic Research
Macro Scenario – Peru
December 2024

Peru: A balanced economy with rising external headwinds

1. Activity recovery remains on track

- Robust real GDP growth in 3Q24 driven by private consumption, investment and exports

2. Inflation to remain within the BCRP's target range

- Core inflation is subdued, while one-year expectations stopped declining at 2.5%, close to the upper bound of the 1-3% target range.

3. Policy rate gradually nears neutral

- In the context of heightened global uncertainty, fewer Fed cuts, and above target inflation expectations, the BCRP will gradually cut to 4.5%

4. Short-term fiscal stress persists

- The fiscal deficit remains elevated, posing challenges to meet this year's 2.8% deficit target as headwinds linger for next year

5. Approval of the Executive and Congress at historical lows

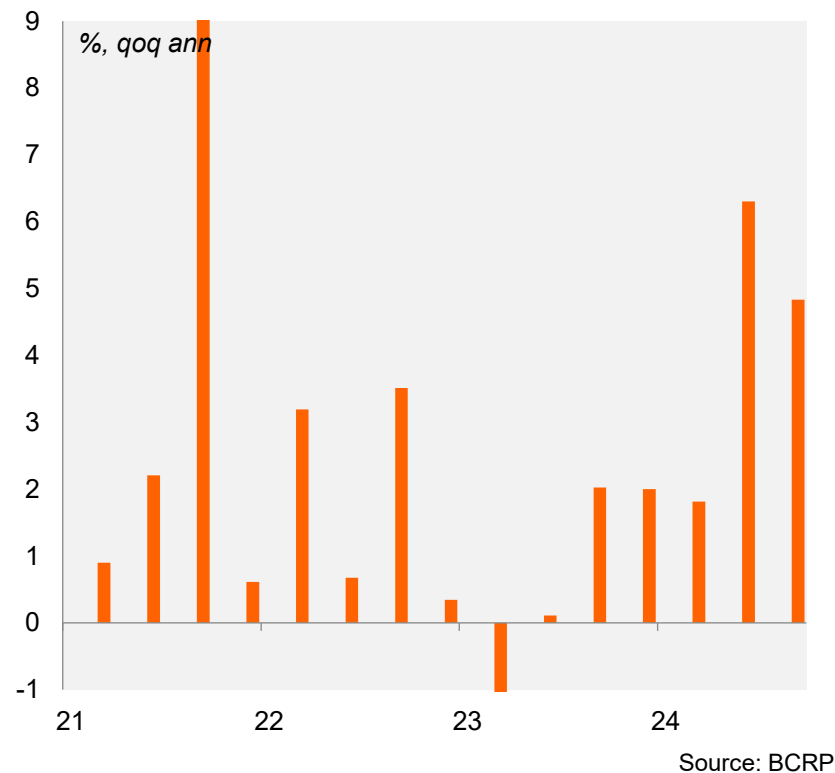
- Presidential and legislative elections in 2026 loom

1. Activity recovery remains on track

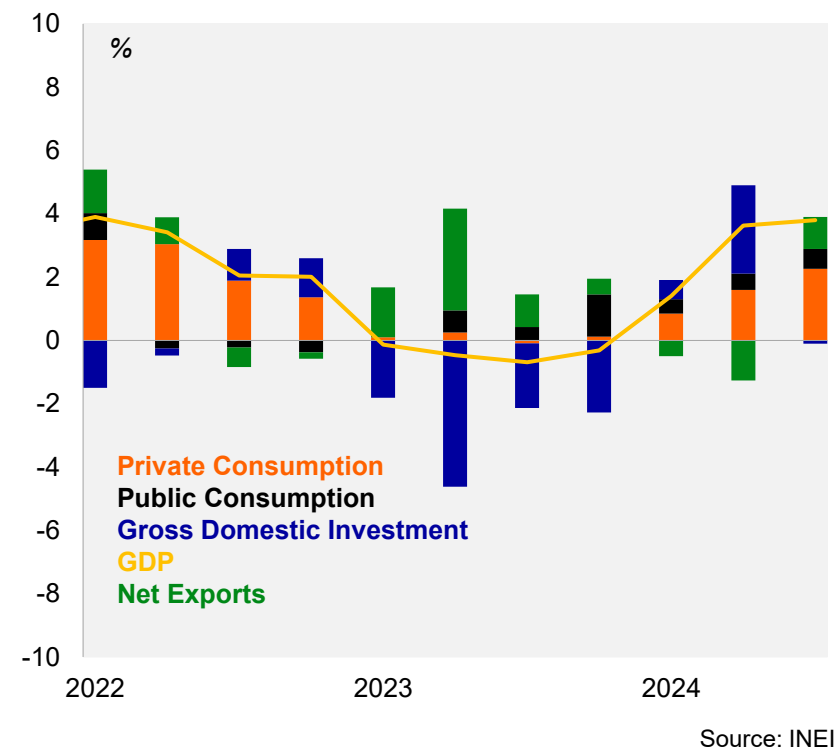
Robust real GDP growth in 3Q24 driven by private consumption, investment and exports

- We expect GDP to rise by 2.9% this year and by 2.8% in 2025, slightly below potential of 3.0%
- The materialization of mining investments pose upside risks to investment dynamics

GDP at the margin



Contributions Annual change in GDP

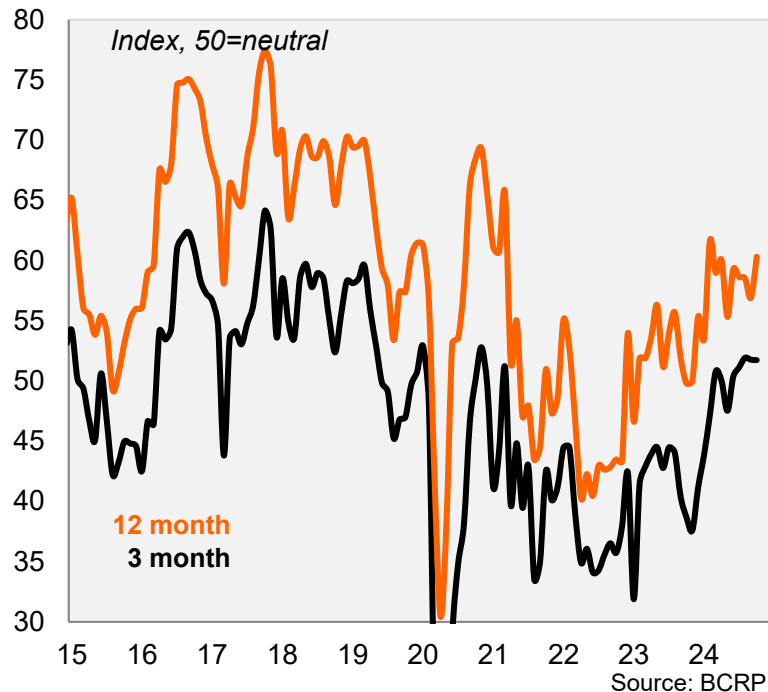


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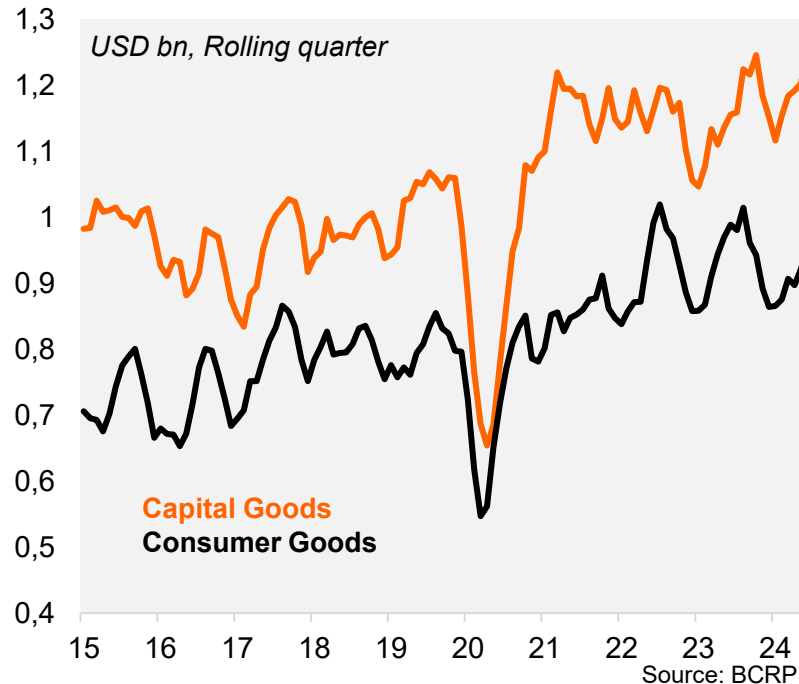
Leading indicators point to good momentum

- Business confidence at the 3- and 12-month horizons have edged back to positive territory in recent months
- Imports of capital goods rose significantly, signaling an expected recovery in investment
- However, bouts of strikes related to security concerns pose short-term transitory downside risks to activity

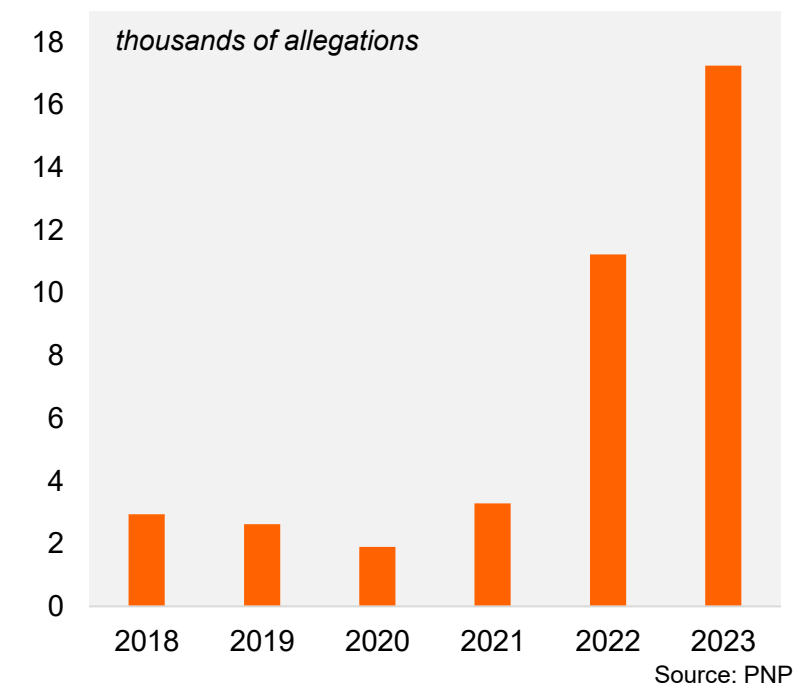
Business confidence



Imports



Number of extortion allegations

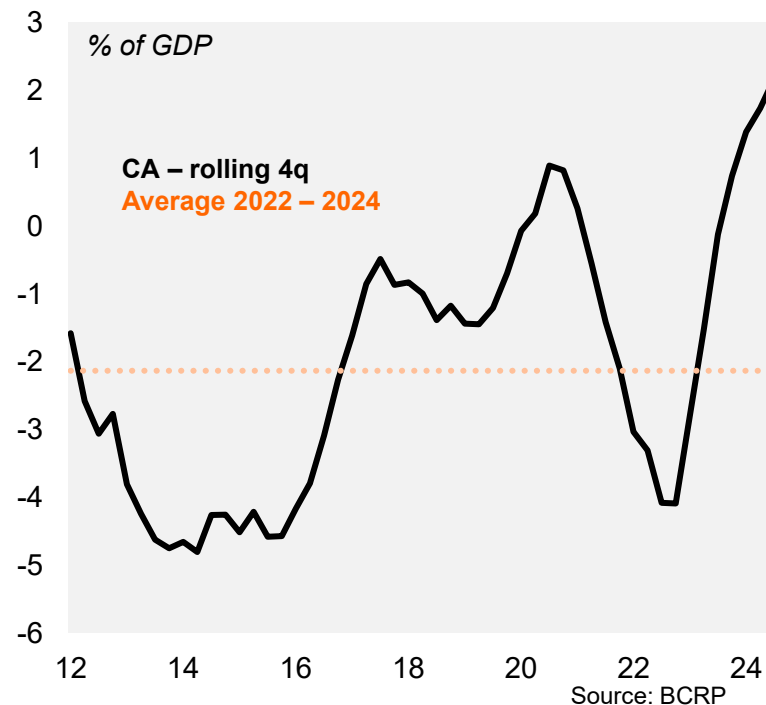


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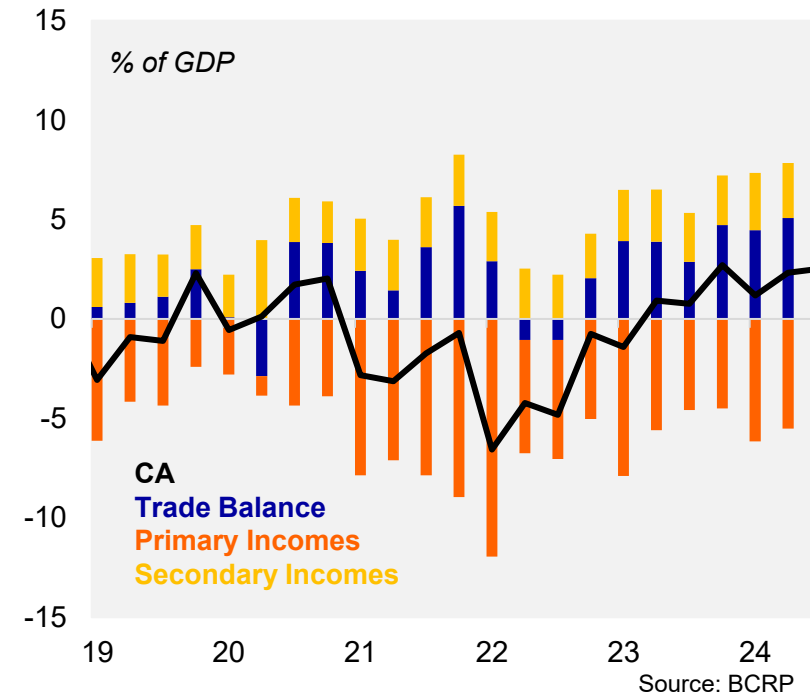
Current account remains solid due to strong exports, that is partially offset by higher imports given the recovery of activity

- The current account recorded a US\$ 1.9 bn surplus (2.5% of GDP) in 3Q24, driven by a record trade surplus.
- We forecast a current account surplus of 0.3% of GDP in 2025.
- China is Peru's main trading partner. A deterioration of the global outlook and ToT pose risks.

Current Account – rolling 4Q



Current Account Decomposition

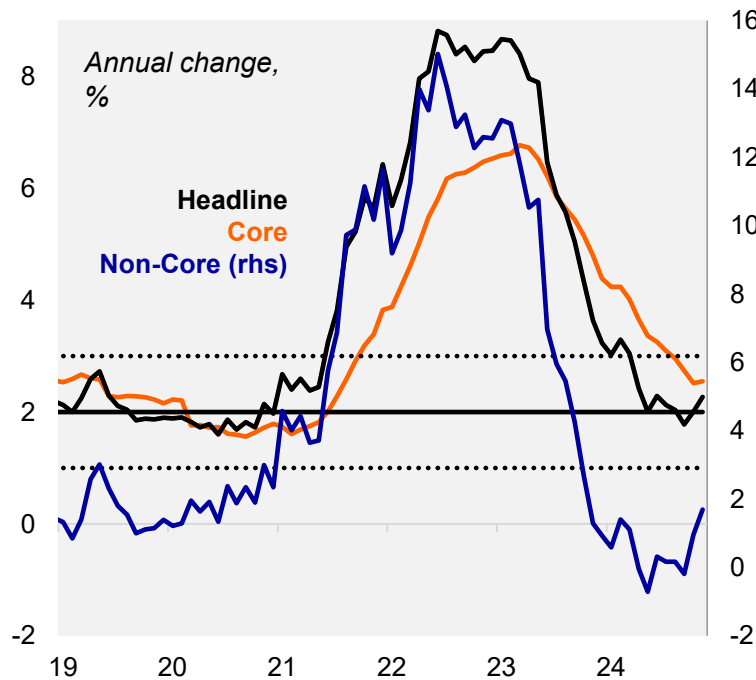


2. Inflation to remain within the BCRP's target range

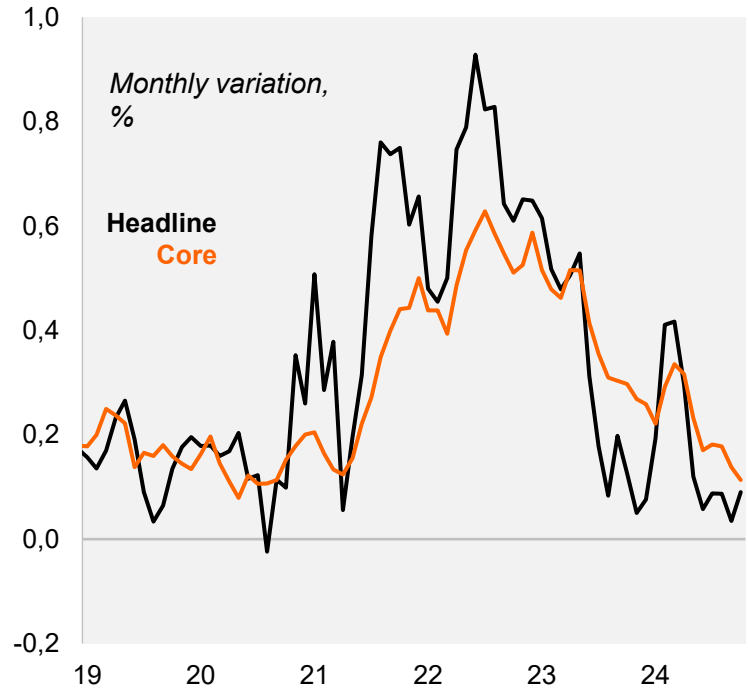
Core inflation is subdued, while one-year expectations stopped declining at 2.5%, close to the upper bound of the 1-3% target range.

- Inflation rose by 0.1% mom in November, while core did so by 0.06% mom.
- One-year ahead inflation expectations steadily fell throughout most of the year, but have since remained sticky at 2.5%.
- We forecast inflation will end 2025 at 2.5%, essentially unchanged from 2.6% in 2024.

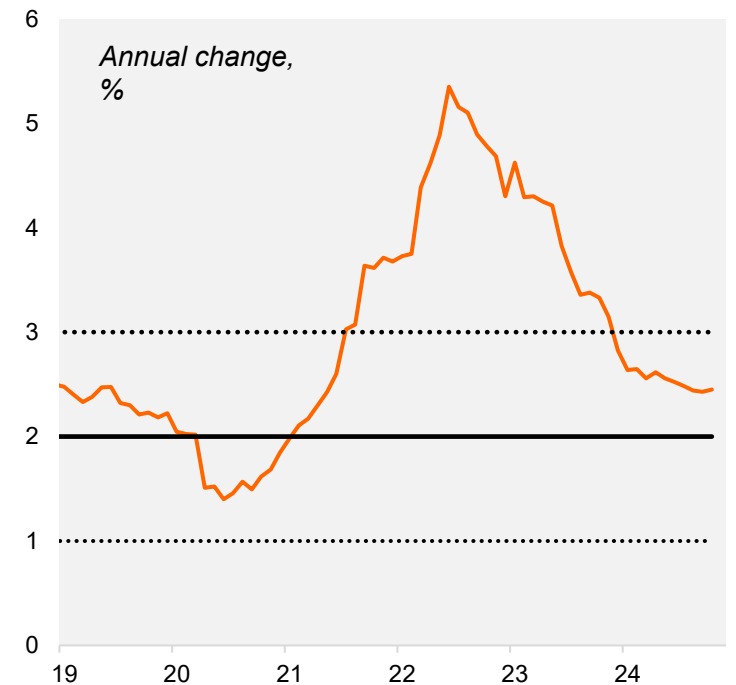
Headline and Core Inflation



Headline and Core Inflation



One-year Ahead Inflation Expectations

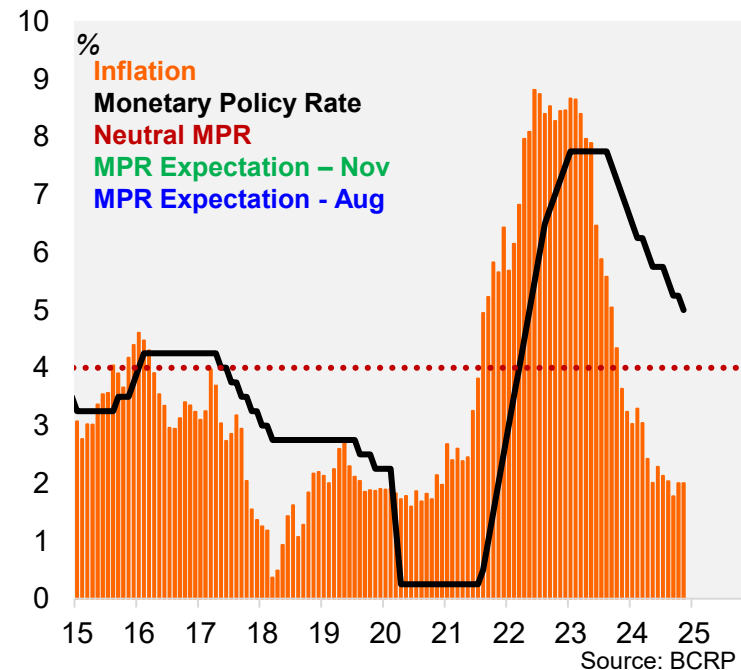


3. Policy rate gradually nears neutral

In the context of heightened global uncertainty, fewer Fed cuts, and above target inflation expectations, the BCRP will gradually cut to 4.5%

- In its December meeting, the Central Bank of Peru (BCRP) maintained the policy rate at 5.00%, in line with market consensus.
- 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, inflation expectations, and activity

Monetary Policy Rate, Expectations and Inflation

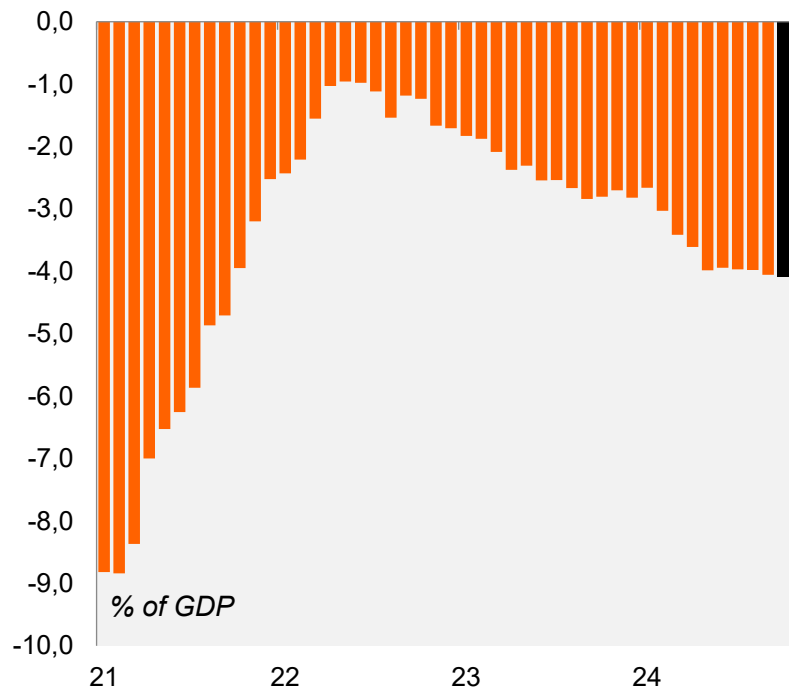


4. Short-term fiscal stress persists

The fiscal deficit remains elevated, posing challenges to meet this year's 2.8% deficit target

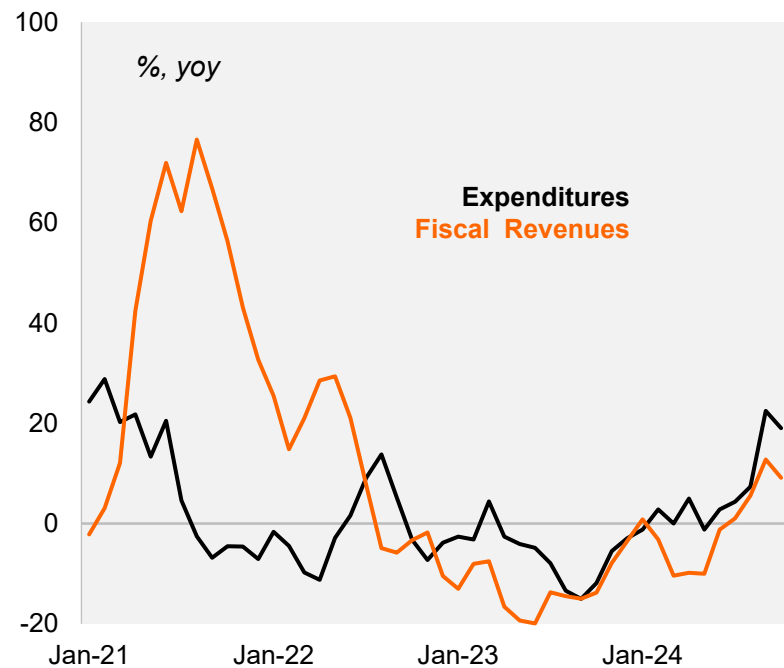
- Lower revenues, greater public investment, and issues at PetroPeru, have contributed to this year's deficit widening.
- Elevated copper prices and the recovery of economic activity should support the improvement in revenues.
- We forecast a fiscal deficit of 2.5% of GDP for 2025.

Public sector fiscal balance



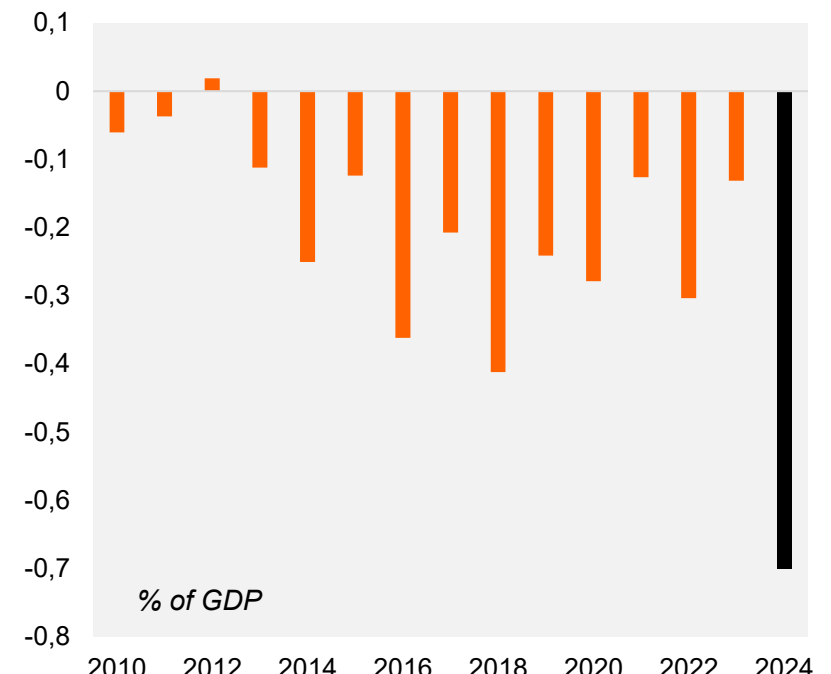
Source: BCRP

Fiscal Revenues and expenditures



Source: BCRP, Itaú

PetroPeru economic result



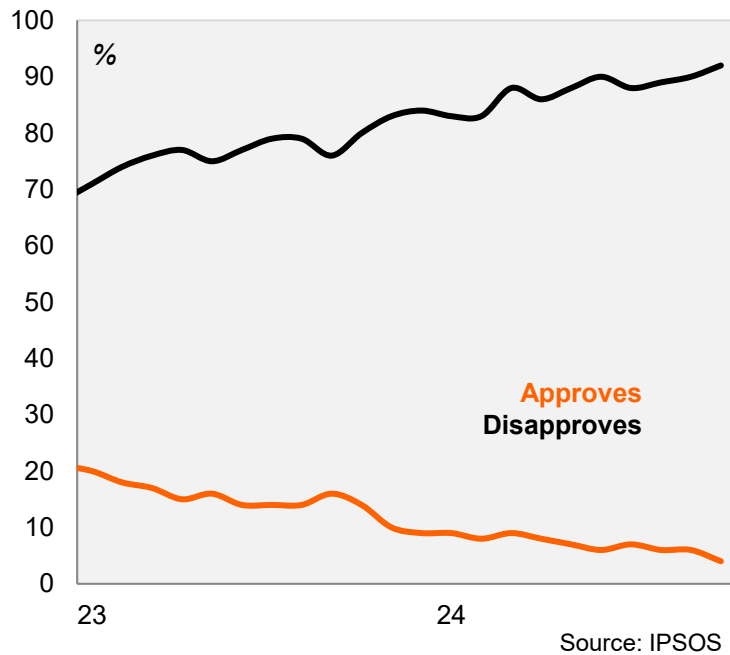
Source: BCRP, Itaú (f)

5. Approval of the Executive and Congress at historical lows

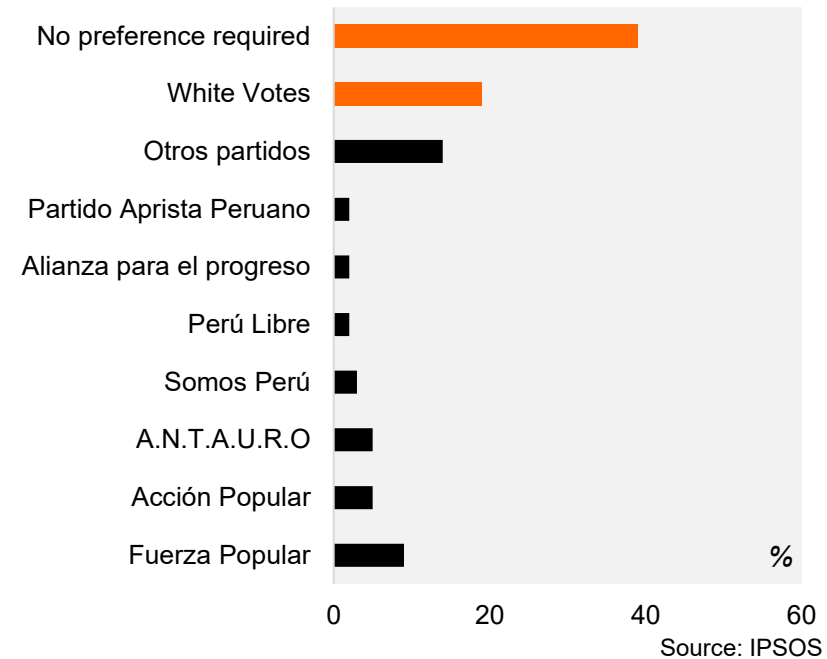
Presidential and legislative elections in 2026 loom

- Disapproval of President Dilma Boluarte rose to its highest ever in the context of the security crisis and strikes
- Polls confirm a fragmented political landscape in the presidential and congressional elections: April 12, 2026

Approval and disapproval Dilma Boluarte



If the presidential election were tomorrow, which party would you vote for?



Peru | Forecast

	2019	2020	2021	2022	2023	2024F		2025F		2026F
						Current	Previous	Current	Previous	Current
Economic Activity										
Real GDP growth - %	2.2	-10.9	13.4	2.7	-0.6	2.9	2.9	2.8	2.8	3.0
Nominal GDP - USD bn	233	206	226	244	267	284	284	296	296	311
Population (millions)	33.2	33.5	33.8	34.2	34.5	35.0	34.9	35.2	35.2	35.0
Per Capita GDP - USD	7,030	6,156	6,690	7,155	7,747	8,140	8,140	8,413	8,413	8,834
Unemployment Rate - year avg	6.6	13.6	10.9	7.7	6.8	6.8	6.8	7.0	7.0	7.0
Inflation										
CPI - %	1.9	2.0	6.4	8.5	3.2	2.6	2.6	2.5	2.5	2.5
Interest Rate										
Monetary Policy Rate - eop - %	2.25	0.25	2.50	7.50	6.75	5.00	5.00	4.50	4.50	4.50
Balance of Payments										
PEN / USD - eop	3.31	3.62	4.00	3.81	3.70	3.80	3.80	3.80	3.80	3.80
Trade Balance - USD bn	6.9	8.1	15.1	10.2	17.7	20.0	18.5	19.0	18.0	18.0
Current Account - % GDP	-0.6	0.9	-2.1	-4.0	0.8	0.9	0.8	0.3	-0.7	0.2
Foreign Direct Investment - % GDP	2.0	0.3	3.2	4.6	1.5	2.5	2.5	3.0	3.0	3.0
International Reserves - USD bn	68.4	74.9	78.5	72.2	71.3	78.0	74.0	78.0	76.0	78.0
Public Finances										
NFPS Nominal Balance - % GDP	-1.6	-8.9	-2.5	-1.7	-2.8	-3.4	-3.2	-2.5	-2.2	-2.2
NFPS Primary Balance - % GDP	-0.2	-7.3	-1.0	-0.1	-1.1	-1.6	-1.4	-0.6	-0.4	-0.4
NFPS Debt - % GDP	26.5	34.5	35.8	33.9	32.9	34.0	34.0	34.2	34.2	34.0

Source: IMF, INEI, BCRP, Itaú

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