Macro scenario - Peru

February 27, 2026

Ongoing political turmoil amid a balanced economy

- Domestic demand is performing well, supported by record terms of trade, low inflationary pressures, and a supportive monetary policy stance. Consequently, GDP continues to be revised upward. We now forecast 2026 GDP growth at 3.1% (+0.2pp from our previous projection). Our upbeat outlook for copper should continue to support terms of trade and mining activity, while household consumption will benefit from a dynamic labor market.
- While inflation expectations remain well anchored, we have postponed the final 25 bps cut to reach the terminal (and neutral) rate of 4% to June 2026 — previously March 2026 — as we expect the BCRP to adopt a more cautious stance given the closed output gap, the timing of upcoming FOMC cuts, and rising domestic political uncertainty ahead of the April 12 general elections.

An open election amid heightened uncertainty

With less than two months remaining before the general elections (April 12, 2026), political uncertainty has intensified after Congress approved a motion of censure and removed President José Jerí, just four months after he took office. Jerí was accused of holding secret meetings with Chinese businessmen, among other issues.

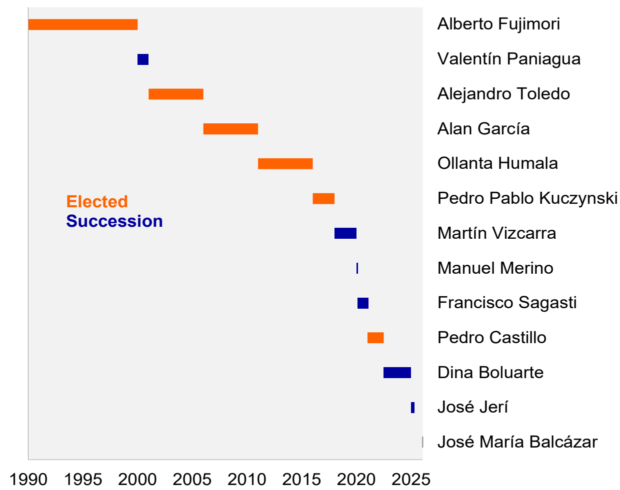
In an unexpected decision, the highly fragmented Congress elected José María Balcázar, a left leaning politician, as its new president. In this position, he is expected to serve as President of the Republic for the remainder of Castillo's five-year term, until July 2026.

In our view, the Balcázar administration is unlikely to implement disruptive policies by the end of its term, especially considering the lack of congressional majorities.

Looking ahead, although a significant share of voters remains undecided (42%), the electorate shows a slight tilt toward right leaning candidates in a jam-packed election with no less than 36 candidates. Conservative candidate Rafael López Aliaga currently leads the race with 12% support, followed by three time presidential contender Keiko Fujimori of Fuerza Popular, with 8%. Behind the two leading candidates, comedian Carlos Álvarez, former La Victoria mayor George Forsyth, Mario Vizcarra (brother of former president Martín Vizcarra), and Alfonso López Chau are tied with 4% each. Several other candidates register 2% or less.

We expect the election to remain highly competitive, with polls likely to shift rapidly in the lead-up to voting day, as has occurred in previous electoral cycles. **More details in our note.**

Peruvian Presidential terms



Source: Itaú

Strong activity momentum underway

Despite the long running political crisis, GDP rose by 3.2% YoY in 4Q25, boosted by private consumption (+3.4%), supported by the recovery of the labor market, lower inflation, and improved credit conditions. Private investment expanded 10.1% YoY, as stronger imports of capital goods signaled. Exports posted a modest increase (+4%), while imports surged 10.9%, driven by the recovery in domestic demand. On a seasonally adjusted basis, the economy contracted slightly by 0.7% q/q annualized, after nine consecutive quarters of growth, and the statistical carryover for 2026 stands at 0.7%.

In our view, leading indicators—such as rising business confidence and double digit annual growth in capital goods imports—point to solid growth momentum. Consequently, we revised our 2026 GDP growth forecast upward, to 3.1% (+0.2pp from our previous projection). The main downside risks are that increased political uncertainty could affect confidence and disrupt the recovery path of private investment. Climate shocks from the "El Niño Costero" could have a negative effect on the primary sector. For 2027, we expect GDP to grow 3% (+0.1pp from our previous projection).

Fiscal consolidation has been gradual

Following a fiscal deficit that closed 2025 at the target of 2.2% of GDP, the 12-month accumulated fiscal deficit stood at 2.1% of GDP in January. Year to date, the nominal fiscal balance shows a surplus of 0.3% of GDP, broadly in line with the figure recorded during the same period last year. Real revenues rose by 4.5% YoY in the January moving quarter, while real non-financial expenditure increased slightly by 0.6% over the same period.

Despite the recent commodity boom, fiscal consolidation has been gradual. The Fiscal Council recently reiterated that additional spending cuts would be required to meet the fiscal target. We pencil in a nominal fiscal deficit of 2% of GDP in 2026, slightly above the 1.8% target. Elevated metal prices and robust domestic demand dynamics should continue to support revenue performance.

A benign inflation outlook

Consumer prices rose by 0.1% from December to January, driven by increases in prices at restaurants and hotels, as well as a rebound in food prices. These pressures were partially offset by the normalization of seasonal travel demand following the holiday period. Core inflation, which excludes volatile food and energy items, increased slightly by 0.04% month over month.

On an annual basis, headline inflation increased by 20 basis points to 1.71%, remaining below the midpoint of the Central Bank's target range of 2% ± 1.0% since November 2024. Core inflation rose by another 20 basis points to 2% year over year, remaining close to the target midpoint. Sequentially, headline and core inflation reached 3% QoQ (SAAR) and 2.5% QoQ (SAAR), respectively.

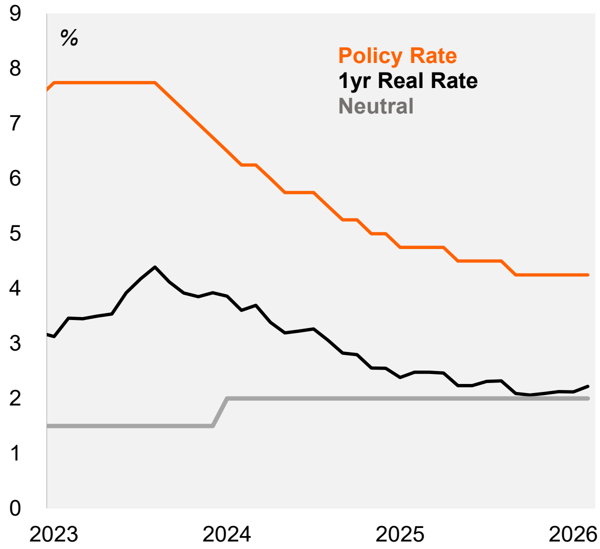
We expect inflation to gradually edge up in 2026 and converge toward 2%, the center of the BCRP's target range, while inflation expectations remain firmly anchored. This reflects the wise handling of the economy by the BCRP.

No rush in delivering the final cut

At its February monetary policy meeting, the Central Bank of Peru (BCRP) kept the benchmark interest rate unchanged at 4.25% for the fifth consecutive month. Forward guidance remained data dependent and was left unchanged. Notably, the statement once again omitted the previous reference indicating that the policy rate was very close to the estimated real neutral level, even though the ex ante real rate stands at 2.2%, only slightly above the estimated real neutral rate of 2.0%.

The main change in the communiqué was its updated assessment of the external environment, highlighting stronger than expected global growth and Peru's exceptionally favorable terms of trade—both of which, in our view, reduce the urgency for additional rate cuts. As a result, we have postponed the final 25 bps cut to reach the neutral rate of 4% to June 2026 (previously: March 2026), as we expect the BCRP to adopt a cautious stance amid a closed output gap, elevated geopolitical tensions, the timing of upcoming FOMC cuts, and rising domestic political uncertainty.

Policy rate already close to neutral



Source: BCRP

Reserve accumulation to continue

The BCRP has purchased a total of USD 3.4 billion year to date, bringing cumulative reserve purchases to USD 6,0 billion since it began purchasing in early November 2025. The recent rally in metal prices—combined with low inflation and solid economic growth—has pushed terms of trade close to record highs, providing strong support for the PEN, reaching its strongest level since 2020. However, since the reserve accumulation program began, the pace of appreciation has slowed materially (10.4% in 2025; 0.2% year to date in 2026). At the margin, the PEN has not reacted notably to the sharp increase in political uncertainty, and it is trading near our year end forecast of PEN 3.4 per USD.

We expect reserve purchases to continue as historically high terms of trade strengthens the currency. Nonetheless, depreciation of the FX in the coming months as political uncertainty remains elevated could lead the BCRP to pause purchases. International reserves reached approximately USD 98 billion in mid-February 2026 (about 30% of GDP) the highest ratio in the region.

All things considered, Peruvian economic policymakers keep delivery the best all-round macroeconomic performance in the region.

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Peru | Forecasts and Data

	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
Economic Activity								
Real GDP growth - %	2.8	-0.4	3.5	3.4	**3.1**	2.9	**3.0**	2.9
Nominal GDP - USD bn	248	272	295	341	**358**	354	**376**	368
Population (millions)	34.2	34.5	34.9	35.2	**35.2**	35.2	**35.2**	35.2
Per Capita GDP - USD	7,159	7,764	8,305	9,685	**10,179**	9,675	**10,688**	10,463
Unemployment Rate - year avg	7.7	6.9	6.6	6.0	**6.1**	6.2	**6.2**	6.2
Inflation								
CPI - %	8.5	3.2	2.0	1.5	**2.0**	2.0	**2.0**	2.0
Interest Rate								
Monetary Policy Rate - eop - %	7.50	6.75	5.00	4.25	**4.00**	4.00	**4.00**	4.00
Balance of Payments								
PEN / USD - eop	3.81	3.70	3.80	3.36	**3.40**	3.40	**3.40**	3.40
Trade Balance - USD bn	10.2	17.7	24.0	34.6	**34.0**	28.0	**33.0**	26.0
Current Account - % GDP	-4.0	0.8	2.2	3.1	**2.5**	1.5	**2.1**	1.2
Foreign Direct Investment - % GDP	4.6	1.5	2.4	3.1	**3.0**	3.0	**3.0**	3.0
International Reserves - USD bn	72.2	71.3	79.0	90.0	**94.0**	90.0	**92.0**	90.0
Public Finance								
NFPS Nominal Balance - % GDP	-1.7	-2.8	-3.6	-2.2	**-2.0**	-2.0	**-2.0**	-2.0
NFPS Primary Balance - % GDP	-0.1	-1.1	-1.9	-0.6	**-0.2**	-0.2	**-0.2**	-0.2
NFPS Debt - % GDP	33.9	32.9	32.7	30.2	**32.7**	32.7	**33.1**	33.1

Source: IMF, INEI, BCRP, Itaú

Macro Research – Itaú

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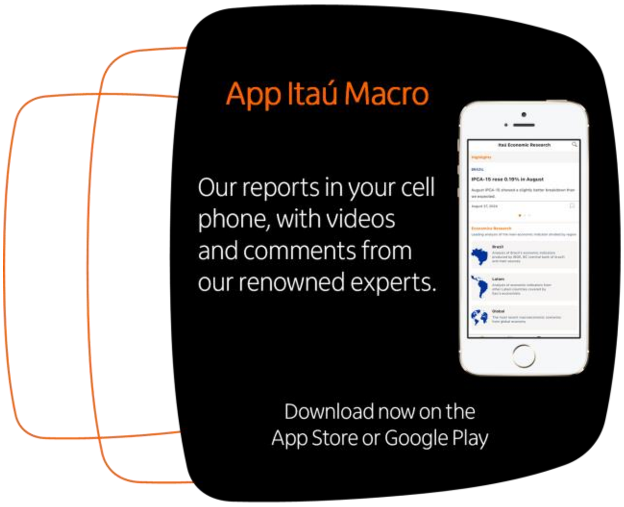

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