

Macroeconomic Research
Macro Scenario – Peru
August 2024

PERU: activity recovery is underway

1. Positive drivers of activity

- Activity recovery is underway after social conflicts and harsh weather conditions last year
- Positive terms of trade to support GDP growth

2. What should we expect from the BCRP?

- Well-behaved inflation should allow the BCRP to cut rates again this year
- As interest rate differentials could narrow further, the BCRP also has other tools to ease financial conditions

3. Tense political environment persists

- President Boluarte has survived several impeachment attempts, amid very low approval

4. Sound fiscal accounts, but there are risks

- Recently the sovereign has missed its deficit targets amid soft revenues

5. A weakened pension system

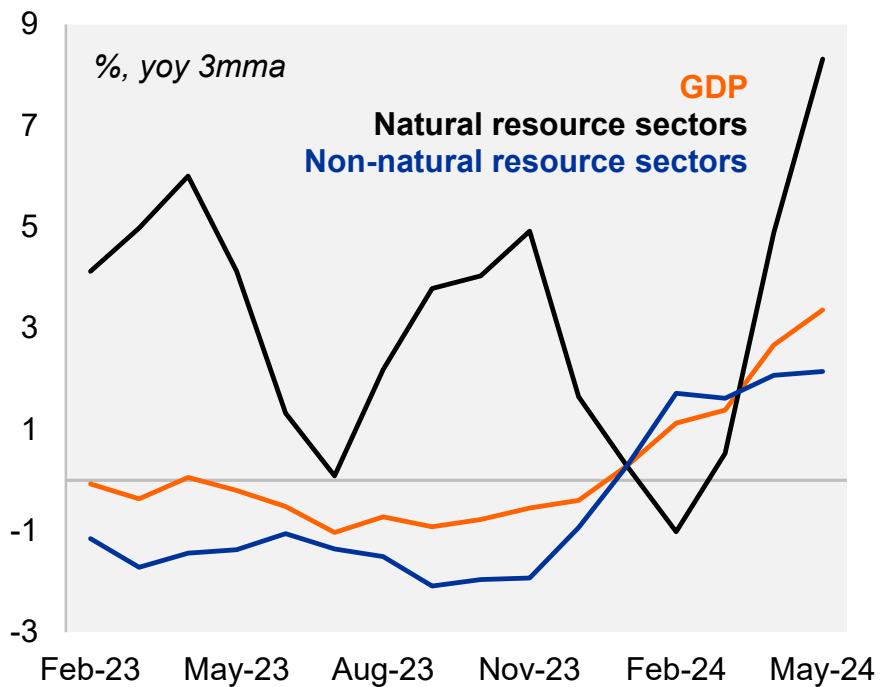
- Withdrawals have lowered domestic savings and raised long-term fiscal challenges

1. Positive drivers of activity

Activity recovery is underway after social conflicts and harsh weather conditions last year

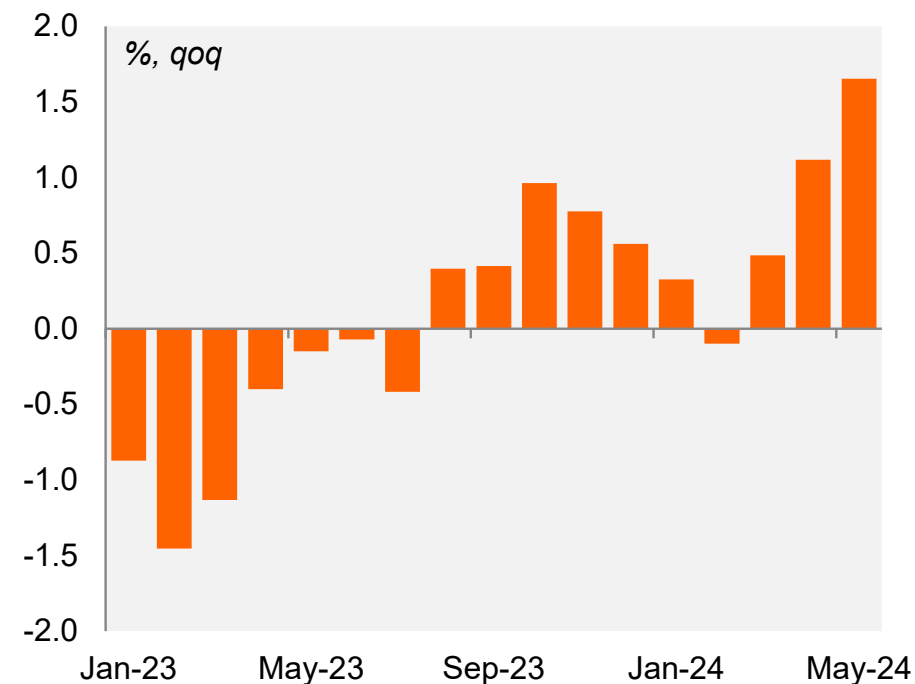
- After last year's GDP contraction of 0.6%, we forecast GDP growth to snap back this year to 3.1%, and 3.0% in 2025.

GDP growth by sectors



Source: BCRP, INEI, Itaú

GDP at the margin



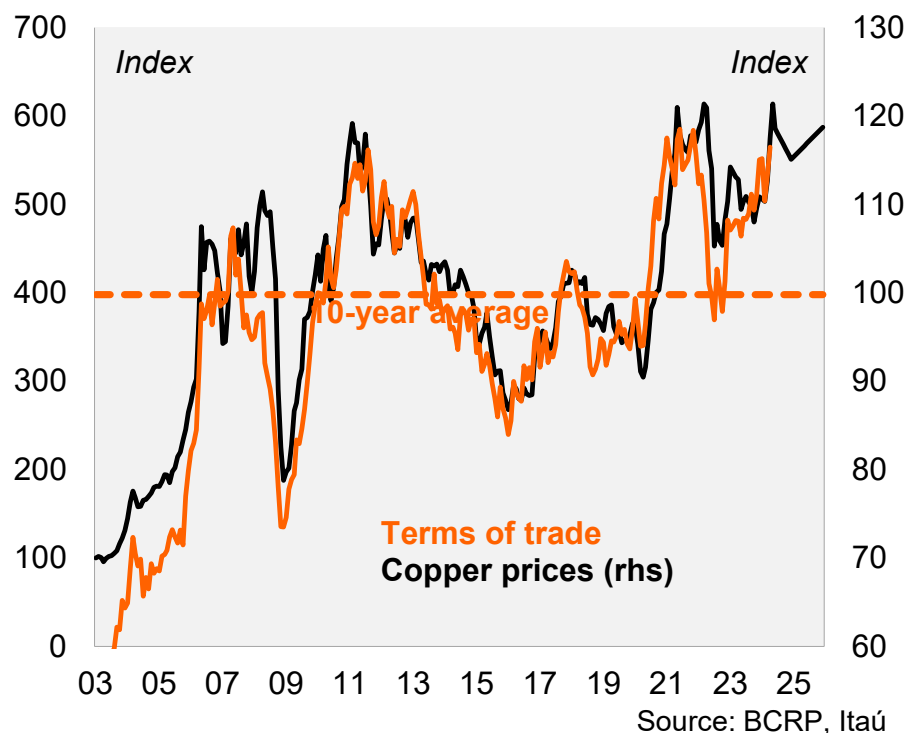
Source: INEI

1. Positive drivers of activity

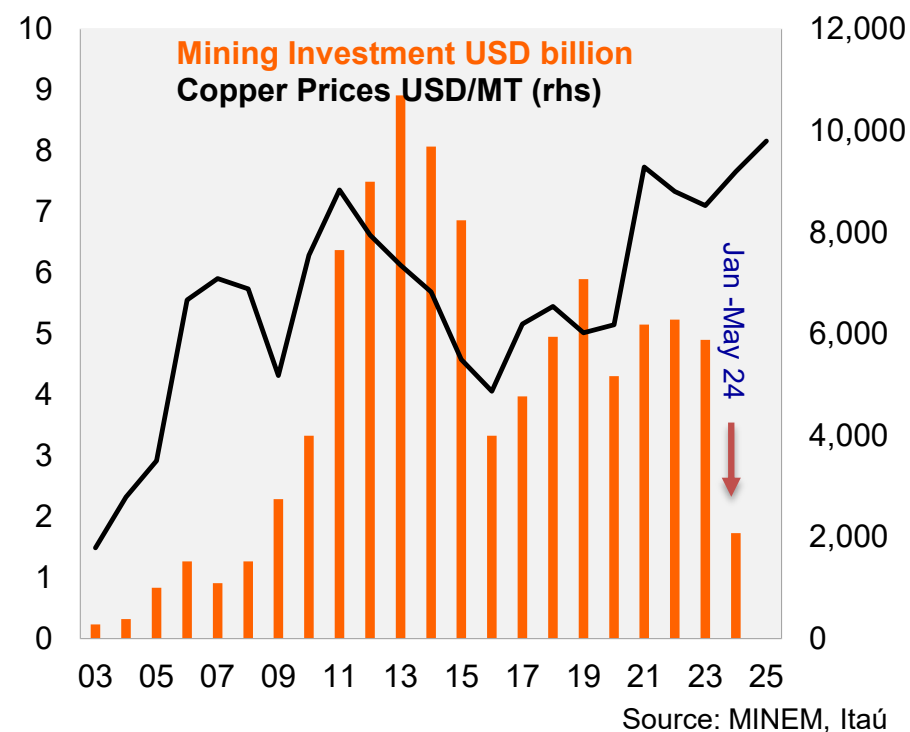
Positive terms of trade to support GDP growth

- The resumption of the large *Tía María* mining project (estimated at USD 1.4 billion 2024-2026) should boost investment and confidence in the sector.
- A weak La Niña weather phenomenon may raise fishing output, as in previous seasons.

Positive terms of trade...



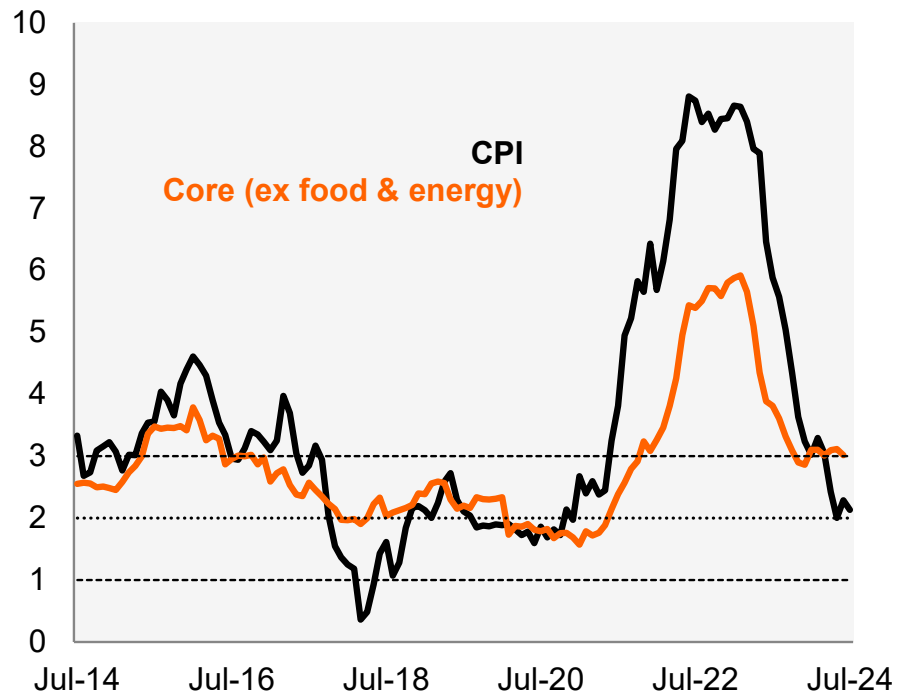
...likely to boost mining investment



2. What should we expect from the BCRP?

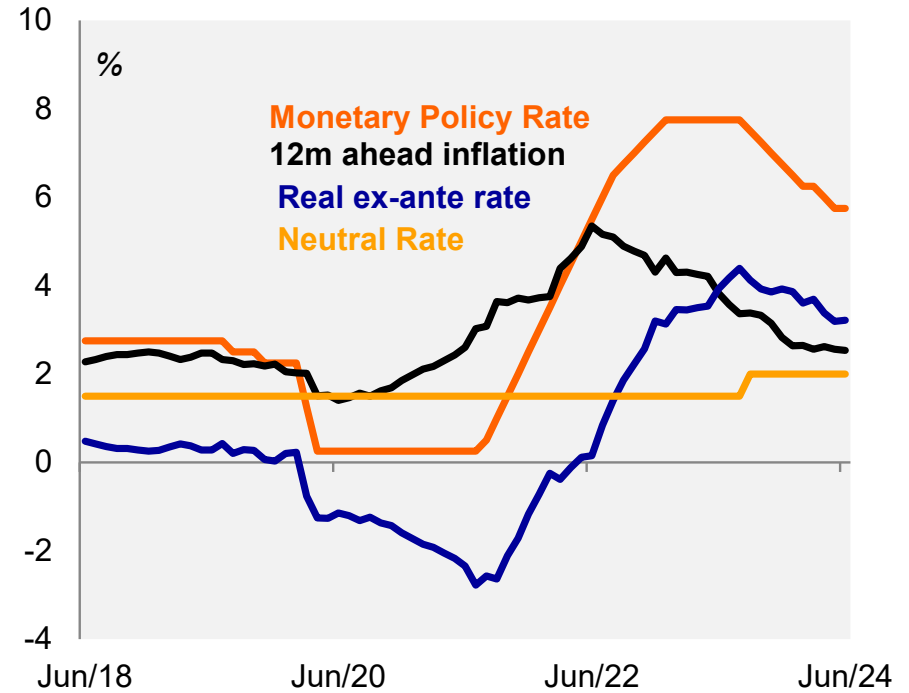
Well-behaved inflation should allow the BCRP to cut rates again this year

Annual inflation



Source: BCRP, INEI, Itaú

Rates



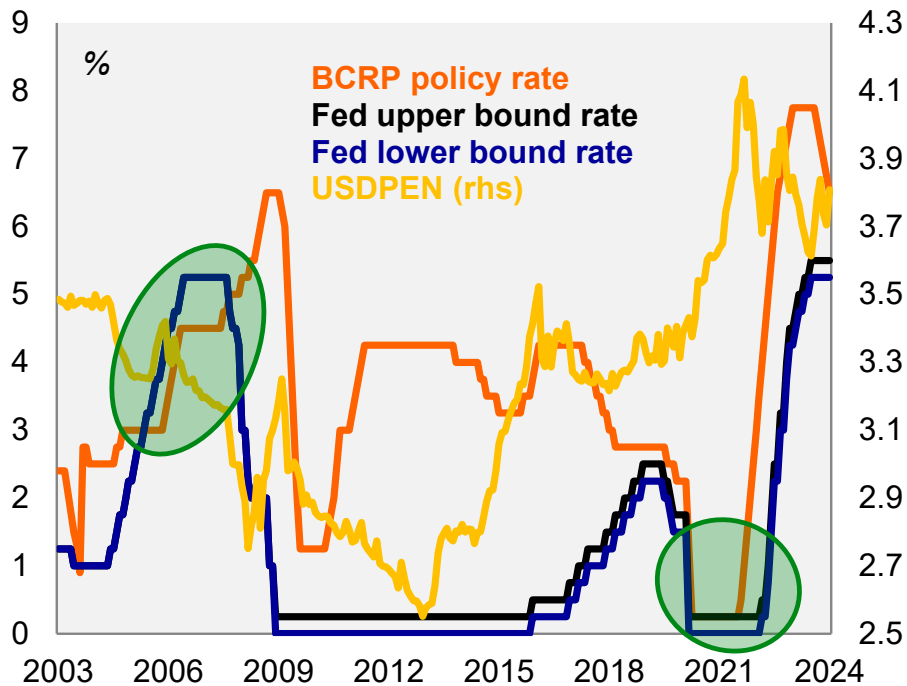
Source:BCRP.

2. What should we expect from the BCRP?

As interest rate differentials could narrow further, the BCRP also has other tools to ease financial conditions

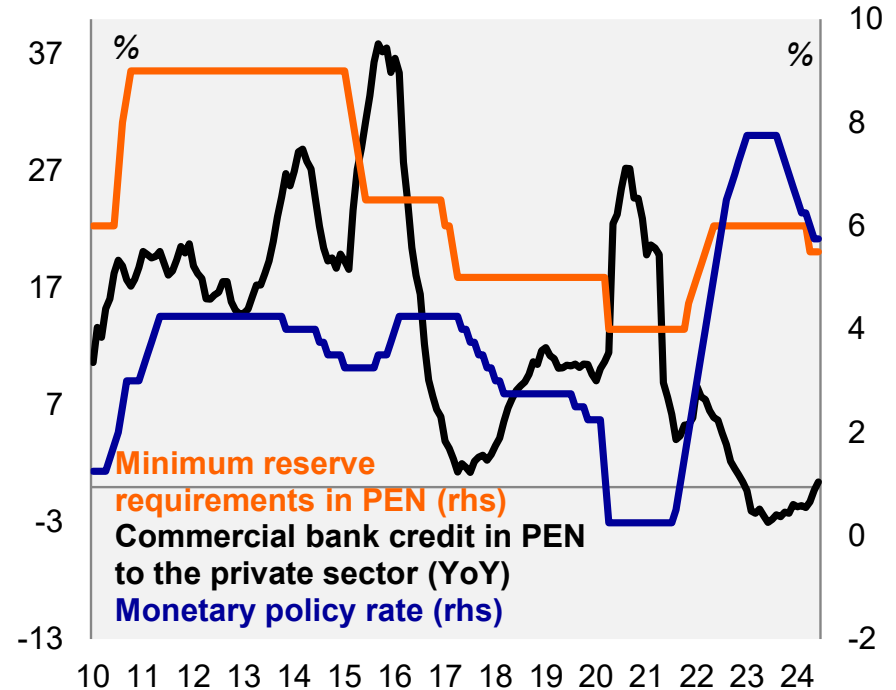
- The BCRP has a sizable reserves to mitigate the volatility in the currency market amid the narrowing of the rate differential. Net reserves are around 19% of GDP.

Relative monetary stance



Source: Bloomberg.

Monetary policy tools & credit growth



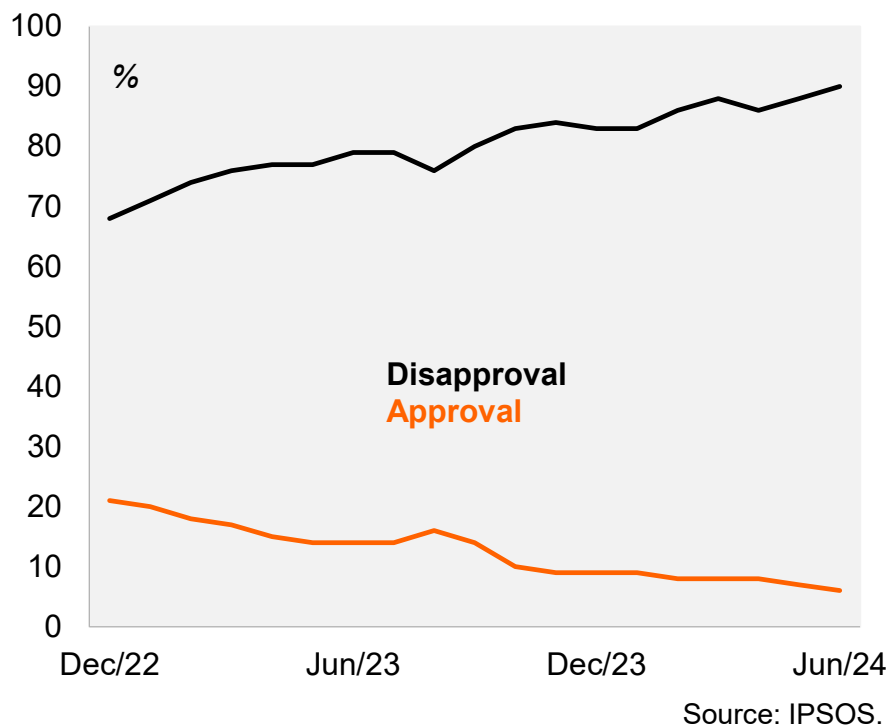
Source: BCRP.

3. Tense political environment persists

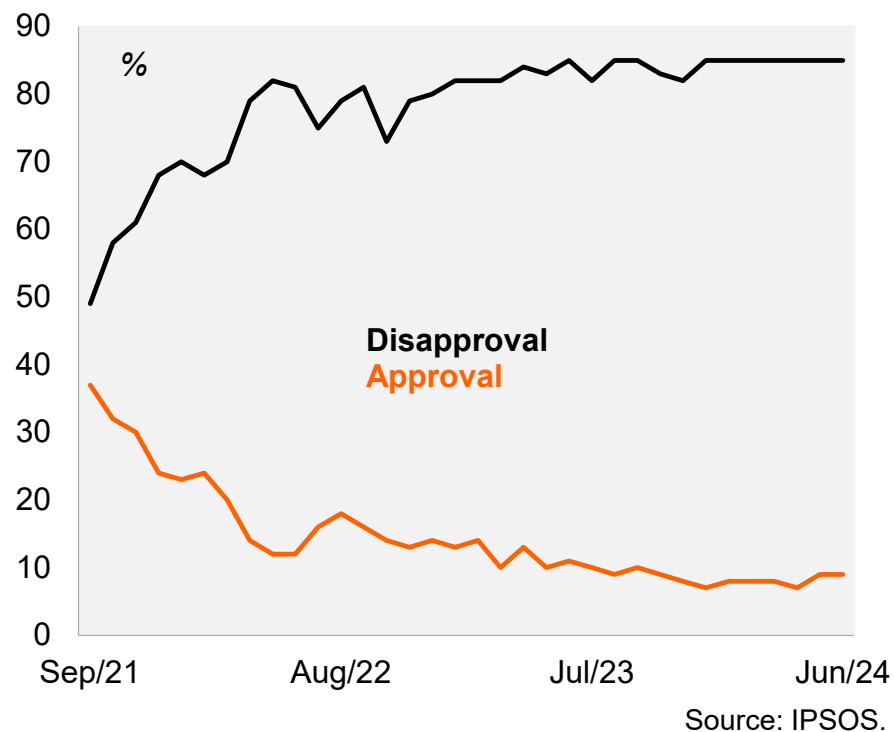
President Boluarte has survived several impeachment attempts, amid very low approval

- A return to a bicameral Congress in the 2026 election could reduce confrontation between the executive and the legislative branch.

Presidential opinion



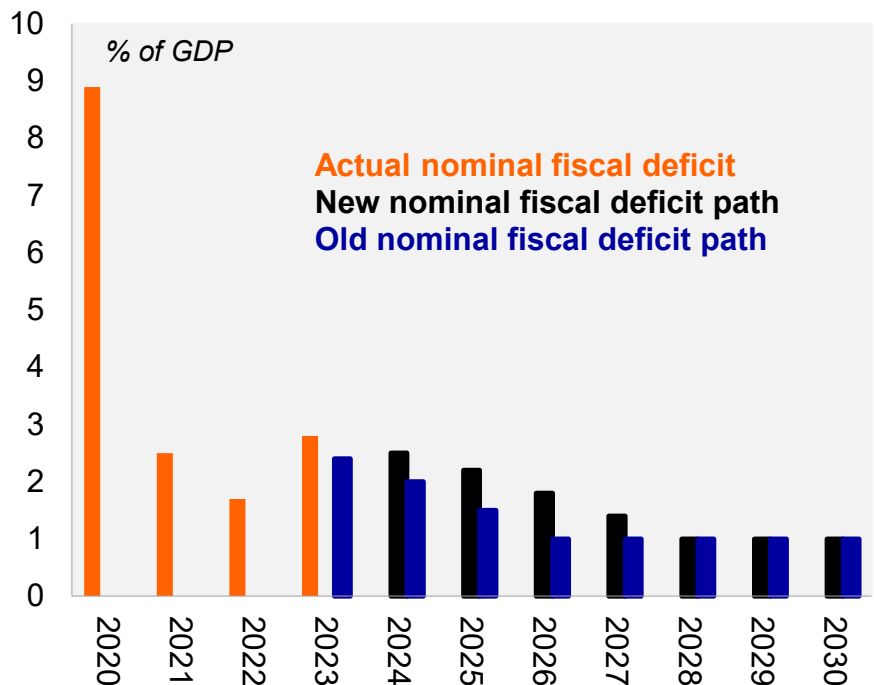
Congress opinion



4. Sound fiscal accounts, but weak revenues pose cyclical challenges

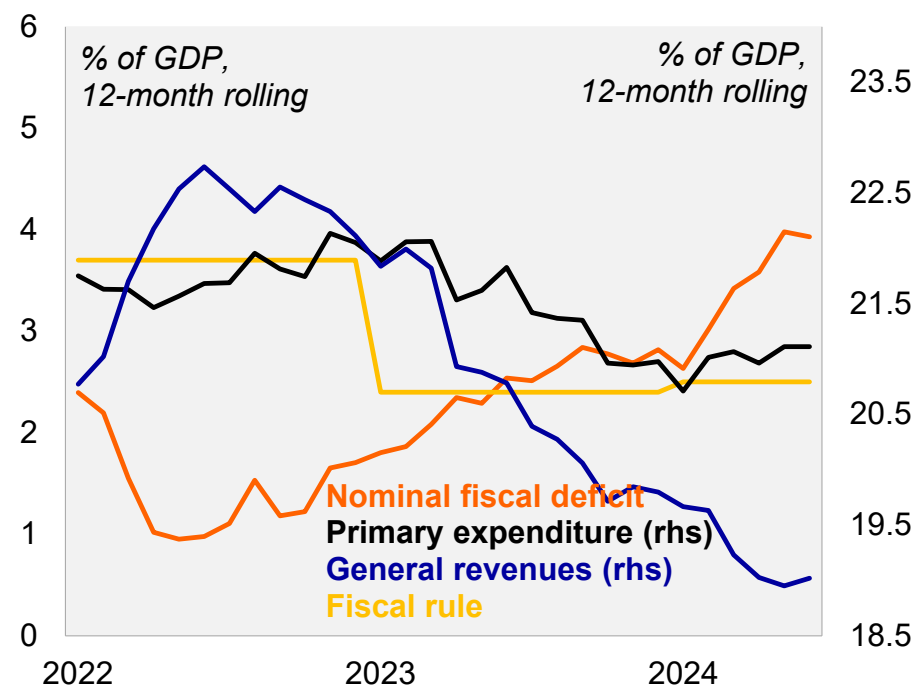
Recently the sovereign has missed its deficit targets, amid soft revenues

More gradual fiscal consolidation



Source: MEF, Itaú

Weak revenues



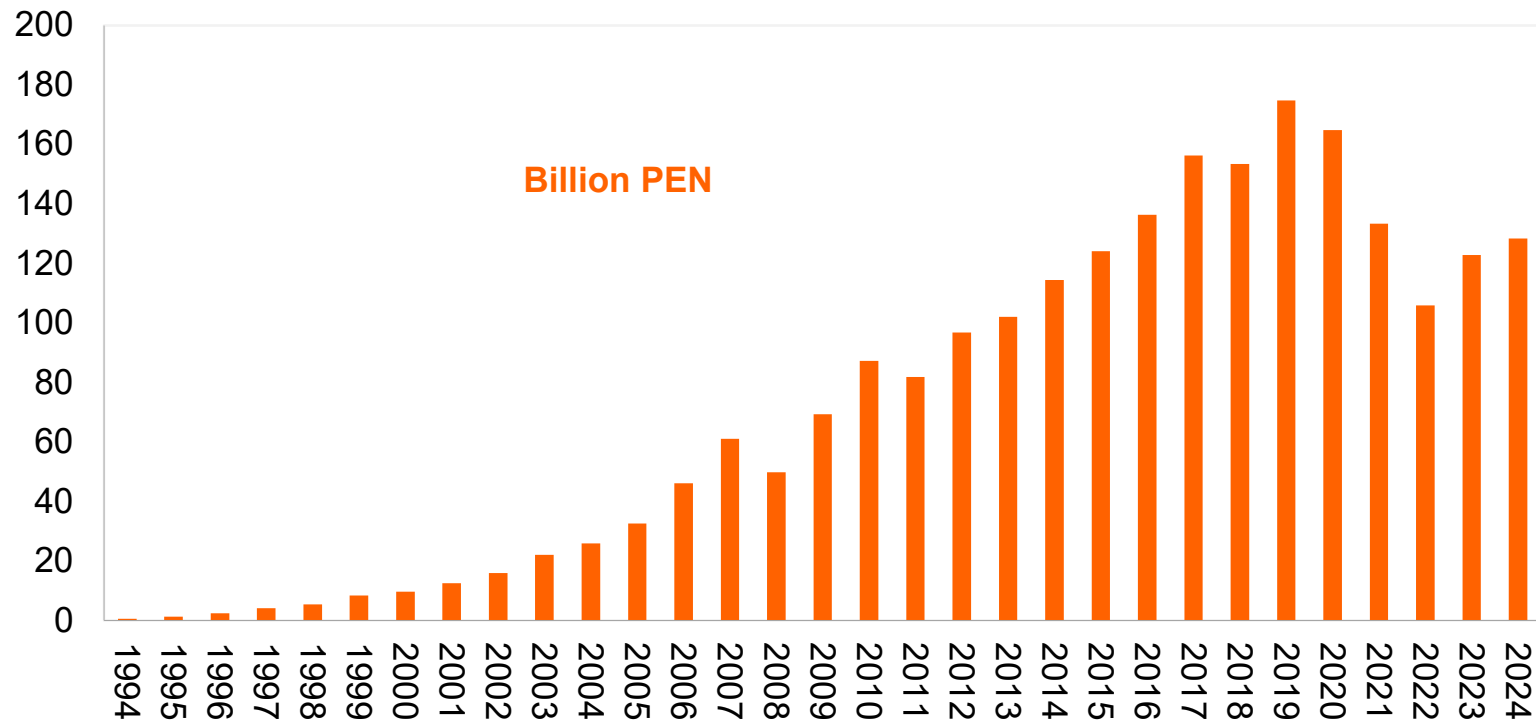
Source:BCRP.

5. A weakened pension system

Withdrawals have lowered domestic savings and raised long-term fiscal challenges, among others

- Even so, pension reform proposals are being considered by Congress that include expanding the minimum and social pension to protect the bottom of the income distribution, automatic enrollment and limiting early withdrawals from private pension accounts.

Pension funds AUM



Source: AFP

Scenario:

	2019	2020	2021	2022	2023	2024F		2025F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	2.2	-10.9	13.4	2.7	-0.6	3.1	3.1	3.0	3.0
Nominal GDP - USD bn	233	206	226	244	267	283	281	295	295
Population (millions)	33.2	33.5	33.8	34.2	34.5	34.9	34.9	35.2	35.2
Per Capita GDP - USD	7,030	6,156	6,690	7,155	7,747	8,114	8,063	8,391	8,392
Unemployment Rate - year avg	6.6	13.6	10.9	7.7	6.8	6.8	6.8	7.0	7.0
Inflation									
CPI - %	1.9	2.0	6.4	8.5	3.2	2.8	2.8	2.5	2.5
Interest Rate									
Monetary Policy Rate - eop - %	2.25	0.25	2.50	7.50	6.75	5.00	5.00	4.25	4.25
Balance of Payments									
PEN / USD - eop	3.31	3.62	4.00	3.81	3.70	3.80	3.80	3.80	3.80
Trade Balance - USD bn	6.9	8.1	15.1	10.2	17.7	18.5	18.5	18.0	18.0
Current Account - % GDP	-0.6	0.9	-2.1	-4.0	0.8	0.8	0.8	-0.7	-0.7
Foreign Direct Investment - % GDP	2.0	0.3	3.2	4.6	1.5	2.5	2.5	3.0	3.0
International Reserves - USD bn	68.4	74.9	78.5	72.2	71.3	74.0	74.0	76.0	76.0
Public Finances									
NFPS Nominal Balance - % GDP	-1.6	-8.9	-2.5	-1.7	-2.8	-2.5	-2.5	-2.2	-2.2
NFPS Primary Balance - % GDP	-0.2	-7.3	-1.0	-0.1	-1.1	-0.8	-0.8	-0.4	-0.4
NFPS Debt - % GDP	26.5	34.5	35.8	33.9	32.9	33.9	33.9	34.1	34.1

Source: IMF, INEI, BCRP, Itaú

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