

Macro scenario - Peru



May 16, 2025

Nearing Neutral

- ▶ In our previous report, we removed the upside bias from our 2.8% GDP forecast for 2025 and lowered our projection for 2026 to 2.7%, reflecting rising global uncertainty and a reduced external impulse. So far, the economy has navigated the prevailing uncertainty well, with a continued recovery in private investment and a resilient labor market. Swings in domestic policy uncertainty, reflected by a cabinet shuffle in the context of public safety concerns are important watchpoints as next year's election looms. Inflation is expected to remain within the BCRP's target range of 2% (+/- 1%). We believe the BCRP is likely to pause in the near term, and eventually cautiously cut towards 4%.

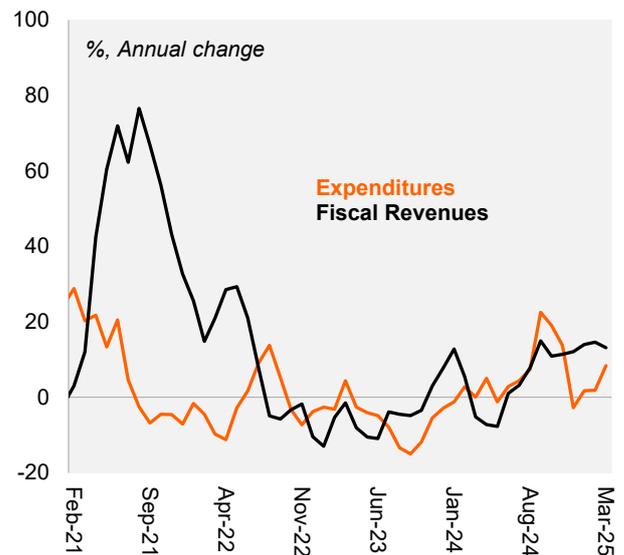
Activity slipped at the margin in March, although leading indicators remain positive

Following a strong end to 2024 that persisted through January, the monthly GDP proxy fell by 0.1% in March, marking the second consecutive drop (-0.1% MoM/SA in February). However, despite the monthly decline, activity increased on an annual basis by 4.7% YoY SA. The dynamics of leading indicators suggest growth should continue at a healthy clip in the near term, as imports of capital goods rose 14% YoY in the quarter ending in February, mainly reflecting the recovery of mining investment. Business confidence indicators remain broadly in positive territory, yet fell at the margin, likely due to heightened global policy uncertainty, and domestic concerns on public safety.

Fiscal policy – revenue recovery continues

Fiscal dynamics remain an important watchpoint as the deficit remains elevated; the 12-month accumulated fiscal deficit fell by 10 basis points to 3.4% of GDP in March, still well above the 2.2% official target. Importantly, revenues continue to improve, with cyclical real revenues rising by 13.2% YoY in the quarter ending in March. Yet, non-financial real expenditure is still strong, rising by 8.4% YoY in March, mainly driven by public investment. In this context, the Fiscal Council flagged elevated fiscal risks related to above-consensus official growth forecasts and Congress-related initiatives that reduce revenues and raise structural expenditures. Compliance with this year's official 2.2% nominal deficit target, following two consecutive years of misses, will require controlled spending and continued revenue momentum. We expect the nominal fiscal deficit to reach 2.5% of GDP this year and 2.2% in 2026.

Revenue recovery continues

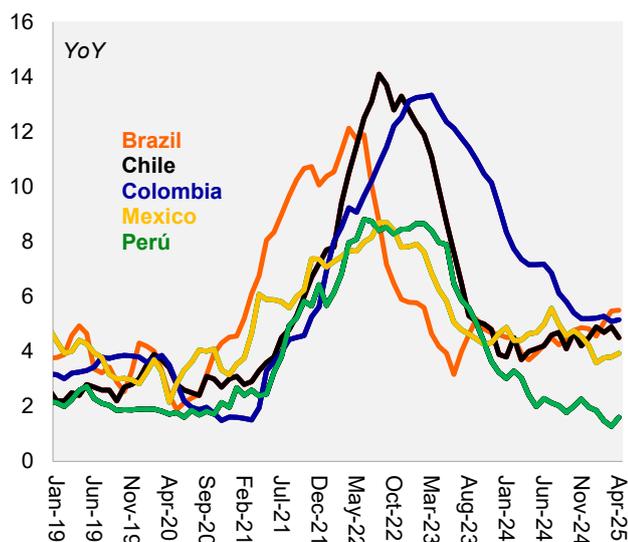


Source: BCRP, Itaú

Inflation dynamics remain favorable

Even though CPI jumped by 0.32% MoM in April, driven by transitory shocks to volatile food prices, inflation dynamics are not a source of concern. In fact, core inflation (ex food and energy) was a milder 0.14% MoM. On an annual basis, headline inflation reached 1.65%, up from the base-effect-led low of 1.28% in March, and core inflation rose by 3 basis points to 1.9% YoY, close to its three-year low. Inflation has stayed within the BCRP's target range of 2% (+/- 1%) for over thirteen months, in contrast to the region that continues to struggle with above target inflation. Similarly, survey-based one-year inflation expectations have remained within the target since December 2023, declining to 2.29% in April.

Peru stands out in controlling inflation in the region



Source: BCRP, Itaú

A minor tweak to the forecast

We still expect GDP to grow by 2.8% in 2025, driven by the investment recovery. In addition, activity will be supported by a resilient labor market and the recovery of real wages. We revised our unemployment rate forecast down to 6.5% for this year, driven by recent tracking. Looking towards next year, our growth forecast remains at 2.7%. The risk of higher domestic policy uncertainty as presidential and legislative elections approach (April, 2026), and elevated uncertainty related to global trade, may dampen private sentiment and slow the pace of activity recovery.

Swings in domestic policy uncertainty, reflected by a cabinet shuffle in the context of public safety concerns are important watchpoints as next year's election looms.

With inflation remaining firmly within the target, we expect CPI to rise slightly in the coming months due to base effects, reaching 2.3% by the end of the year. While ongoing food supply issues pose an upside risk, the sizable 10% minimum wage hike has yet to be revealed as a material pressure on prices. Low global oil prices are incorporated into our 2% CPI forecast for 2026.

We believe the BCRP is likely to pause in the near term, and eventually, and cautiously, cut towards 4%. Even though interest rate differentials with the Fed have practically closed, exchange rate volatility appears contained. Global developments remain a key watchpoint for the medium-term outlook and the BCRP's policy response.

Andrés Pérez M.
Vittorio Peretti
Andrea Tellechea Garcia

Monetary Policy – nearing neutral

At its monthly monetary policy meeting in May, the Central Bank cut its monetary policy rate by 25 bp to 4.5%, breaking a string of pauses since January. Market consensus was tilted towards another hold. The BCRP's communiqué indicated once again that the policy rate is nearing neutral, with the one-year real ex-ante rate at 2.21%, and maintained data-dependent guidance. However, the statement omitted the usual phrase following a rate cut that says, "this move does not necessarily imply a cycle of successive cuts." The communiqué highlights an increasingly complex external backdrop, marked by a slower convergence of inflation to target levels across several economies and a more subdued outlook for global economic activity amid persistent uncertainty and restrictive trade measures.

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	7.0	6.5	7.0	
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

Macro Research – Itaú

Mario Mesquita – Chief Economist

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