BBVA Research

Peru Economic Outlook

June 2024

Creating Opportunities

BBVA Research

Index

Key points

Global situation

Economic growth exceeded expectations and inflation has stopped falling recently, largely due to the dynamism of services. With fiscal policy softening the contractionary impact of monetary policy, the scope for interest rate cuts has decreased. Financial volatility remains low.

Domestic situation

Locally, and after four negative quarters, economic activity showed positive growth at the beginning of 2024 (+1.4% year-on-year in 1Q24), albeit timidly. Against this backdrop, 132 thousand jobs were recovered. Domestic demand performed better in the quarter, and within this, both public investment and private sector spending, the latter returning to a positive print. Output growth recovery took place in an environment of (i) a low year-on-year comparison base (political turmoil and cyclone Yaku in 1Q23); (ii) a rebound in sub-national government investment (after the first year in office of the new authorities); (iii) a decline in inflation and interest rates; and (iv) a gradual improvement in confidence. Weather anomalies contained a more positive performance.

The outlook for the second quarter is more favorable. Weather conditions have returned to normal, which will give a boost to fishing and the agricultural sector, as well as to some industrial activities. The quarter started off on a good footing (5.3% year-on-year growth in April and 1.7% month-on-month) and we estimate that growth for the period will be close to 4.0%.

Key points

Global macro outlook: inflation and rates

The ECB has begun to reduce interest rates, but the Fed will wait longer than anticipated to start its easing cycle. Demand is expected to lose steam, favoring a decrease in inflation and interest rate cuts. But inflation concerns will not go away, and interest rates will remain at contractionary levels.

Global macro outlook: economic growth

Global growth will moderate in the coming quarters and recover somewhat in 2025. In the U.S., 2024 growth was revised upwards, but a mild moderation remains likely. In the Eurozone, the cyclical recovery is expected to gain momentum. In China, despite better data and growing stimulus, structural challenges will eventually reduce growth.

Global risks

If economic activity does not weaken due to the dynamism of the service sector or a manufacturing recovery, the convergence of inflation to 2% would be at risk. In the current geopolitical context, further supply shocks could also prevent inflation from moderating. All this would leave little room for lower interest rates.

Key points

Domestic macro outlook: economic activity

The baseline scenario considers that (i) the external environment is favorable for the Peruvian economy due to the prices of metals, particularly copper, which will remain at attractive levels in the coming quarters; (ii) weather conditions have normalized and that situation is not expected to change; (iii) on the political side, there is some increased risk for the business environment because the Executive has weakened even more; (iv) a new withdrawal of pension funds; and (v) it is more likely that some infrastructure and mining projects will start to be built soon (Chavimochic, extending Antamina's lifespan), so they have been incorporated in the baseline scenario.

In this context, we estimate that GDP will grow 2.9% this year, two tenths of a percentage point above the previous forecast (mainly due to the impact of the new withdrawal of pension funds). It will be a year of rebound, in which those sectors that were most affected in 2023 by weather anomalies (fishing, agriculture, some industrial activities such as the textile sector) and non-primary sectors will recover, the latter benefiting from the increase in private sector spending. By 2025, we expect growth of 2.7%, when the impact of pension fund withdrawals will dissipate.

Key points

Domestic macro outlook: fiscal accounts

So far this year, the fiscal deficit has increased by somewhat more than one percentage point of GDP (to 3.9% in May, cumulative over the last twelve months). This is mainly due to a recovery in economic activity that is still incipient and to the postponement of income tax payments for some taxpayers. These factors will be reversed in the following months and we expect the deficit to close 2024 at around 2.5% (with a bias for it to be higher). Going forward, the deficit will tend to 2% of GDP (with a risk of it being higher), bringing gross public debt to 35% of GDP by the end of the forecasting horizon (2029).

Domestic macro outlook: external accounts

The Peruvian economy has no external imbalances, which positions it well to face possible episodes of exchange rate volatility. The current account of the balance of payments went from a deficit of 4.0% of GDP in 2022 to a surplus of 0.8% in 2023 and to a surplus of 1.4% in 1Q24 (cumulative over the last 4 quarters). The improvement in the external position since 2022 is explained by lower imports (lower oil and food prices, as well as lower volumes in a context of slower activity) and lower profit remittances from foreign companies. We expect a external surplus to remain this year and the next due to export dynamism and a gradual recovery in imports.

Key points

Domestic macro outlook: exchange rate

Exchange rate volatility in the first months of 2024, driven by market's outlook changes on how the Fed will act going forward and with an active central bank. In the second part of the year, the evolution we anticipate for the sol-dollar interest rate differential will take some support away from the PEN, while geopolitical tensions and the U.S. elections putting upward pressures on the exchange rate cannot be ruled out. The surplus in the external accounts will moderate these impacts. We estimate that the USDPEN will close the year at a similar level to the current one, in the range between 3.75 and 3.85 soles per dollar. In 2025, with the sol-dollar interest rate differential recovering, the PEN will appreciate, and the exchange rate will close the year at a level between 3.70 and 3.80 soles per dollar.

Domestic macro outlook: inflation

Inflation fell rapidly in the last couple of months after weather conditions normalized, the latter contributing to the decrease in the prices of some foods. In May, inflation reached the center of the target range (2.0%), and we expect that it will not stray far from that level in the coming months considering that the output gap is negative, the recovery of activity is still incipient, and on the assumption that weather conditions will be relatively normal. However, toward the end of the year, with a less favorable base effect, inflation is expected to accelerate slightly and close 2024 at around 2.6%. The forecast for 2025 is 2.4%.

Key points

Domestic macro outlook: monetary policy

The Central Bank has been cutting its policy rate since September: it currently stands at 5.75%. The decline in inflation created the space for these cuts, which sought to somewhat ease the monetary policy stance (still restrictive). However, the rate cuts cycle is progressing only gradually due to both financial markets volatility related to the uncertainty about the Fed's actions and domestic core inflation (currently at 3.1%) resistance to move down. After the pause in June, we expect the cuts to resume in the second half of the year, the policy rate closing 2024 at around 5.00%. This view is supported by the still weak recovery in economic activity and the restrictive monetary stance. The timing of the cuts will depend on the behavior of the exchange rate and core inflation. Next year the rate will close at 4.50%, a level we estimate to be neutral.

Main risks

On the external side, (i) persistent inflation and higher-for-longer interest rates; (ii) negative supply shocks due to current geopolitical conflicts, U.S. protectionism or climate events; and (iii) the world economy slowing down more than expected due to problems in China. On the domestic side, (i) completion of additional investment projects (in mining and infrastructure) that would give a greater boost to activity and strengthen confidence; (ii) populist measures that affect competitiveness (labor market, pension system); (iii) renewed political and social tensions; and (iv) increased crime and citizen insecurity and the spread of illegal economies.

BBVA Research

01

International context: economic activity and financial markets

A very soft landing: growth and inflation remain resilient, reducing the room for central banks cutting interest rates

Recent scenario drivers

Tight monetary conditions are hitting demand with long lags and through the traditional channels; tightening effects softened by monetary easing prospects

Expansionary fiscal policy has been favoring activity, partially offsetting the impact of monetary tightening

Supply "normalization": moderated input prices and bottlenecks, favored also by oversupply in China; despite geopolitics, trade tariffs, US elections...

Recent macro trends

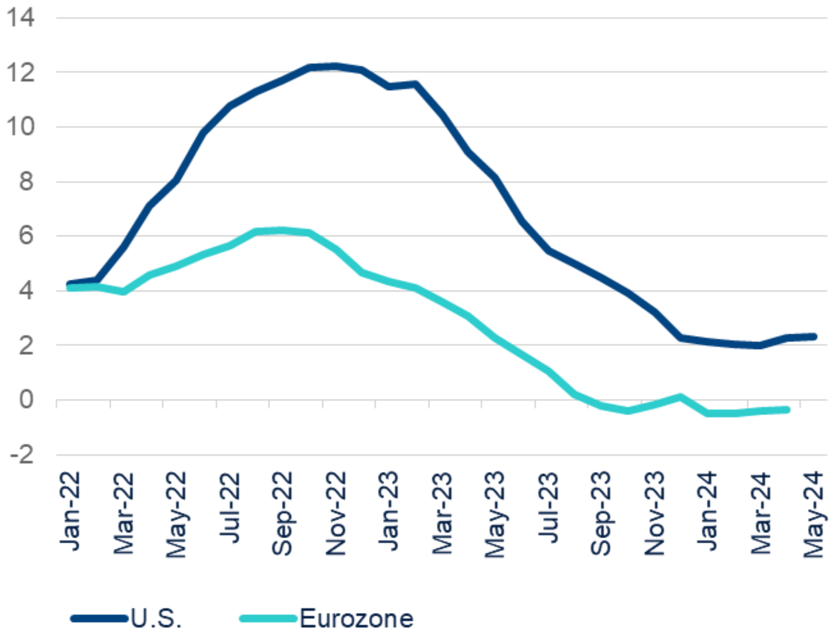
Resilient growth, mainly in the US and service sector; recovery signs in Europe and China as well as in manufacturing

Inflation has surprised upwards; it has stopped falling lately on more persistent services inflation

Limited financial volatility as positive growth view prevails, despite prospects of delayed monetary easing by the Fed

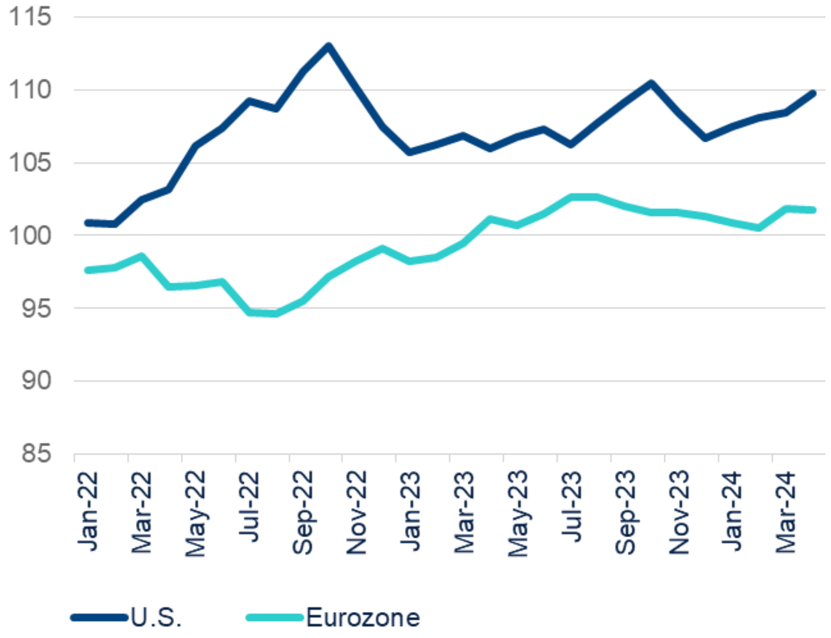
Monetary policy seems to be working through some of the traditional channels; still, its effects may have been weakened lately by monetary easing prospects

BANKING LENDING
(YOY %)



Source: BBVA Research based on BEA and ECB data.

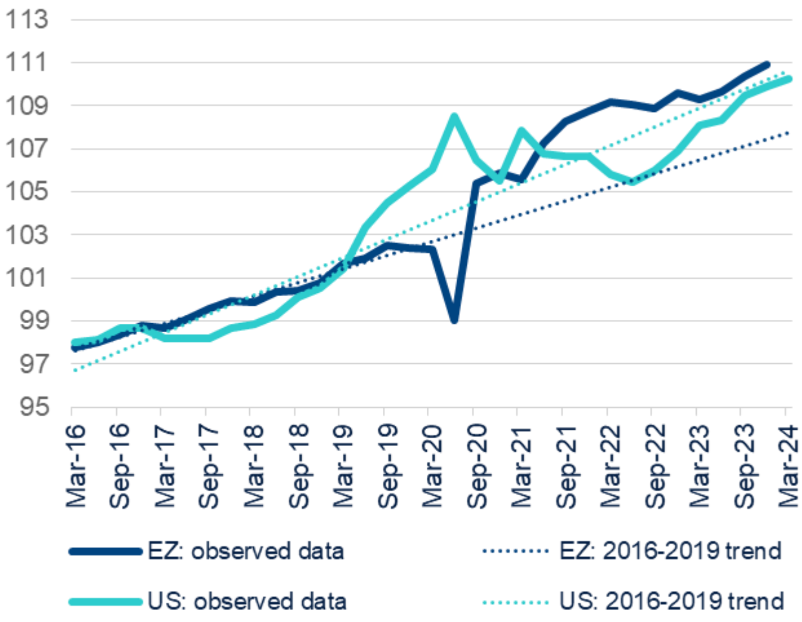
REAL EFFECTIVE EXCHANGE RATE
(INDEX: 2020 AVERAGE=100)



Source: BBVA Research based on BIS data.

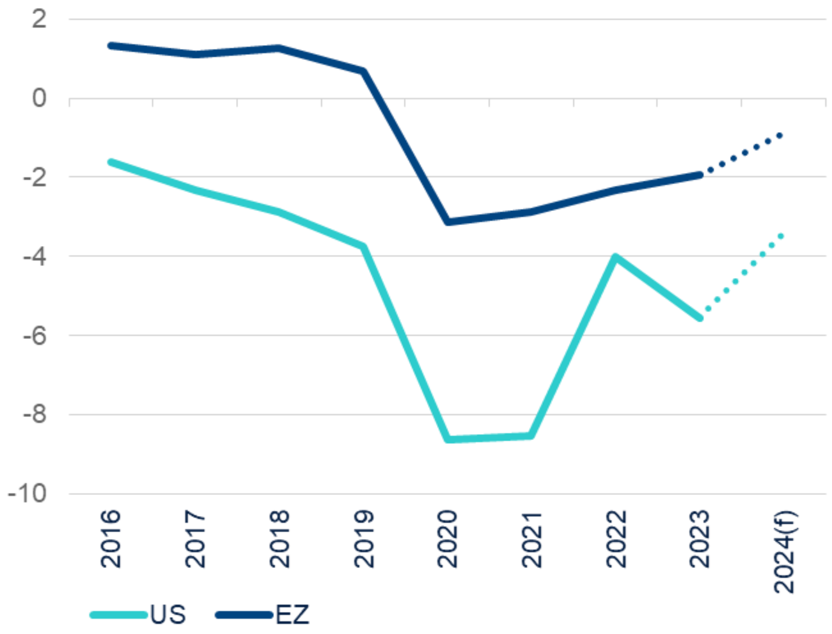
Fiscal policy continues, in general, to support activity, to some extent offsetting the contractionary impact of high interest rates

GOVERNMENT CONSUMPTION
(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)



Source: BBVA Research based on BEA and ECB data.

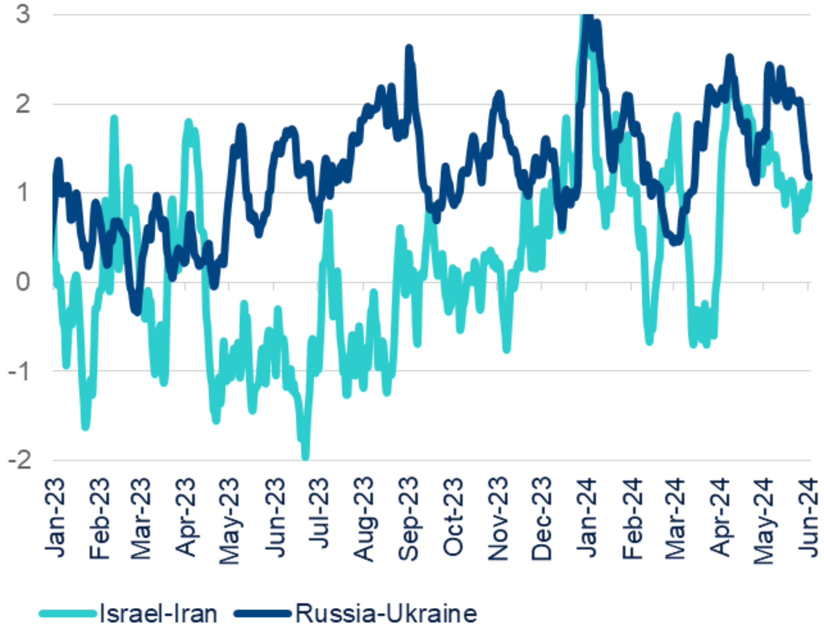
CYCLICALLY-ADJUSTED PRIMARY FISCAL BALANCE
(SHARE OF POTENTIAL GDP)



(f): forecast.
Source: BBVA Research based on IMF data.

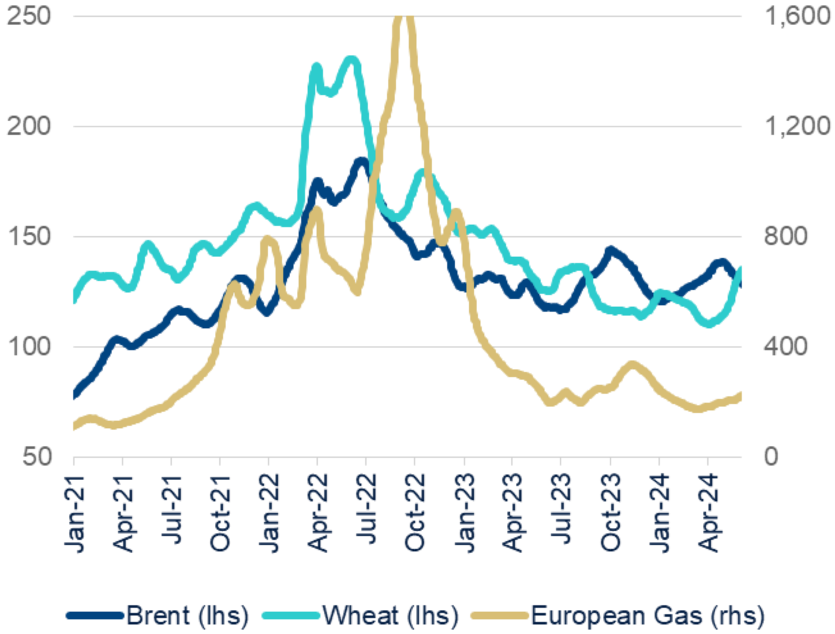
Commodity prices have remained relatively stable recently, despite ongoing geopolitical tensions

BILATERAL TENSIONS INDEX
(AVERAGE SINCE 2017 EQUALS TO 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research Geopolitics Monitor.

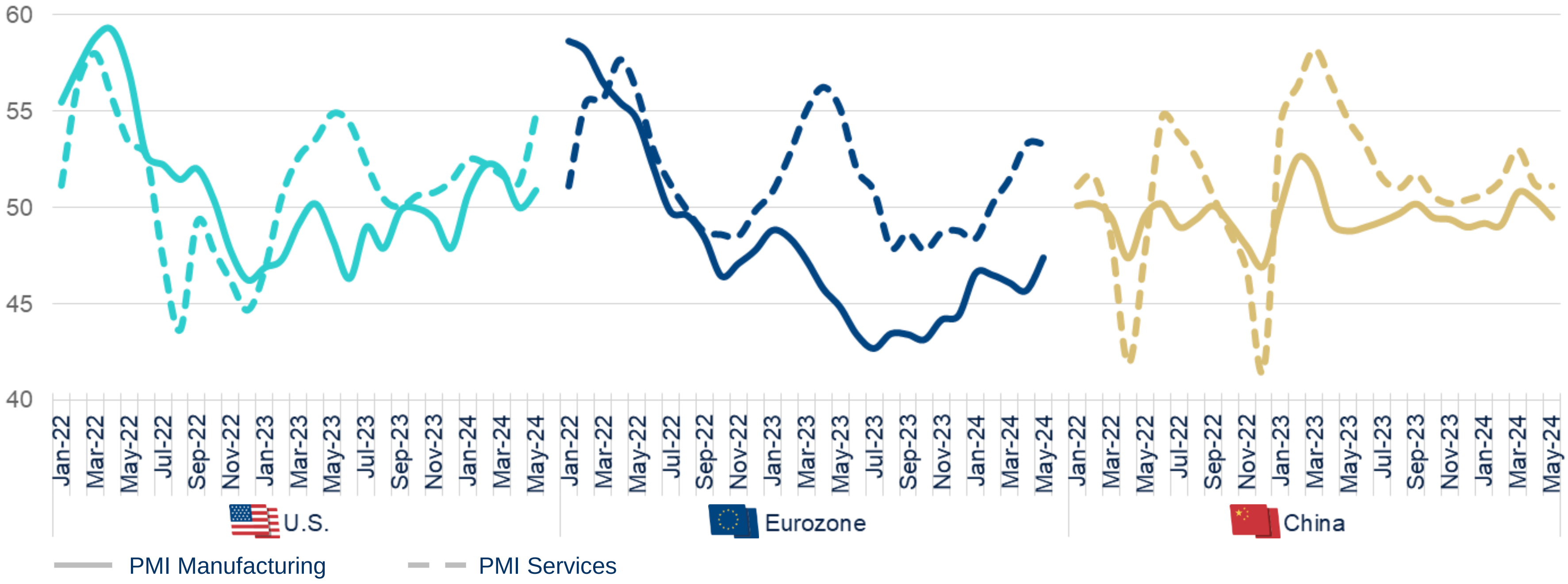
COMMODITY PRICES
(INDEX: 2019 AVERAGE = 100, 30-DAYS MOVING AVERAGE)



Source: BBVA Research based on data from Haver.

Growth is holding up better than expected, mainly due to service dynamism, and there are now some signs of recovery, particularly in manufacturing

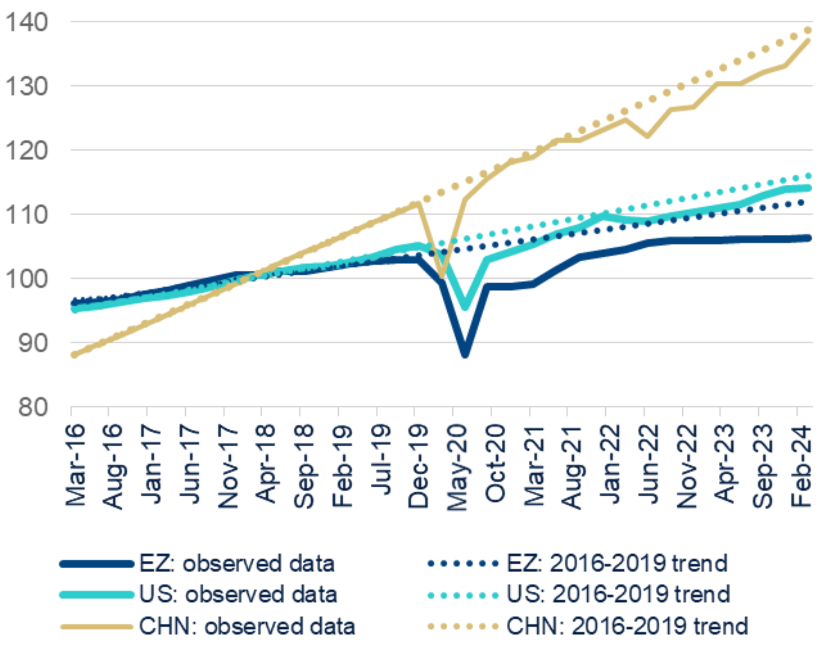
PMI INDICATORS
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



Source: BBVA Research based on data from Haver.

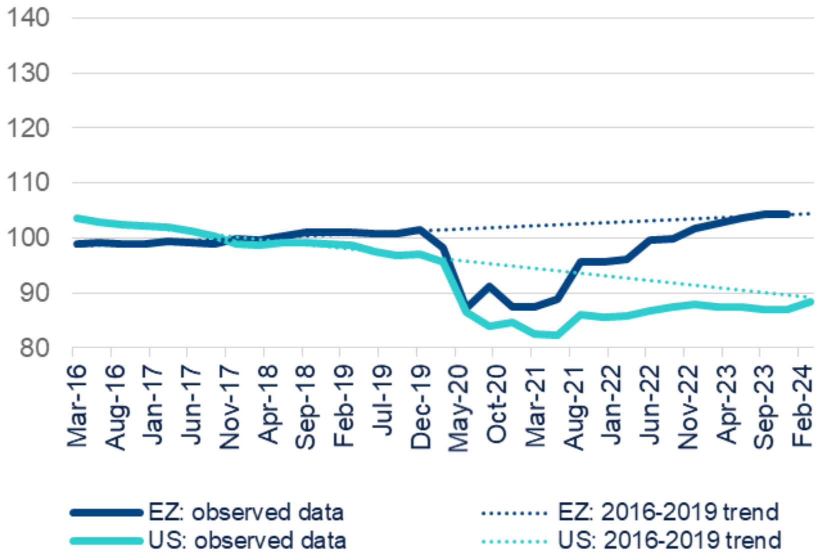
Despite growth resilience and recovery signs, GDP is below (mainly in Europe), and service consumption is close to pre-COVID trends

GDP
(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)



Source: BBVA Research based on BEA, ECB and Haver data.

SERVICE / GOODS PRIVATE CONSUMPTION RATIO (*)
(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)

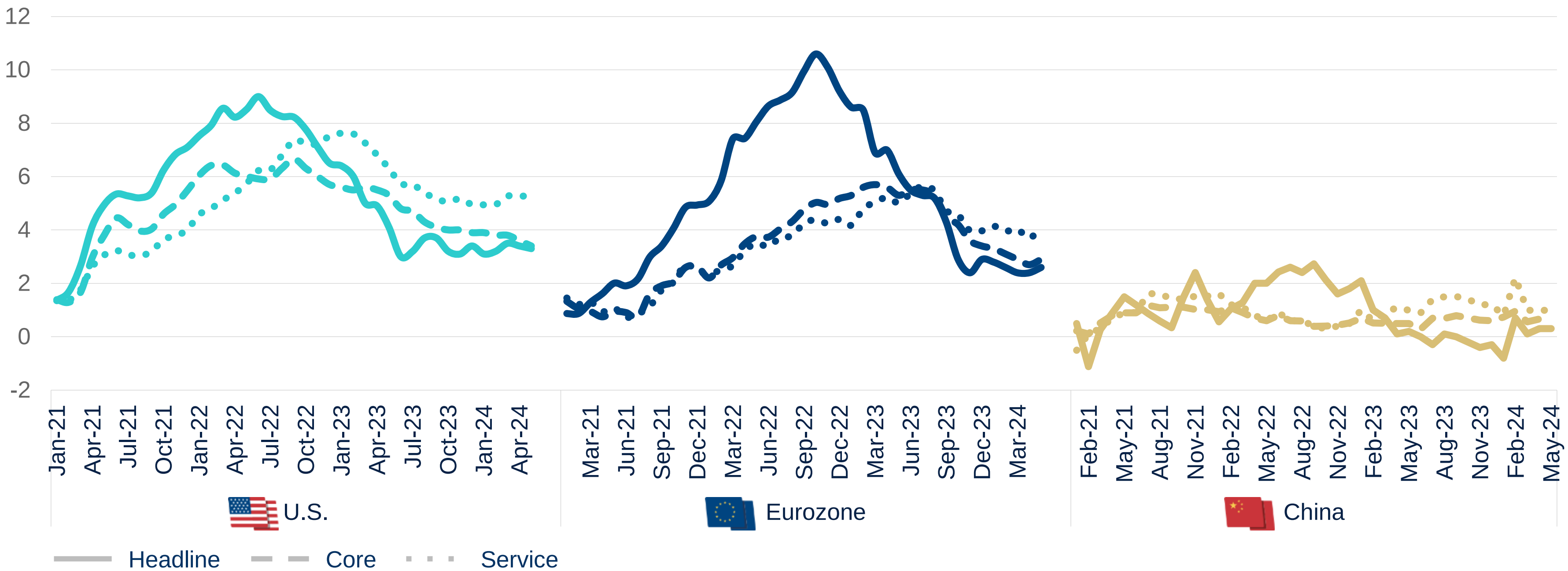


(*) Eurozone: based on data available for 14 countries (out of the 20 countries) in the region: Germany, Estonia, Ireland, France, Italy, Cyprus, Latvia, Luxembourg, Malta, Netherland, Austria, Slovenia, Slovakia and Finland.
Source: BBVA Research based on BEA and ECB data.

Headline inflation has been showing downward resistance lately, mainly due to higher-than-expected service inflation persistence

CPI INFLATION: HEADLINE, CORE AND SERVICE

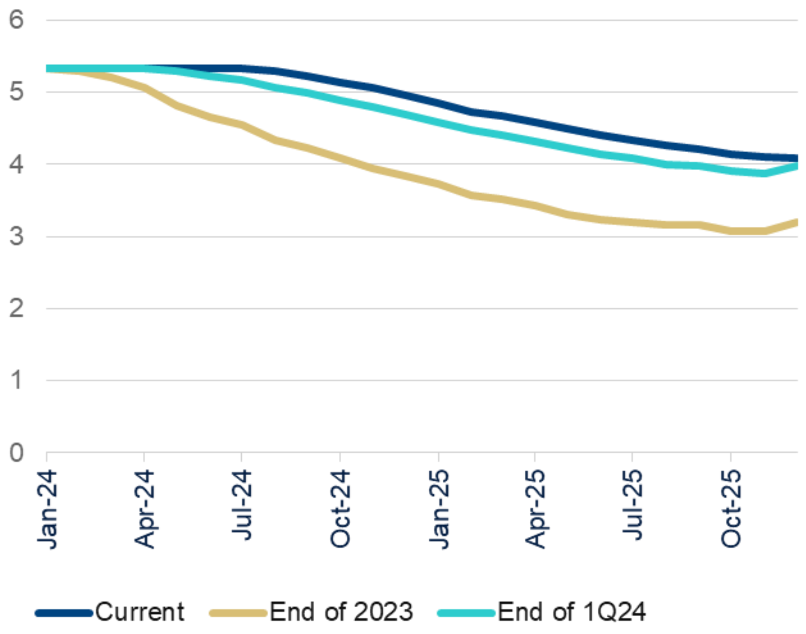
(Y/Y %)



Source: BBVA Research based on data from Haver.

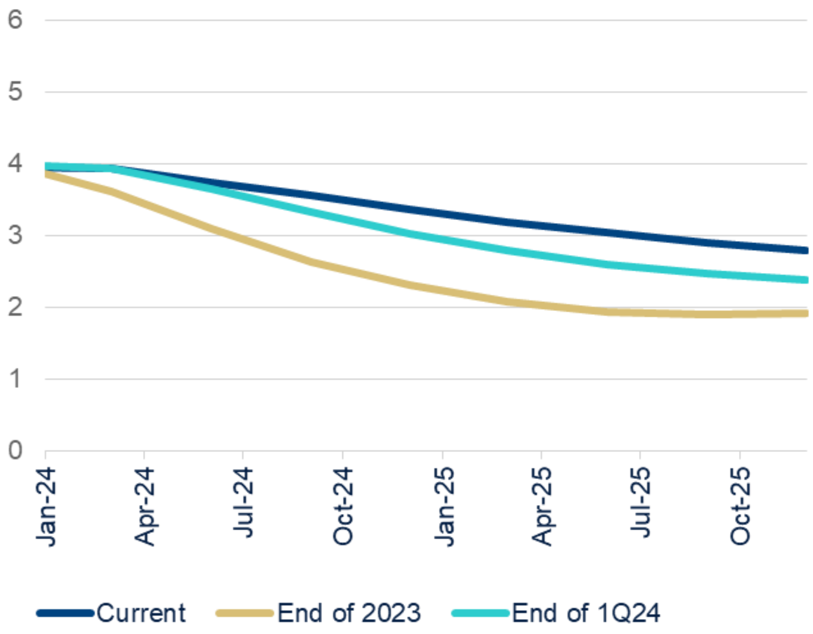
Markets have raised again their interest rate expectations as the Fed's easing cycle is delayed and the ECB remains cautious despite the recent 25 bps cut

US: IMPLICIT RATE IN FED FUND FUTURES
(%)



Source: BBVA Research based on Bloomberg.

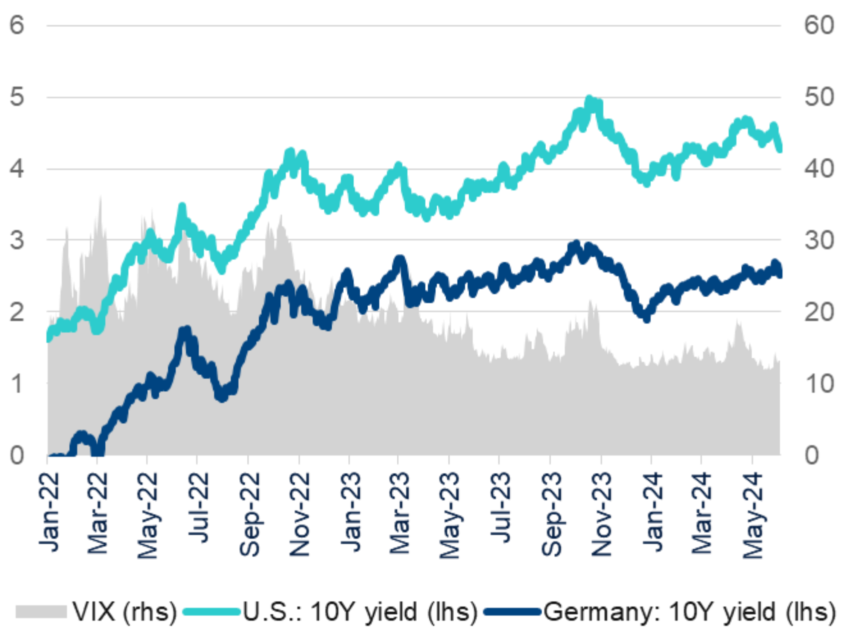
EZ: IMPLICIT RATE IN 3-MONTH EURIBOR FUTURES (*)
(%)



(*) Depo interest rates.
Source: BBVA Research based on Bloomberg.

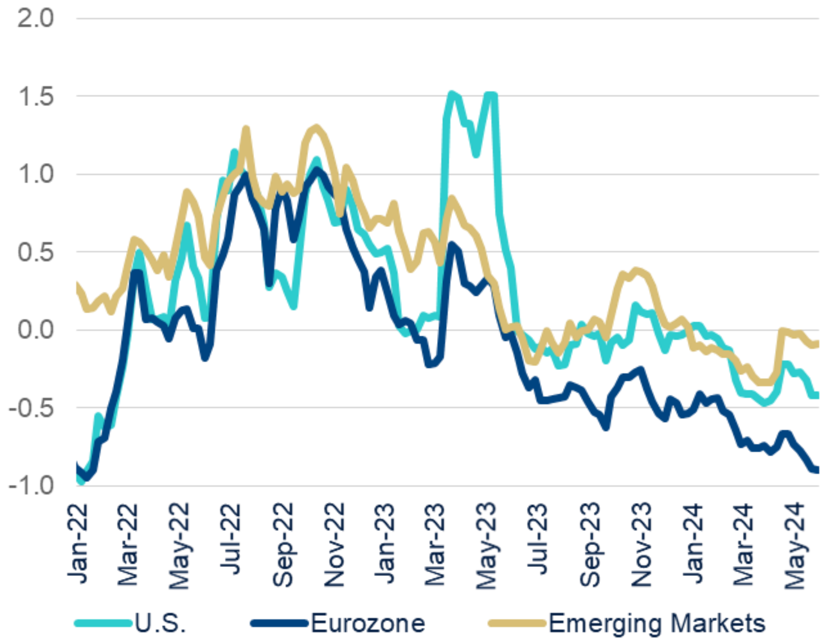
Financial volatility remains low even though sovereign rates have reached high levels and concerns about geopolitics and US elections have heightened

SOVEREIGN YIELDS AND VOLATILITY
(%, INDEX)



Source: BBVA Research based on data from Haver.

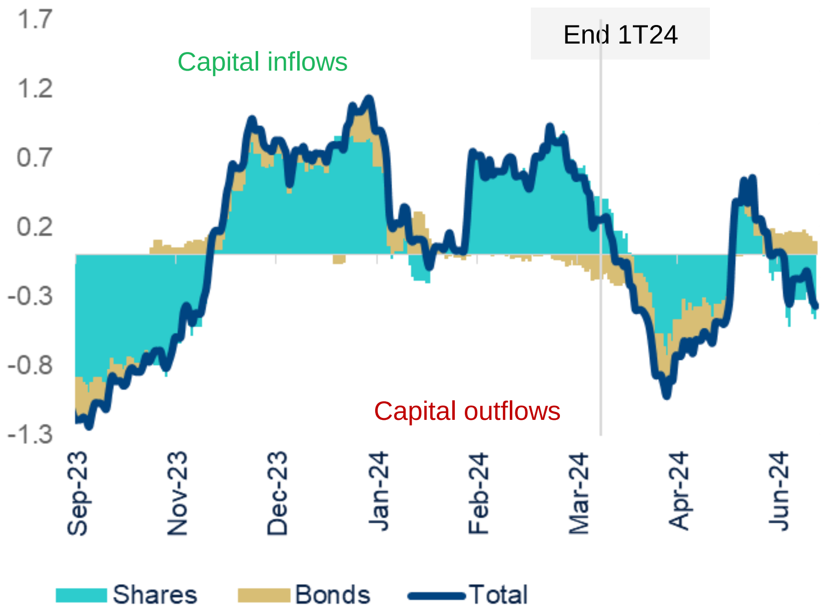
BBVA RESEARCH FINANCIAL TENSIONS INDEX
(INDEX: HISTORIC AVERAGE = 0)



Source: BBVA Research based on data from Haver.

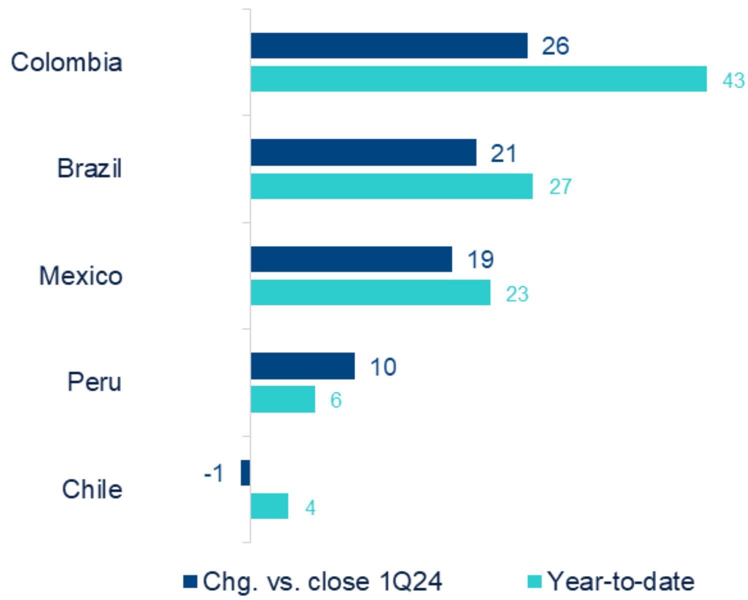
Capital outflows have been observed from emerging markets (for equities) and an increase in risk premiums in LatAm (except in Chile)

CAPITAL FLOWS TO EMERGING MARKETS[1]
(USD BILLIONS, 28-DAY ROLLING AVERAGE)



1: It includes China.
Source: IIF (information as of June 14).

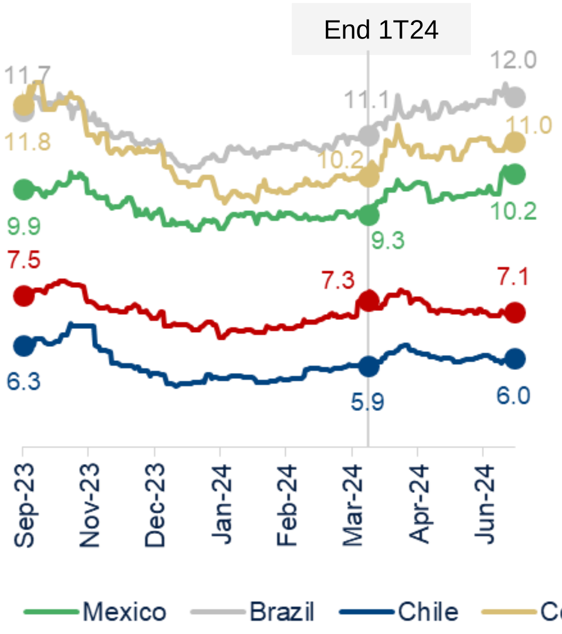
LATAM: COUNTRY RISK
(MEASURED WITH CDS, BP)



Source: Bloomberg (information as of June 17).

LatAm sovereign bond yields and exchange rates rise on rising dollar interest rates

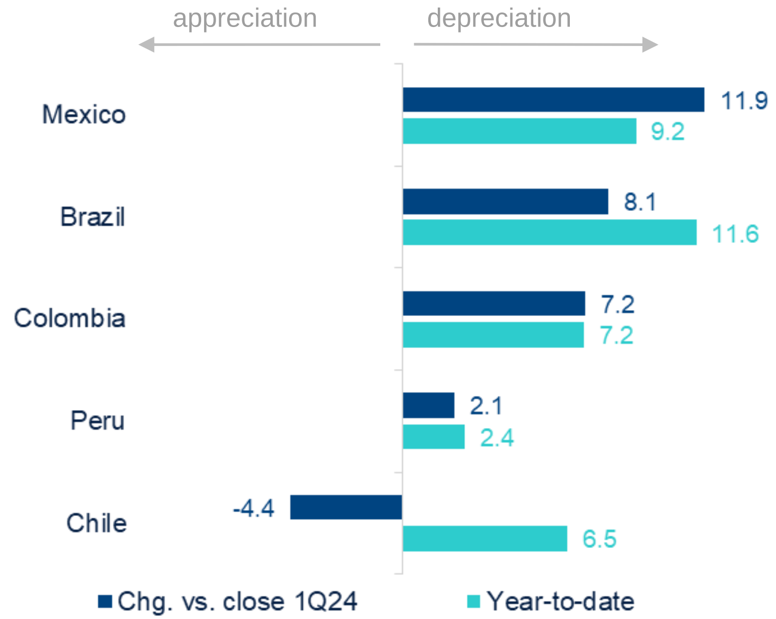
LATAM: SOVEREIGN BOND YIELDS 10-YEAR (%)



bp	Change vs. close 1Q24	Cumm. YTD
Brazil	89	162
Colombia	78	100
Mexico	93	127
Peru	-26	41
Chile	16	55

Source: Bloomberg (Information as of June 17).

LATAM: EXCHANGE RATES (LOCAL CURRENCY VS. USD, CHG. %)



Source: Bloomberg (Information as of June 17).

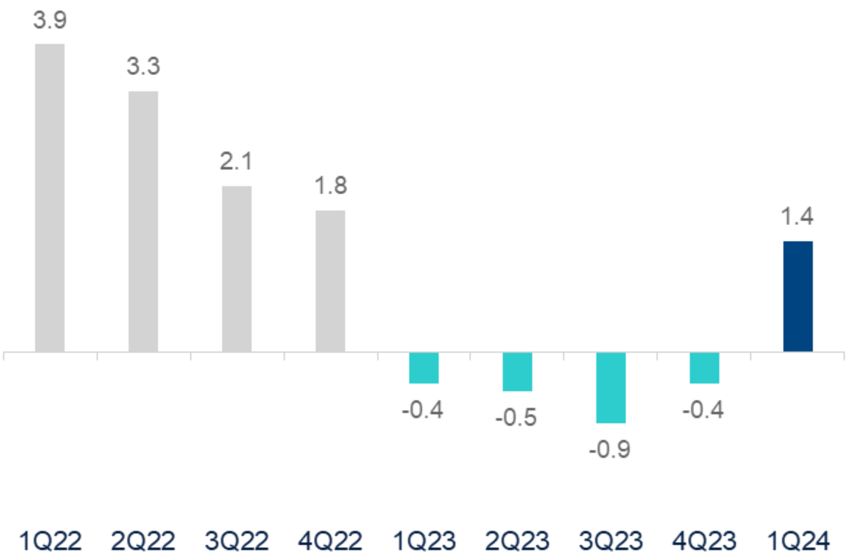
BBVA Research

02

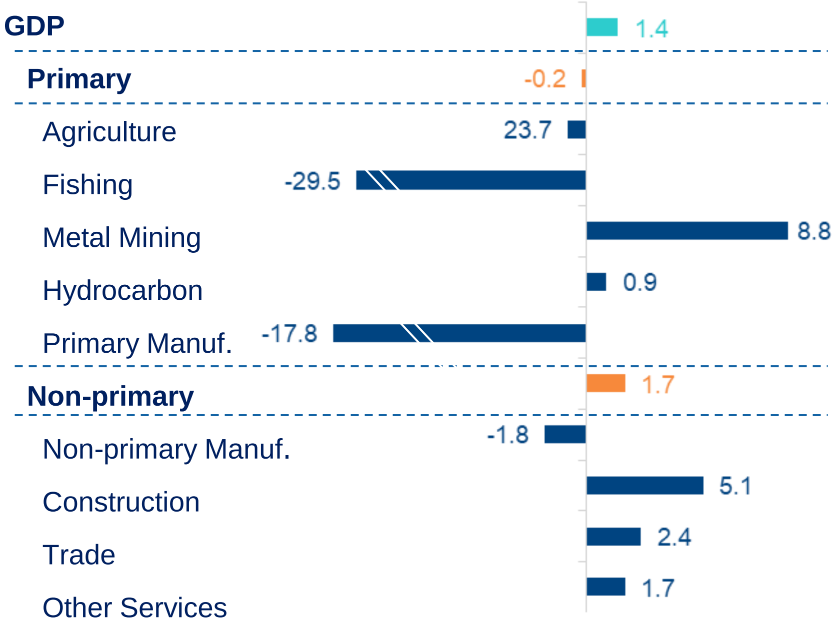
Local context: employment and economic activity

After four quarters of negative growth, activity resumed positive growth at the beginning of 2024, albeit timidly

GDP
(% CHANGE YEAR-ON-YEAR)



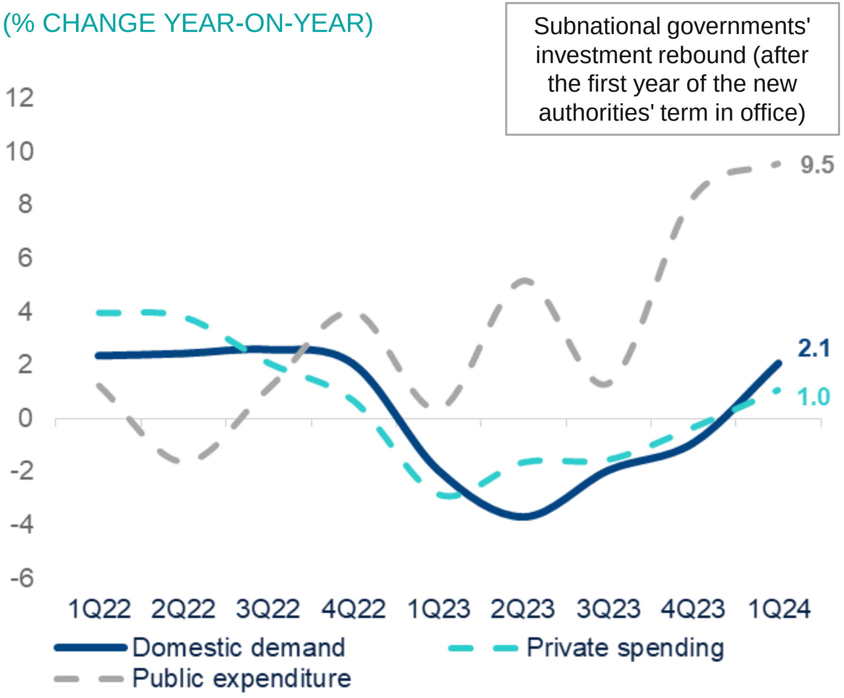
GDP BY SECTOR
(% CHG. 1Q24 YEAR-ON-YEAR)



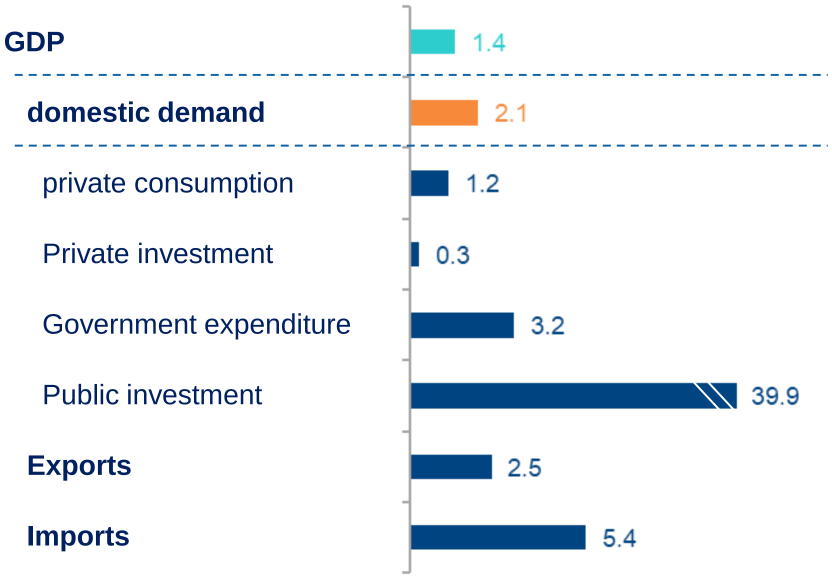
Source: BCRP and BBVA Research.

The recovery of domestic demand stands out, as well as the recovery of public investment and the return to positive private sector spending growth

DOMESTIC DEMAND
(% CHANGE YEAR-ON-YEAR)



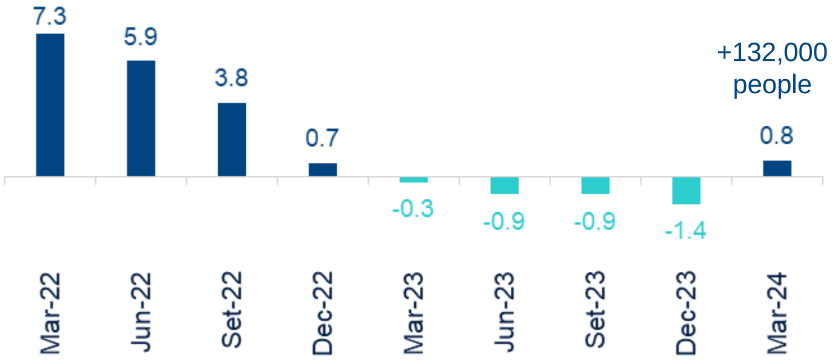
GDP ON THE DEMAND SIDE
(% CHG. 1Q24 YEAR-ON-YEAR)



Source: BCRP and BBVA Research.

In this context, 132,000 jobs were recovered at the national level in the first quarter of the year

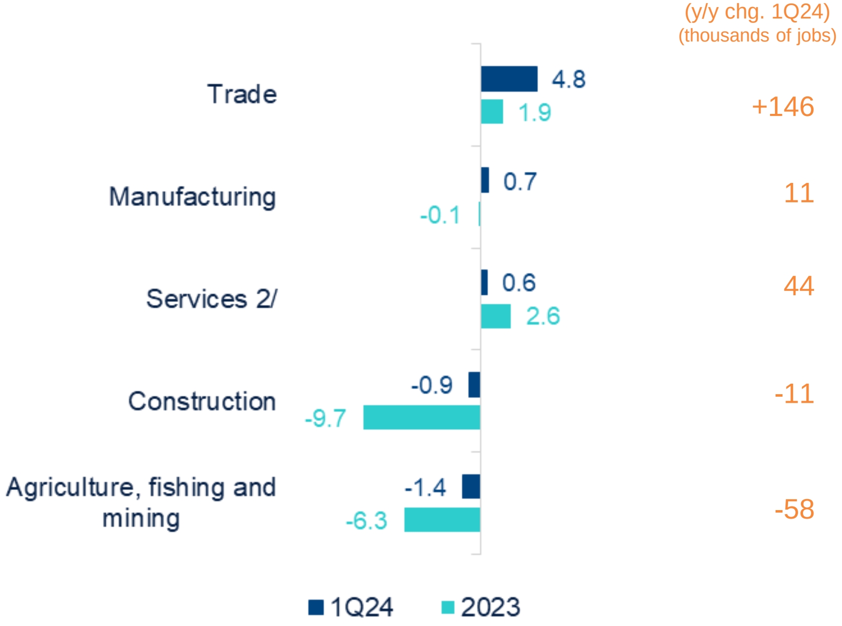
EMPLOYMENT AT NATIONAL LEVEL [1]
(% CHANGE, 3-MONTH MOVING AVERAGE)



(average last 3 months)

	Mar-22	Mar-23	Mar-24
Employed EAP (thousands)	17,082	17,027	**17,159**
Unemployment rate (%)	6,2	5,9	**6,4**

1Q24: EMPLOYMENT AT NATIONAL LEVEL BY SECTOR
(% % YEAR-ON-YEAR, 3-MONTH MOVING AVERAGE)



1: Until December 2022, Information from ENAHO is used; thereafter, the EPEN is used.
2: Includes transport and communications. Financial intermediation, real estate, business and renting activities, education, health and social work activities.
Source: INEI (ENAHO, EPEN). Preparation: BBVA Research.

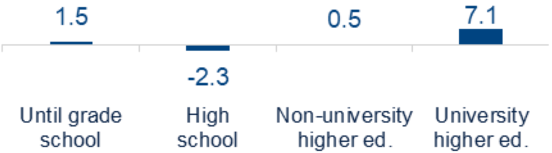
Employment in large companies and for more experienced and educated workers improved. Also, the quality of employment and average wage

1Q24: EMPLOYMENT AT NATIONAL LEVEL BY CHARACTERISTICS
(% % CHANGE)

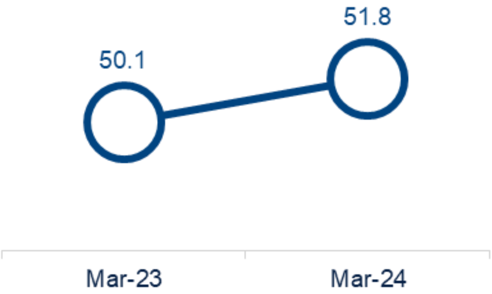
BY COMPANY SIZE

BY WORKER'S AGE

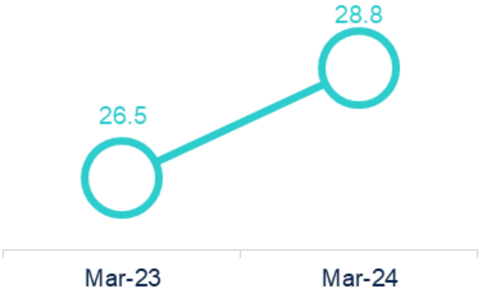
BY WORKER'S EDUCATION LEVEL



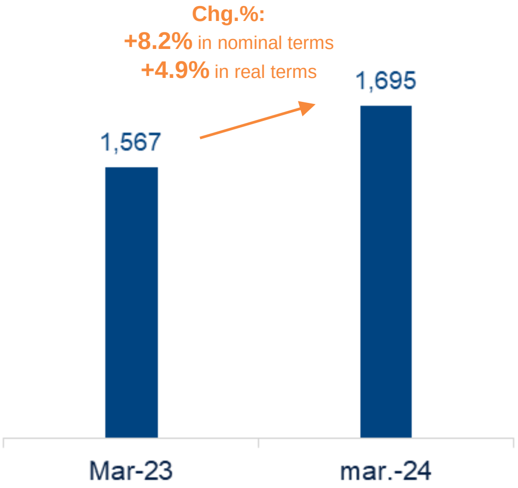
1Q24: ADEQUATE EMPLOYMENT RATE



1Q24: FORMALITY RATE



AVERAGE WORKER'S NOMINAL INCOME
(MONTHLY SOLES)

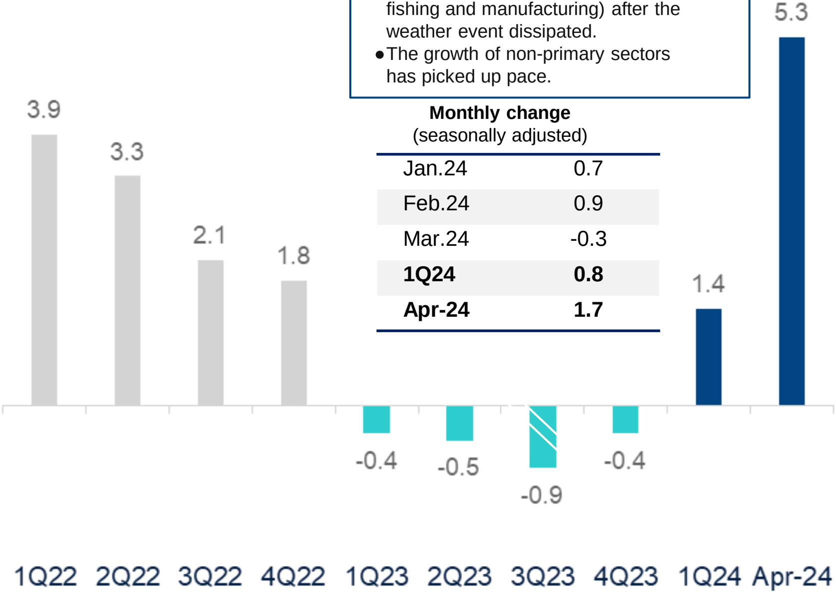


Total wage bill grew 5.7% in real terms in 1Q24

Source: INEI (EPEN).

The outlook for the second quarter is more favorable: it got off to a good start in April. The performance of primary sectors stood out

GDP
(% CHANGE YEAR-ON-YEAR)

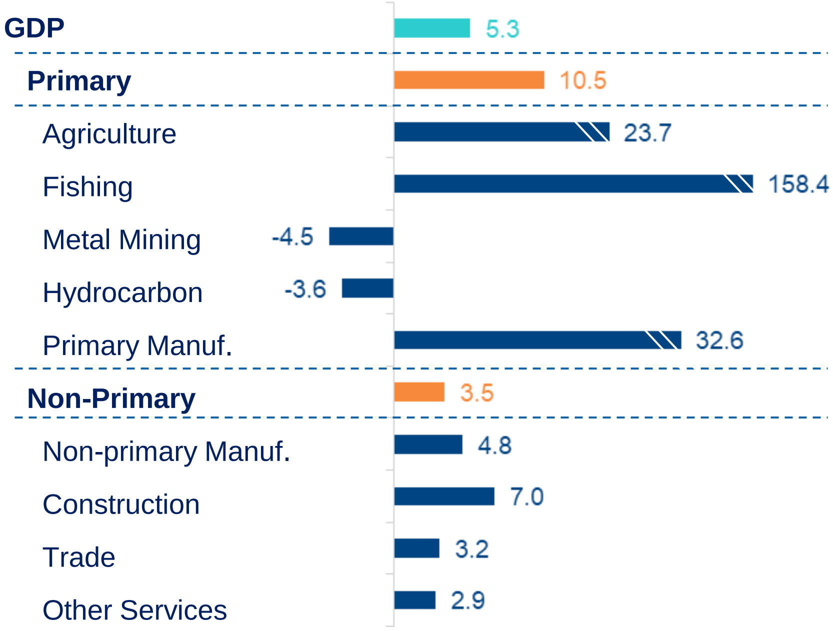


April:
- Boost in primary sectors (agriculture, fishing and manufacturing) after the weather event dissipated.
- The growth of non-primary sectors has picked up pace.

Monthly change
(seasonally adjusted)

Jan.24	0.7
Feb.24	0.9
Mar.24	-0.3
1Q24	**0.8**
Apr-24	**1.7**

GDP BY SECTORS
(% CHANGE YEAR-ON-YEAR, APRIL 2024)



Source: INEI, BCRP and BBVA Research.

The outlook for the second quarter is more favorable: Indicators point to growth of around 4%

Positive base effect at the beginning of the second quarter: in 2023, Easter was celebrated in April, but this year it happened in March.

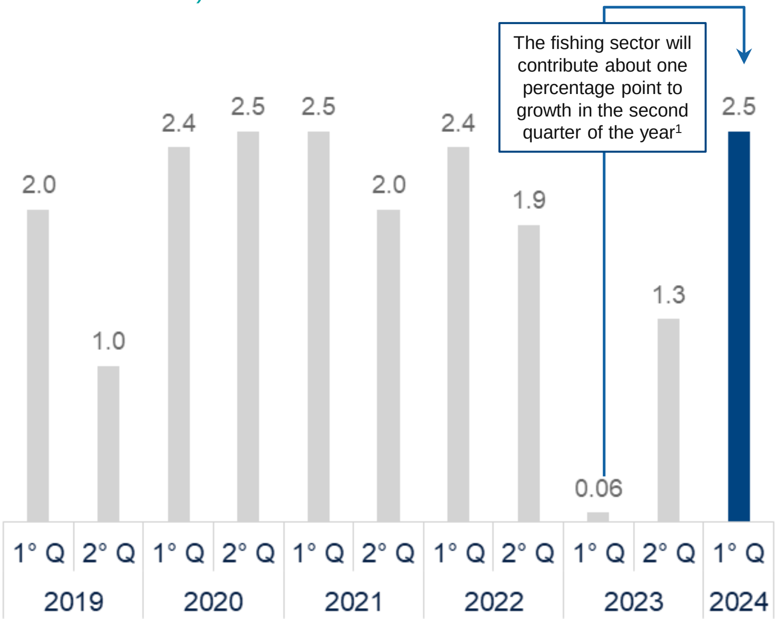
Families with greater liquidity due to the new release of funds from the AFPs (from the end of 2Q24) and CTS.

Weather conditions have normalized. Thus, this year a **first anchovy catch season began,** with a relatively normal quota (2.5 million MT) that was fulfilled quickly and compares favorably with that of last year. Improved weather will also have a positive impact on the agricultural sector and some branches of industry.

Business confidence has been on an upward trend since the end of last year, suggesting more positive performance from private investment.

The outlook for the second quarter is more favorable: Indicators point to growth of around 4%

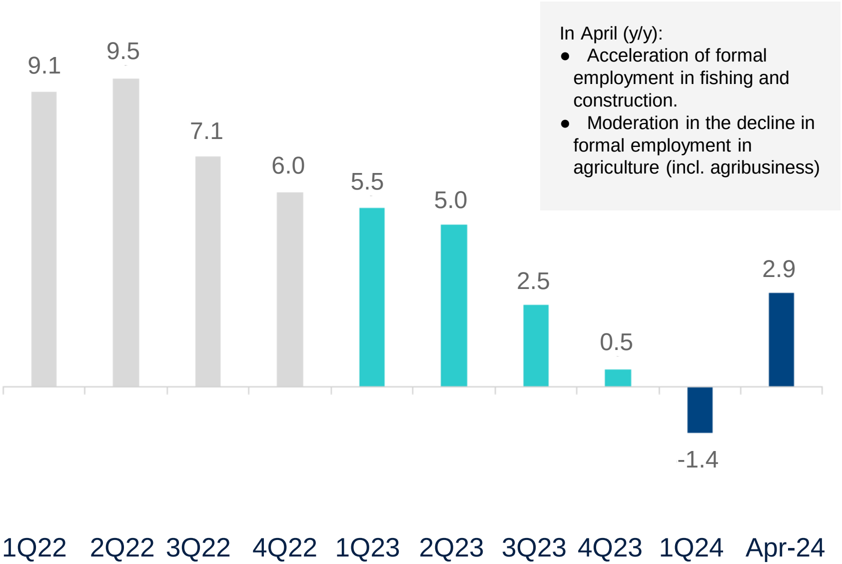
FISHING | ANCHOVY LANDINGS IN THE NORTH-CENTRAL ZONE ACCORDING TO SEASONS[1]
(MILLIONS OF MT)



1S = First season of the year. 2S = Second season of the year.

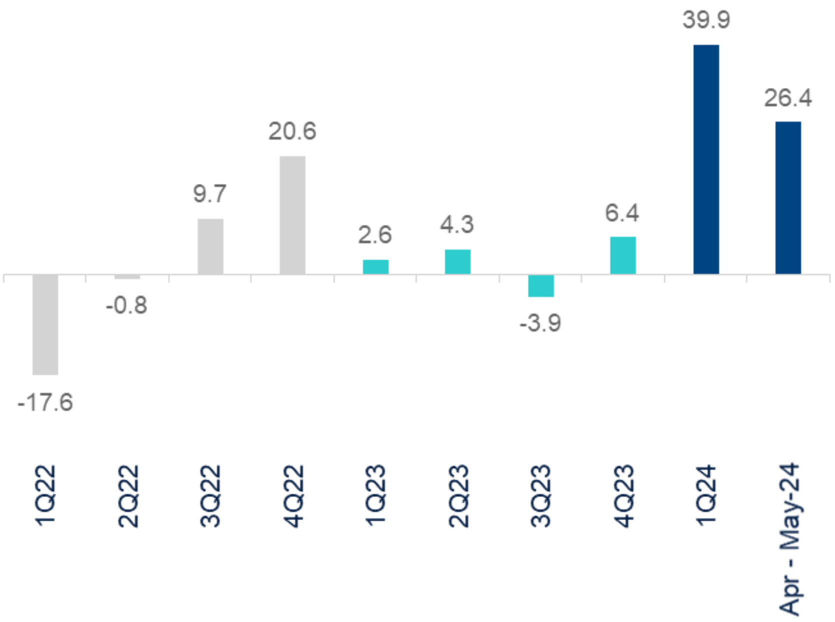
1: Includes a positive effect on primary manufacturing.
Source: Produce.

FORMAL JOBS IN THE PRIVATE SECTOR
(CHG. % YEAR-ON-YEAR)



The outlook for the second quarter is more favorable: Indicators point to growth of around 4%

PUBLIC INVESTMENT [1]
(CHG. % YEAR-ON-YEAR)

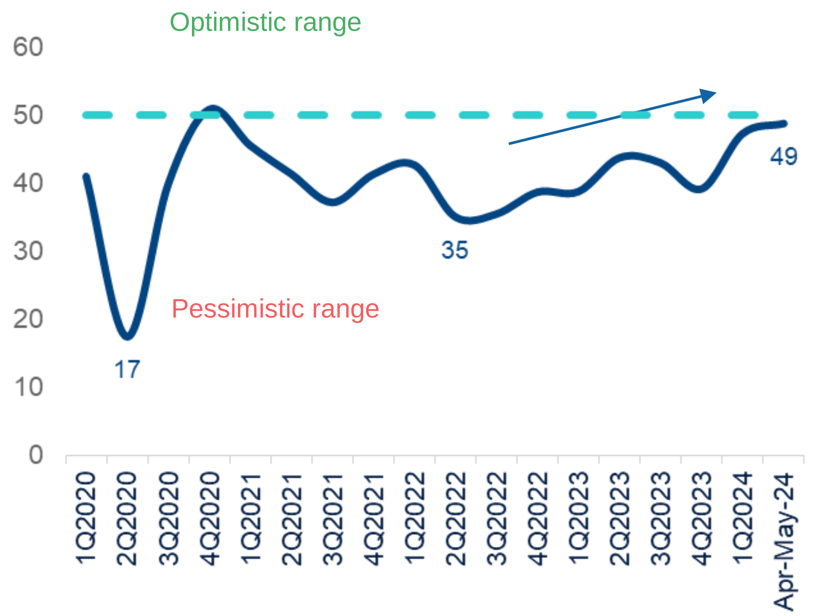


DOMESTIC CEMENT CONSUMPTION
(CHG. % YEAR-ON-YEAR)

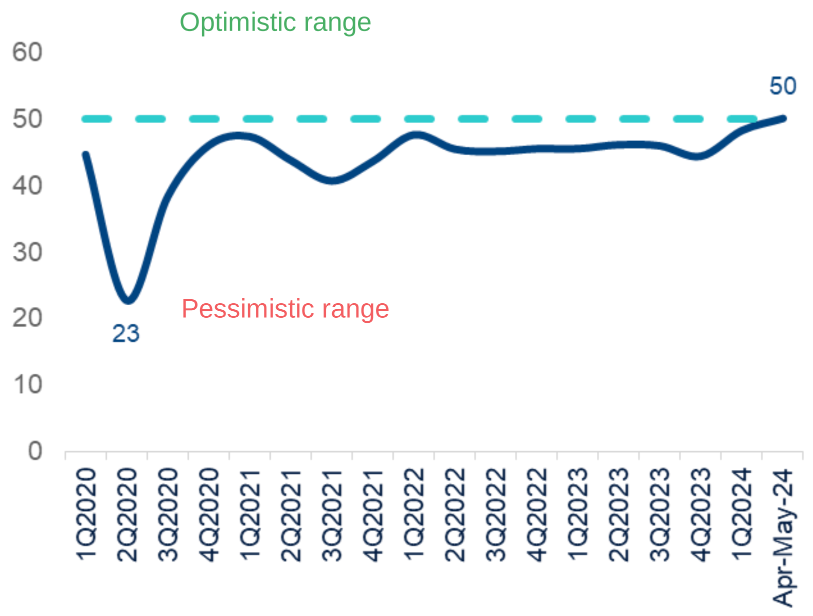
1: The data for April-May 2024 is estimated from the gross capital formation of the general government.
Source: BCRP, MEF, ASOCEM and BBVA Research.

The outlook for the second quarter is more favorable: confidence shows a recovery trend

BUSINESS CONFIDENCE
(POINTS, QUARTERLY AVERAGE)



3-MONTH INVESTMENT EXPECTATIONS
(POINTS, QUARTERLY AVERAGE)



Source: BCRP and Apoyo Consultoría.

BBVA Research

03

Global economic forecasts

Creating Opportunities

BBVA Research baseline scenario: inflation and interest rates are likely to decline, but will remain relatively high, favoring subdued activity growth

Scenario drivers

Interest rates to gradually fall, also in the US, where cuts were postponed amid large uncertainty, but will remain at contractionary levels

Fiscal policy will scarcely contribute to ease inflation pressures, mainly in the US; some consolidation is likely in Europe from 2025, given new fiscal rules

Supply conditions: geopolitical context makes negative shocks more likely than in the past, but no particular shock is assumed in baseline scenario

Macro trends: prospects

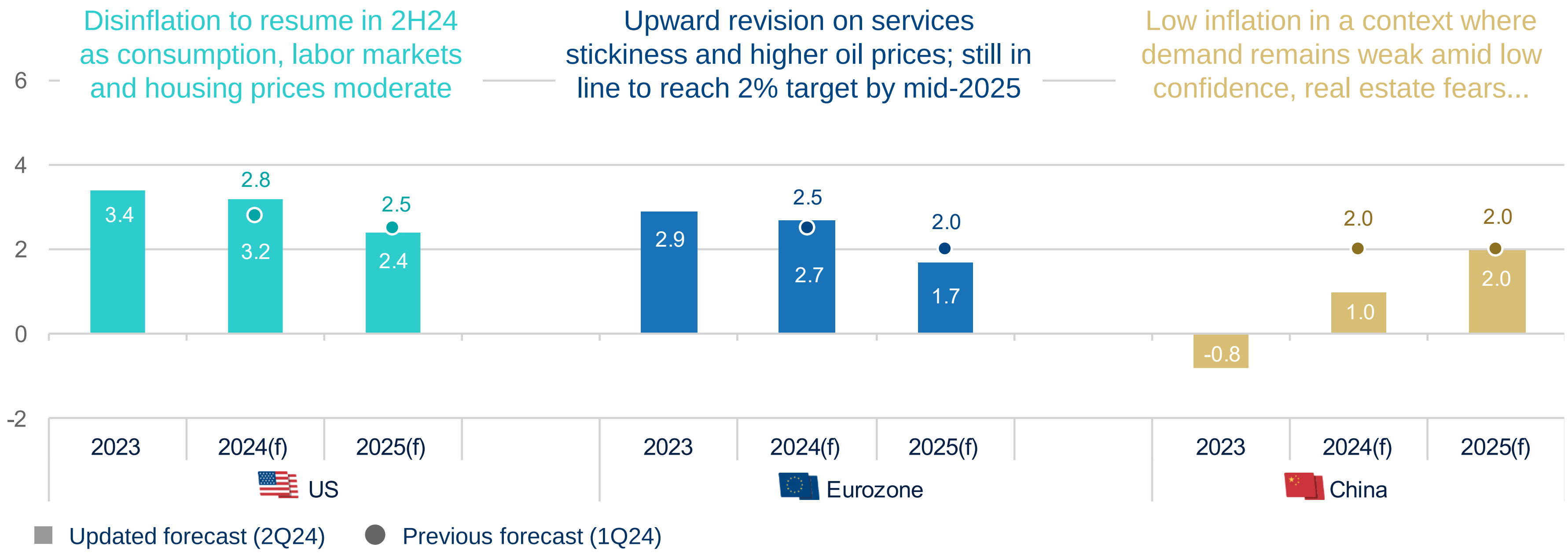
Global growth to be weak in 2H24 and recover somewhat in 2025; China's structural deceleration will weigh down

Inflation will ease further, but is set to remain higher than in recent decades on demand (fiscal policy, etc.) and supply (geopolitics, protectionism, etc.) issues

Volatility on geopolitics and US elections, likely offsetting the positive effects triggered by lower Fed rates

Inflation forecasts revised upwards in the US and Eurozone, mostly on service stickiness, and downwards in China, amid deflation concerns

HEADLINE INFLATION: CPI
(YOY %, END OF PERIOD)

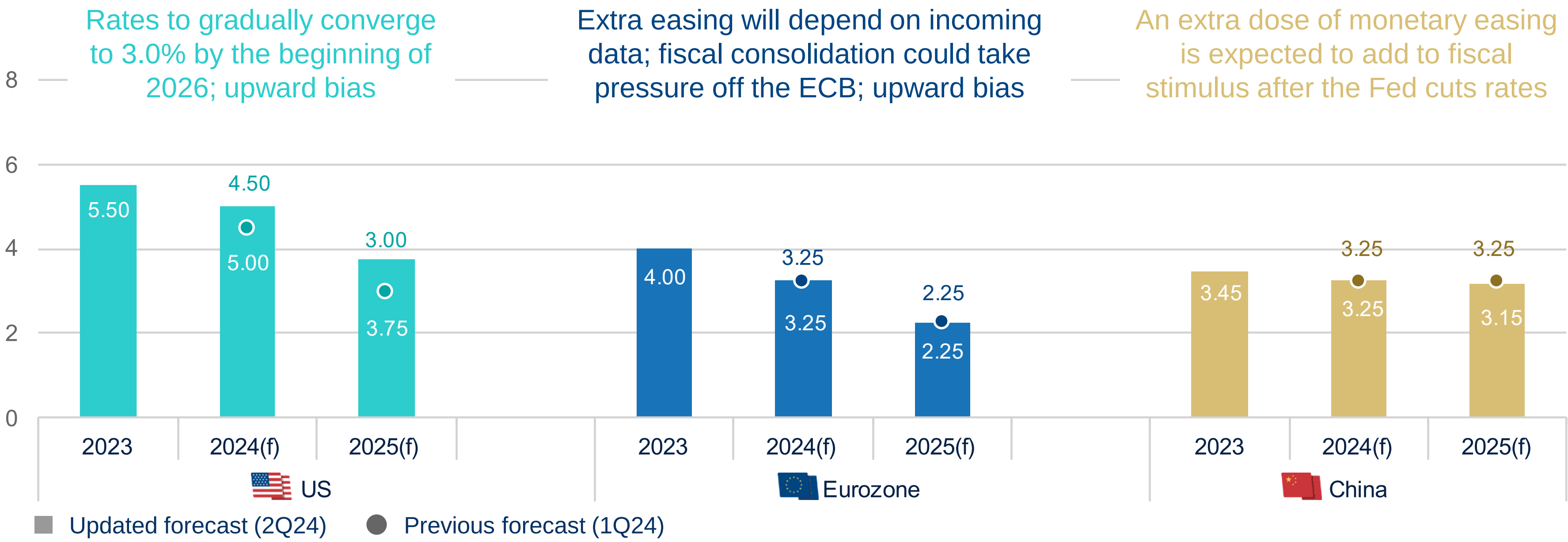


(f): forecast.
Source: BBVA Research.

The ECB has started cutting rates; the Fed will wait at least until Sep/24 to launch its easing cycle amid still uncertain growth and inflation moderation

POLICY INTEREST RATES (*)

(%, END OF PERIOD)



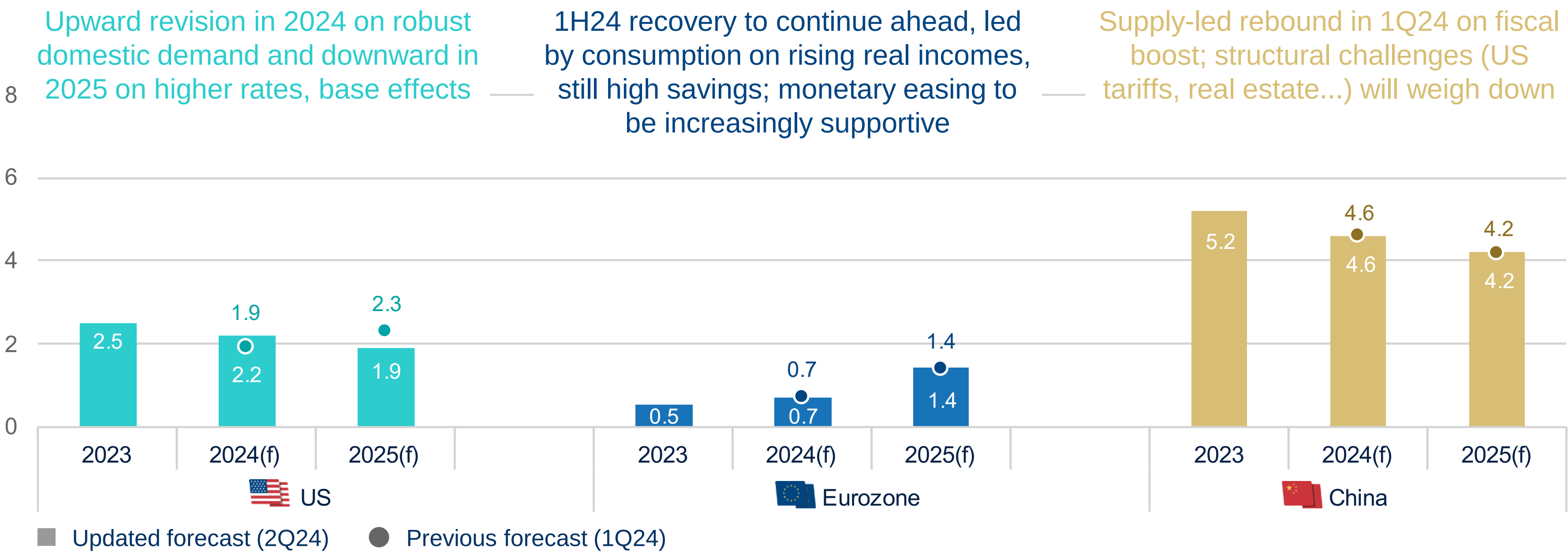
(f): forecast.

(*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research.

GDP growth prospects: a softer landing in the US, a cyclical recovery in the Eurozone and a structural deceleration in China

GDP GROWTH (*)
(%)



(f): forecast.
(*) Global GDP growth: 3.2% in 2023, 3.1% (+0.0 pp in comparison to previous forecast) in 2024 and 3.3% (+0.0 pp) in 2025.
Source: BBVA Research.

On the metals side, prospects of a soft landing in global activity and supply issues have supported prices

COPPER PRICE
(USD PER POUND)

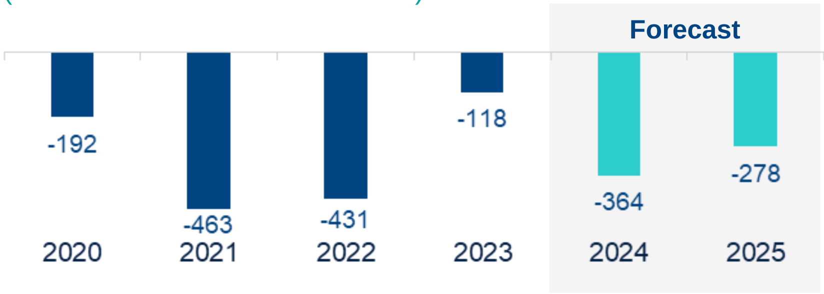
METAL PRICES

	Price (17 Jun.)	Chg. % YTD
Copper (USD per pound)	4.36	13.6%
Gold (USD per oz. tr.)	2 319	12.4%
Zinc (USD per pound)	1.23	2.9%

Source: LME, Bloomberg and BBVA Research

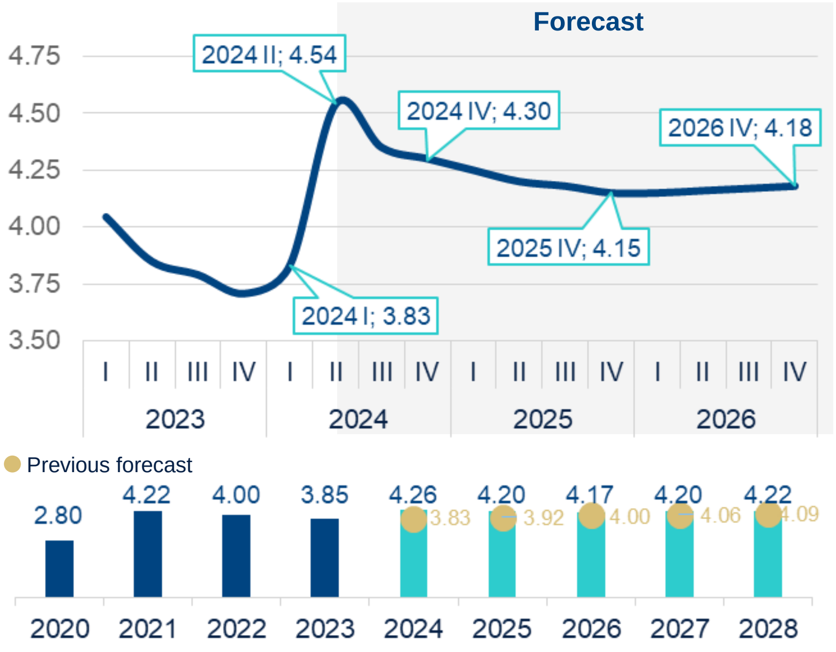
- Copper price supported by better prospects for global activity: Release of positive manufacturing PMIs in China and the US
- Supply problems and non-commercial (speculative) positions further push the price upward.
- Beyond the correction (after the recent short squeeze), price with structural supports: (i) demand for energy reconversion, AI and increased military expenditure, and (ii) limited supply.

WORLD COPPER BALANCE SHEET
(THOUSANDS OF METRIC TONS)



We revise the copper price upward over the forecast period on better growth prospects and more persistent supply shocks

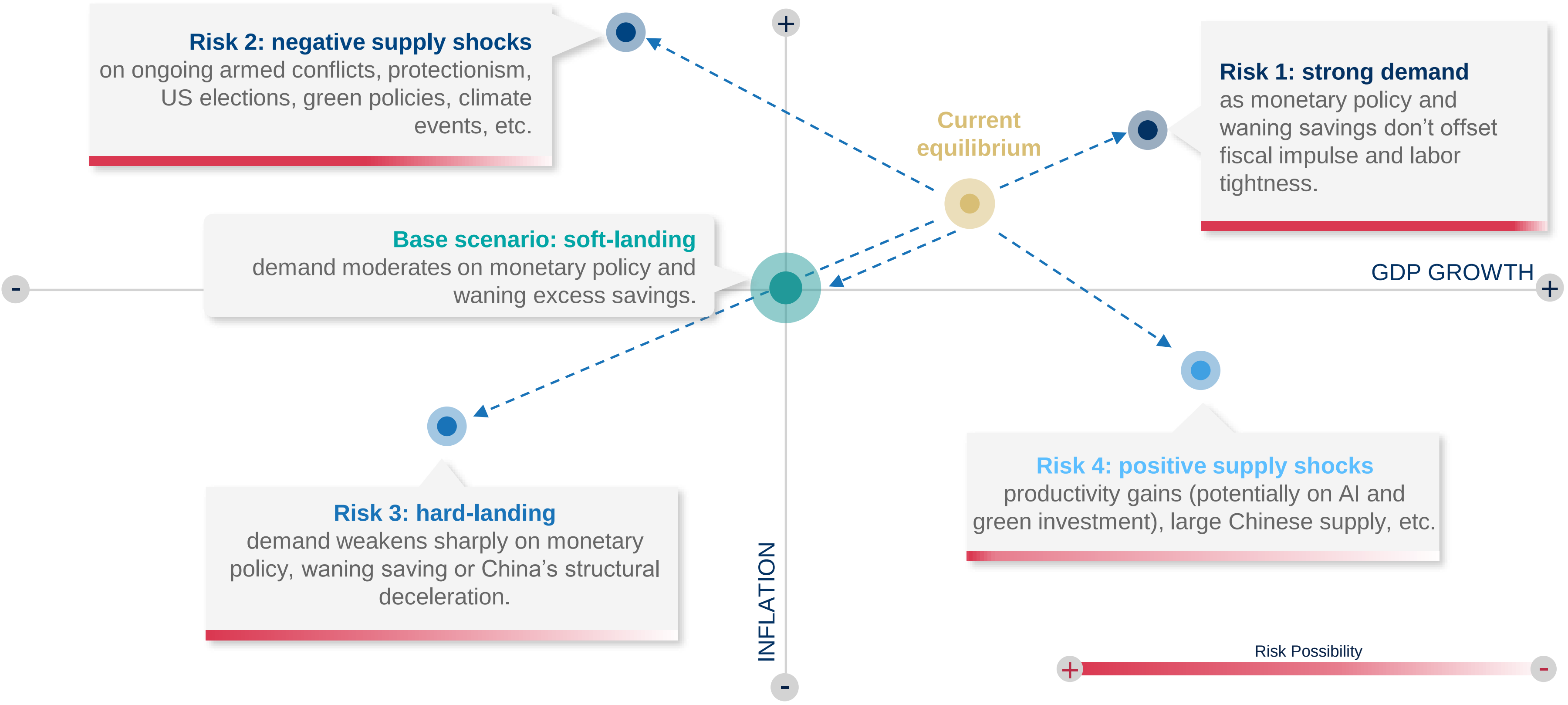
COPPER PRICE
(USD/POUND AVERAGE FOR THE PERIOD)



Source: Bloomberg and BBVA Research (forecasts).

- As some of the supply problems dissipate (output problems in Congo and Zambia due to electricity supply, low yields in operations at Anglo American, closure of Cobre Panama), the price of copper will correct downward over the course of this year and, to a lesser extent, next year.
- In the medium term, we maintain the view that greater investment in "green" infrastructure and vehicle retrofitting will support the price. The importance of these factors will gradually increase over the next few years.
- Compared to the previous baseline scenario, the expected price for copper is higher, reflecting the improved global growth outlook and the persistence of some supply shocks.

Risks: demand strength, protectionism, geopolitics, among other factors, could prevent inflation and interest rates from declining ahead



BBVA Research

04

Peru economic forecasts

4.1 Economic activity

Creating Opportunities

Global macroeconomic outlook: key considerations and local impacts

EXTERNAL FACTORS CONSIDERED

- **Global growth will lose momentum going forward, but it will still be higher than in the previous baseline scenario, especially in 2024.**
- **Inflation will continue to fall**, although it will remain relatively high due to demand (fiscal policy, etc.) and supply (geopolitics, protectionism, etc.).
- **Interest rates will gradually decrease.** However, they will remain at contractionary levels. The U.S. will be no exception, but the cuts have been delayed.
- **Better prospects for metal prices and in particular copper**, the latter supported by higher global growth in 2024 and more persistent supply shocks.
- **Volatility due to geopolitics and elections in the U.S.**, probably offsetting the positive effects of the Fed's rate reduction.

LOCAL IMPACTS

- **External environment is more favorable for growth of the Peruvian economy** (growth of U.S. and copper prices). Greater support for external demand, especially for non-traditional products, and local confidence.
- **It also favors fiscal and external accounts.**
- **Local currency with greater resilience**, despite the fact that the Fed will take longer to initiate policy rate cuts. This leads to a downward revision in the exchange rate level forecast for the end of 2024, which is still consistent with some depreciation in the remainder of the year due to volatility stemming from geopolitical issues and the U.S. elections.

High metal prices will support the growth of the Peruvian economy and will improve the results of the fiscal and external accounts

EXPORT PRICES: LOCAL IMPACTS

↑ Export prices

SHORT-TERM	MEDIUM-TERM
↑ Tax collection	↑ Mining investment (brownfield and greenfield projects)
↓ fiscal deficit	↑ Mining output
↓ Exchange rate	↑ Public expenditure
↑ Confidence	
↑ Growth	

Source: Bloomberg and BBVA Research

Domestic macro outlook: key considerations

LOCAL FACTORS CONSIDERED

1

The weather event has dissipated and forecasts indicate relatively normal conditions in the coming months. There are no changes with respect to what was considered in the previous baseline scenario.

2

Relative political and social stability. However, in the margin the Executive has weakened (approval has further decreased, indictments by the prosecutor's office). In this context, there is an increased risk of policy measures (especially from Congress) that do not favor order in public finances, the business environment, or adequate government management.

3

The baseline scenario includes the impact that the new withdrawal of pension funds will have. We estimate that this will contribute between 0.4pp and 0.5pp of higher growth.

4

Infrastructure and mining projects will begin construction in the coming years, supporting growth. The new baseline scenario includes the Chavimochic III irrigation project, the Antamina Replacement mining project, and the peripheral beltway for the city of Lima.

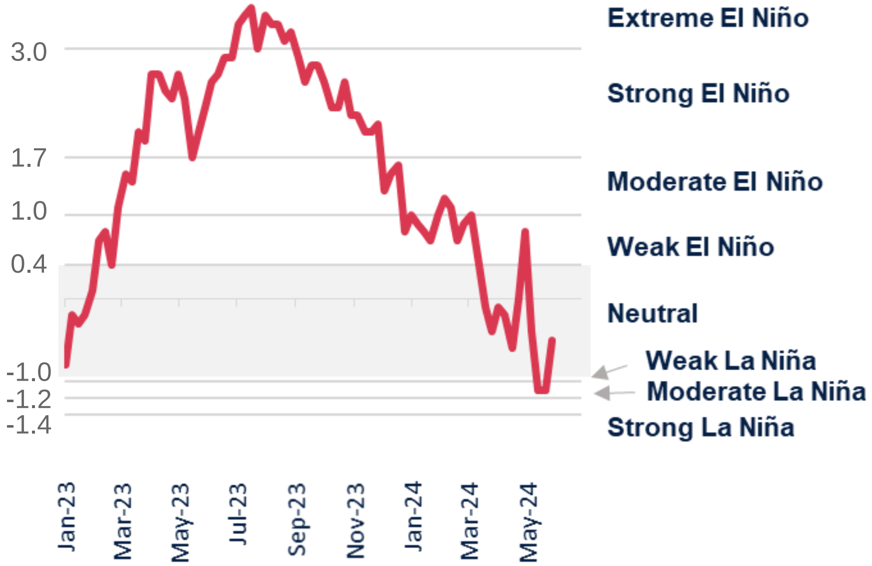
5

The contribution by the mining sector to growth is tending to wane. Quellaveco's contribution to the year-on-year growth rate will fade.

1

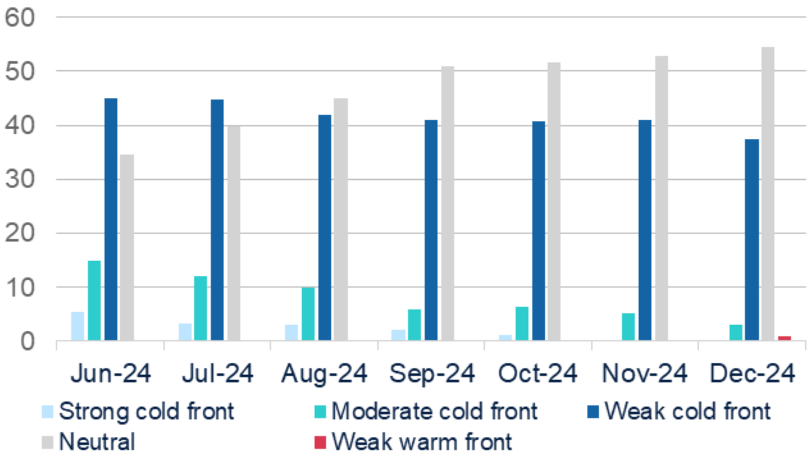
Locally, the weather anomaly has dissipated, and forecasts indicate relatively normal conditions in the coming months

SEA SURFACE TEMPERATURE ANOMALY ON THE NORTHERN PERUVIAN COAST
(DEGREES CELSIUS, WEEKLY MOVING AVERAGE)



Source: NOAA, ENFEN and BBVA Research

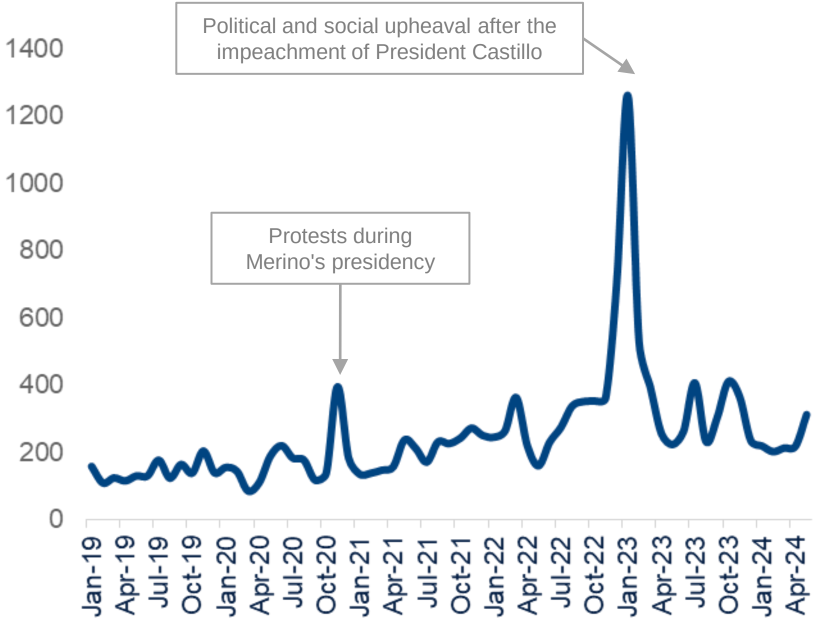
CLIMATE ANOMALY IN THE COMING MONTHS | PROBABILITY OF OCCURRENCE OF DIFFERENT SCENARIOS (%)



ENFEN recently changed the status of the alert system to "Coastal La Niña Watch" (From "Not active"). Forecasts indicate that the most likely scenario for 3Q24 is between weak cold and neutral, with neutral becoming more likely going forward. This is what is considered in the baseline scenario.

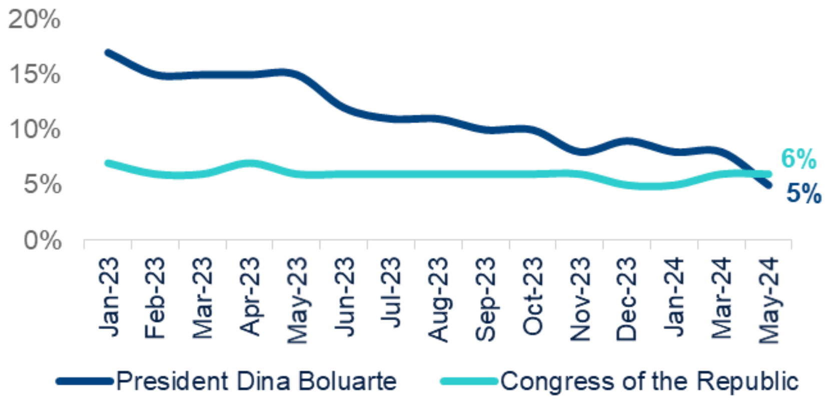
2 In the political sphere, relative stability is maintained, although the Executive has weakened at the margin

COLLECTIVE PROTEST ACTIONS
(NUMBER OF CASES)



Source: Ombudsman. Preparation: BBVA Research. Latest data available: April 2024.

PRESIDENTIAL AND CONGRESSIONAL APPROVAL
(% OF RESPONDENTS)

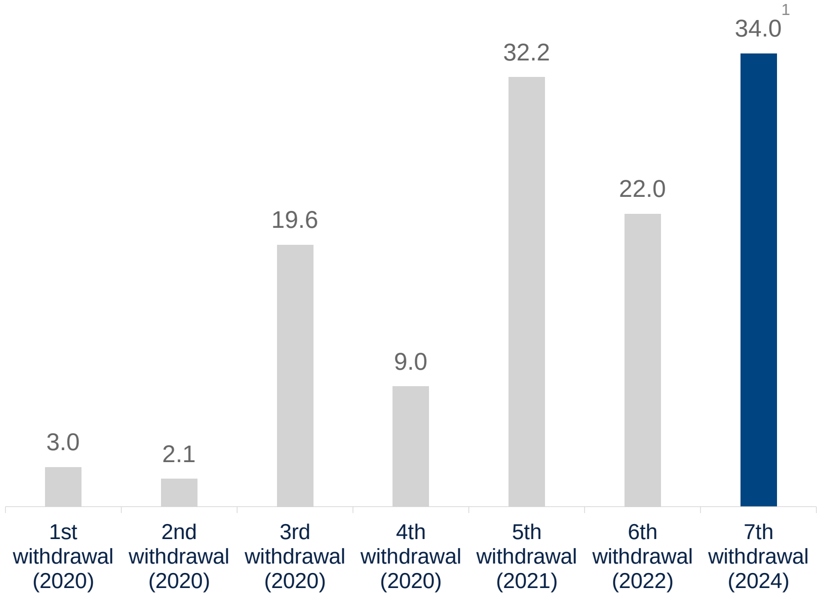


- Relative political and social stability. However, in the margin the Executive has weakened (approval has further decreased, indictments by the prosecutor's office). In this context, there is an increased risk of measures (especially from Congress) that do not favor order in public finances, an environment for doing business, or adequate government management.

Source: IEP — Opinion Survey May 2024 and BBVA Research.

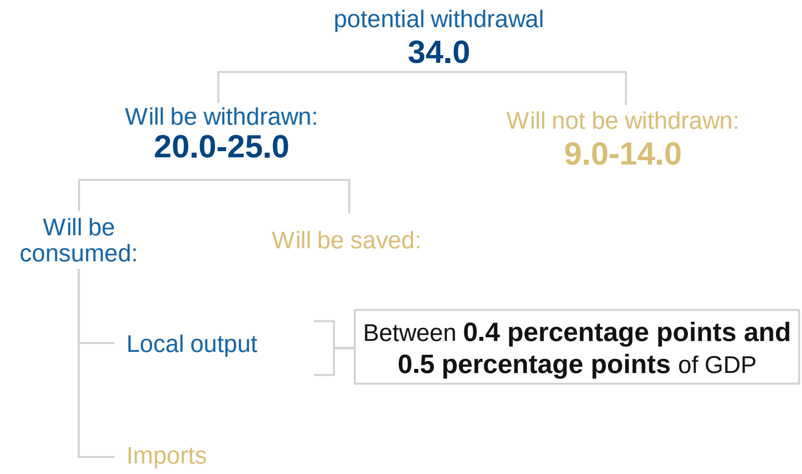
3 The baseline scenario includes the impact that the new withdrawal of pension funds will have...

PRIVATE PENSION FUND | AMOUNTS WITHDRAWN OVER THE LAST YEARS
(BILLIONS OF PEN)



1: It corresponds to the potential withdrawal.
Source: SBS and BBVA Research (estimates).

ESTIMATED IMPACT OF THE NEW WITHDRAWAL OF PENSION FUNDS[2] (BILLIONS OF PEN)



2: For the marginal propensity to consume—*MPC*—of transitory income, we used Céspedes and Talledo (2024) "Economic shocks and household consumption smoothing strategies", Working Papers BCRP. When the financial year considers the *MPC* of transitory revenues in environments with negative economic shocks according to income quintiles, an impact of 0.5pp of GDP is obtained. On the other hand, if the *MPC* of transitory revenues is considered in a normal environment, a somewhat smaller impact is calculated.

4

… and the construction of some mining and infrastructure projects over the next few years

MAIN MINING AND INFRASTRUCTURE PROJECTS INCLUDED IN THE BASELINE SCENARIO [1]
(MILLIONS OF USD)

New in the baseline scenario

Mining

	Investment	Start of construction	Minerals
San Gabriel	470	2022	Gold copper silver
Expansion Toromocho	2,000	2023	Copper molybdenum
Rep. Antamina	2,000	2025	Copper polymetallic
Magistral	493	2026	Copper silver molybdenum
Zafranal	1,263	2026	Copper gold

Infrastructure

	Investment	Start of construction	Type
Line 2- Metro de Lima	5,000	2014	Co-financed public-private partnership
Ring Road outskirts of Lima	3,200	2027	Co-financed public-private partnership
Schools of the Bicentennial	1,120	2021	G2G
Chavimochic-III Stage	715	2025	G2G
Expansion Jorge Chávez	2,000	2019	Private project

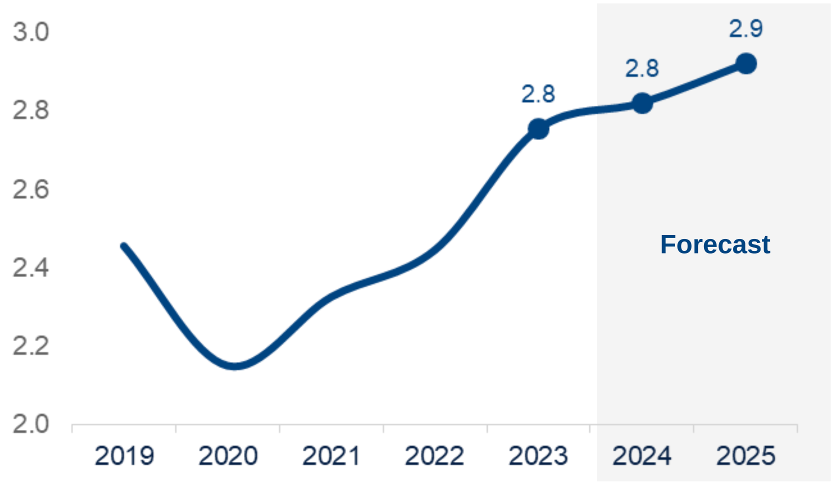
	Investment	Start of construction	Type
Port Salaverry	250	2019	Private project
Port Terminal San Martín	169	2018	Private project
Port of Chancay	1,300	2021	Private project
South Pier- Phase 2	350	2021	Private project
North Pier- Phase 3	650	2024	Private project

1: The construction start dates correspond to those that BBVA Research has considered in the baseline scenario.
Source: MINEM, Antamina, Apoyo Consultoría and BBVA Research.

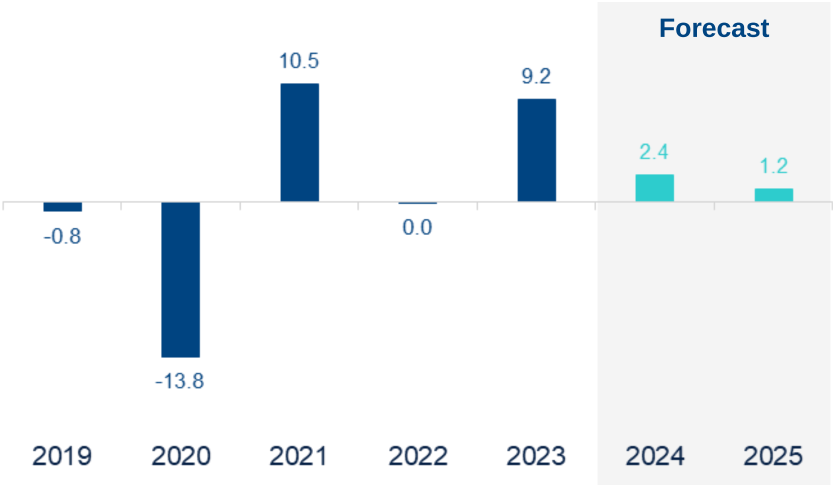
5

After excelling in 2023, mining's boost to growth will tend to wane

COPPER PRODUCTION
(MILLIONS OF MT)



METAL MINING
(ANNUAL % CHANGE)

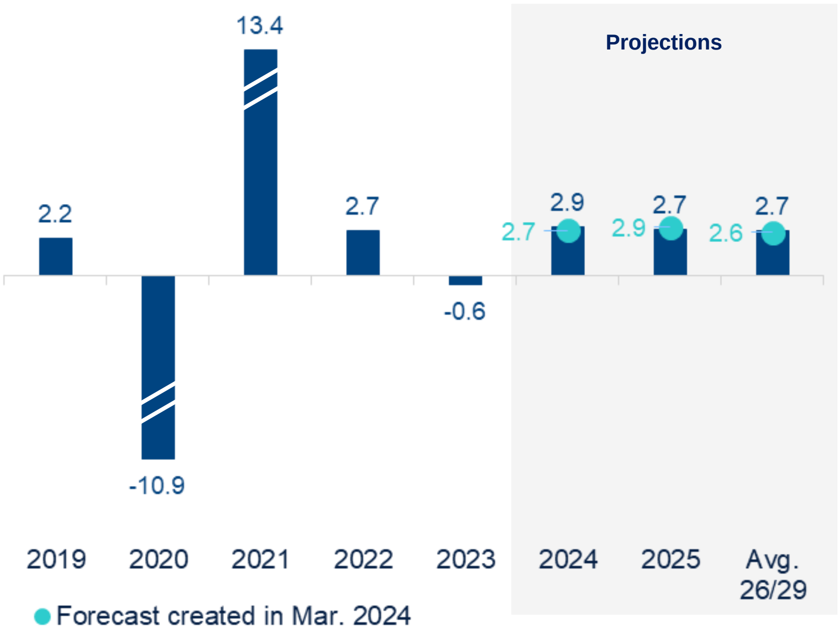


The mining growth forecast in 2024 incorporates normalization of copper production at mines affected at the beginning of last year during the political and social upheaval, as well as higher production of molybdenum (from Quellaveco, which began extracting this metal in May last year).

Source: MINEM, BCRP and BBVA Research (forecasts).

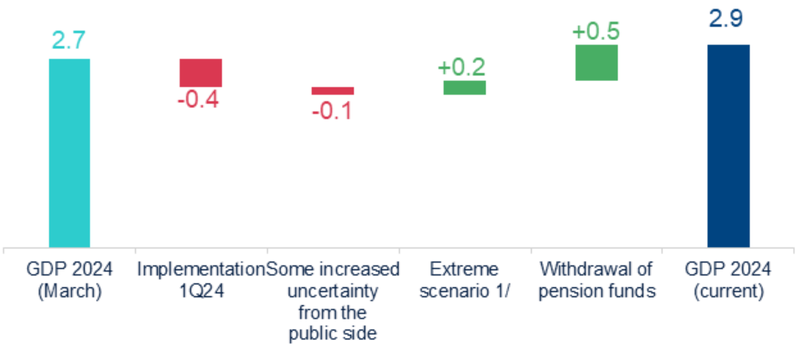
Overall, the rebound in economic activity expected in 2024 will be stronger, mainly due to the impact of the withdrawal of pension funds

GDP IN NEW BASELINE SCENARIO
(% CHANGE YEAR-ON-YEAR)



Source: BCRP and BBVA Research (forecasts).

BREAKDOWN OF THE CHANGE IN THE GROWTH FORECAST IN 2024 (PP OF GDP)



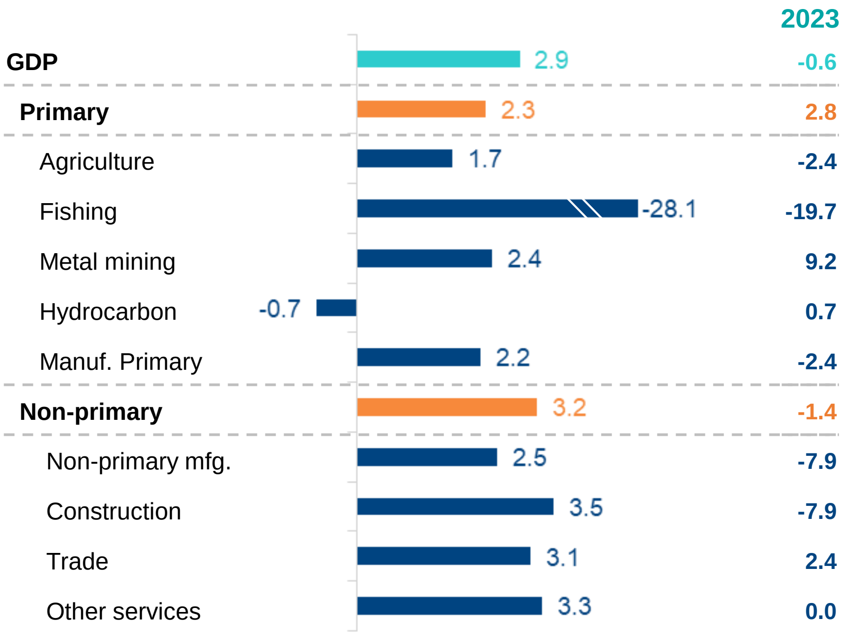
1/ Considering higher growth in the U.S. and higher metal prices (copper, especially).

- For 2025, growth is corrected downward, from 2.9% to 2.7%: the effect of the withdrawal of pension funds is reversed and there is considered to be greater uncertainty from the political side, which more than compensates for the positive impact of higher metal prices and the start of construction of some infrastructure and mining projects.

On the sectoral side, in 2024 the recovery of the fishing sector and the rebound of the non-primary sectors will stand out

2024 SECTORAL GDP PROJECTION

(% % CHANGE)

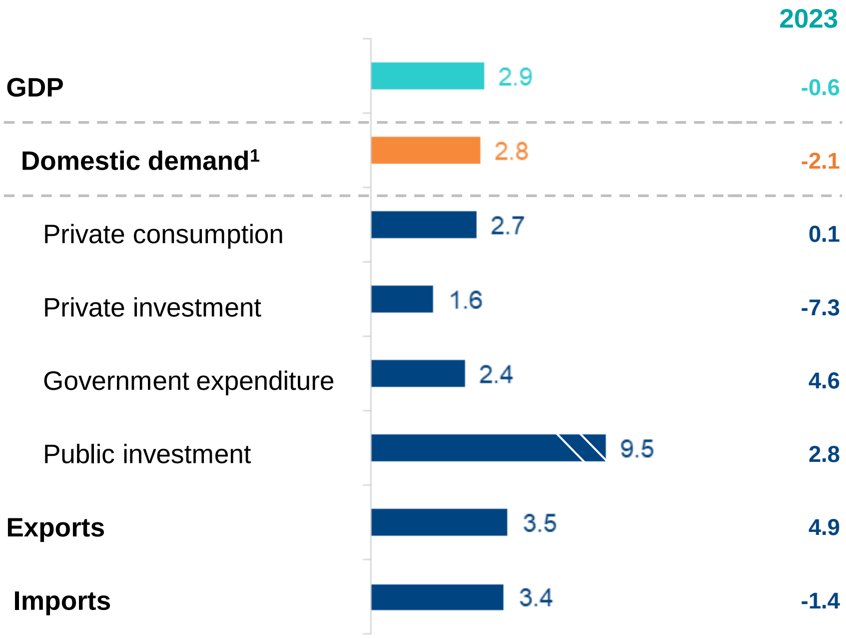


Source: BBVA Research.

- **Normalization of fishing activity.** Recovery of anchovy landings, which were heavily affected in 2023 by adverse weather conditions. It will have a positive impact on the production of fishmeal and fish oil (primary manufacturing).
- **Agriculture.** Trend toward normalization as weather anomalies and bird flu dissipate.
- **Mining.** Moderation of growth due to lower momentum from Quellaveco. Growth supported by the normalization of some mine outputs affected in 2023 by the political and social upheaval.
- **Construction.** Recovery in public investment at subnational level, better conditions for self-building (lower inflation, lower material costs, El Niño risk dissipates).
- **Trade and services.** Lower inflation and financing costs favor the demand for services in general.

On the expenditure side, in 2024, recovery in domestic demand—especially consumption expenditure and investment by the private sector

PROJECTED GDP BY EXPENDITURE SIDE 2024
(CHG. % CHANGE)

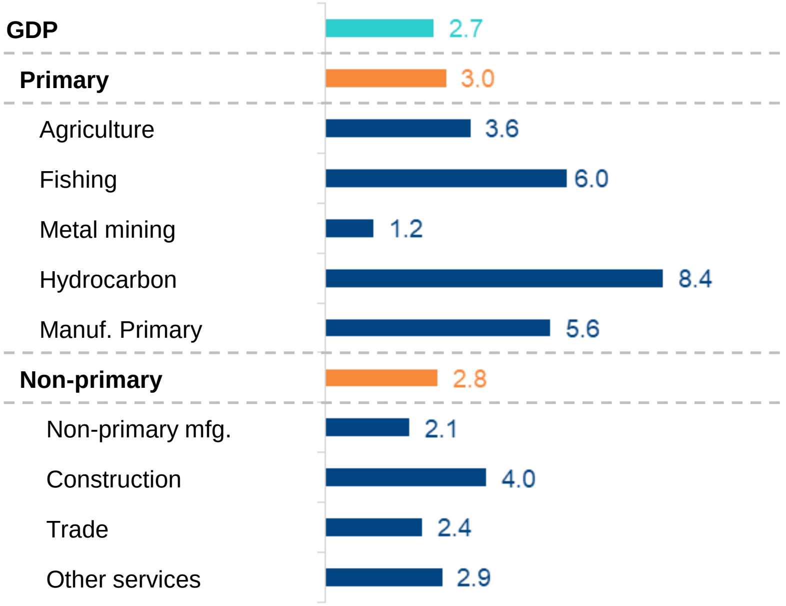


1: Does not include inventories.
Source: BBVA Research.

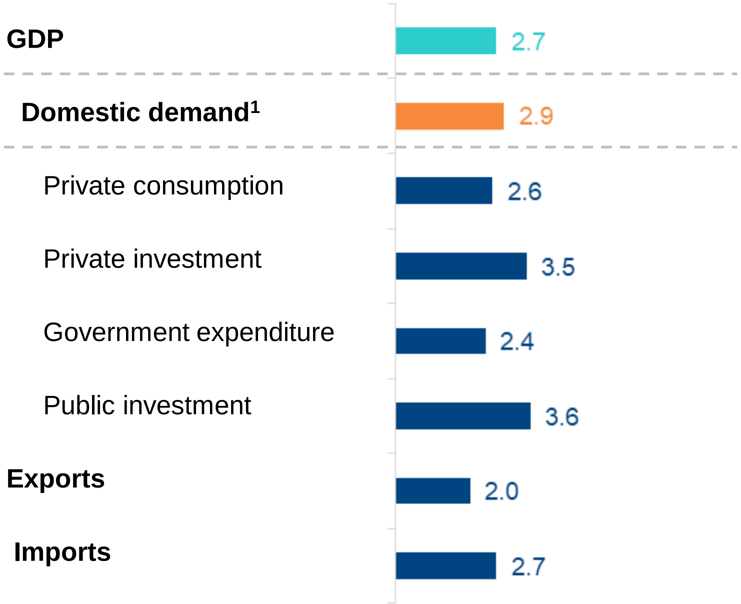
- **Private investment.** Improving non-mining investment: self-construction and progress of infrastructure works. In mining investment, the high year-on-year comparison base dissipated. High metal prices encourage investment in exploration.
- **Private consumption.** Lower inflation and financing costs, as well as greater opportunities in the labor market and the release of pension funds, will favor household spending.
- **Public investment.** Improvement after the first year in office of the subnational authorities elected at the end of 2022.
- **Exports.** Recovery of volume in mining, fishery and agricultural exports. Trend toward normalization of inbound tourism.

In 2025, post-El Niño normalization finishes, but the positive impact of the withdrawal of pension funds also dissipates

2024 SECTORAL GDP PROJECTION
(% % CHANGE)



GDP PROJECTION BY EXPENDITURE SIDE 2024
(ANNUAL. % CHANGE)



1: Does not include inventories
Source: BBVA Research.

Peru is expected to grow by approximately **2.7%**

in the medium term

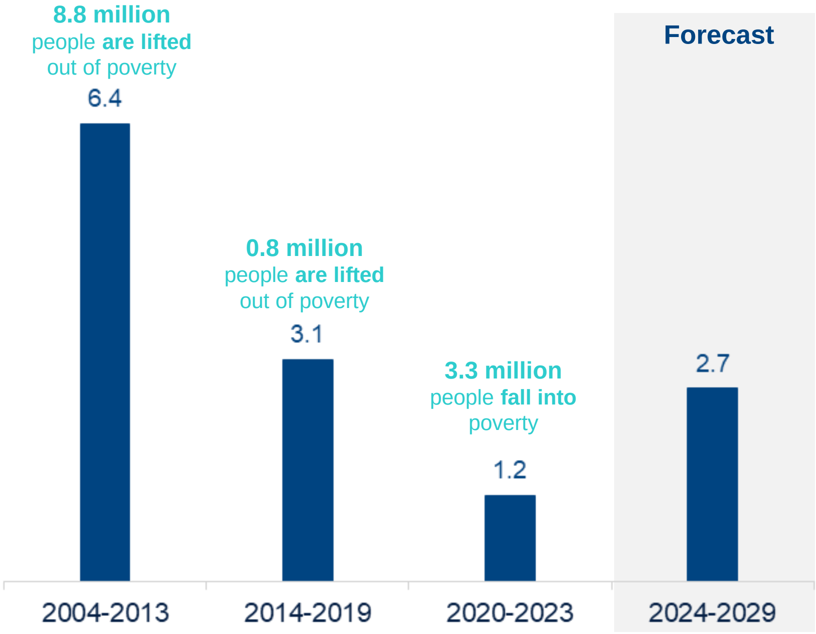
(2026-2029)

Can this growth accelerate?

Opportunities?

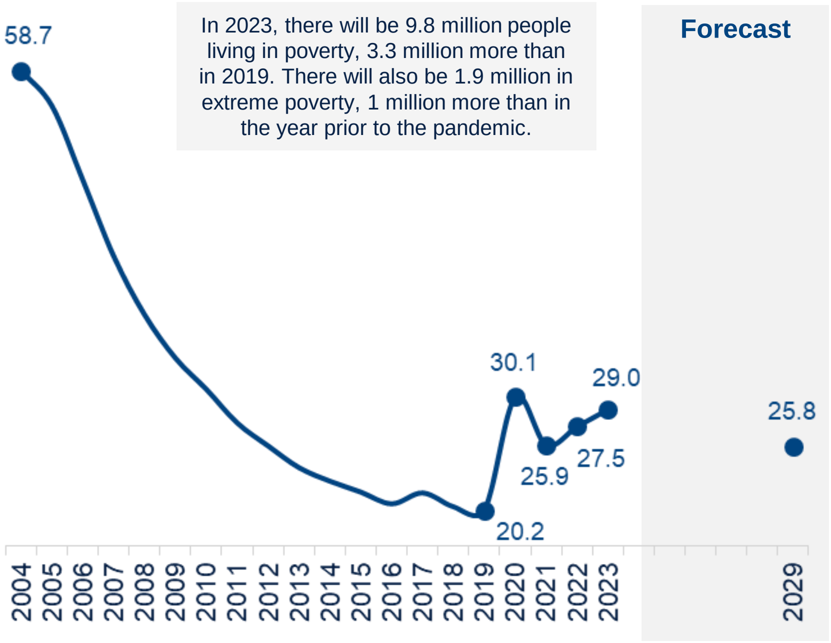
Political instability and institutional weakness take their toll on growth, poverty reduction and social welfare

GDP GROWTH
(CHG. % ANNUAL AVERAGE)



Source: INEI and BBVA Research (forecasts).

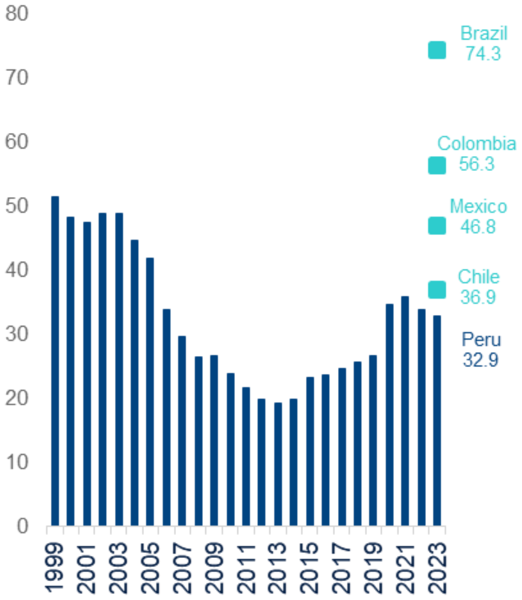
MONETARY POVERTY
(% POPULATION)



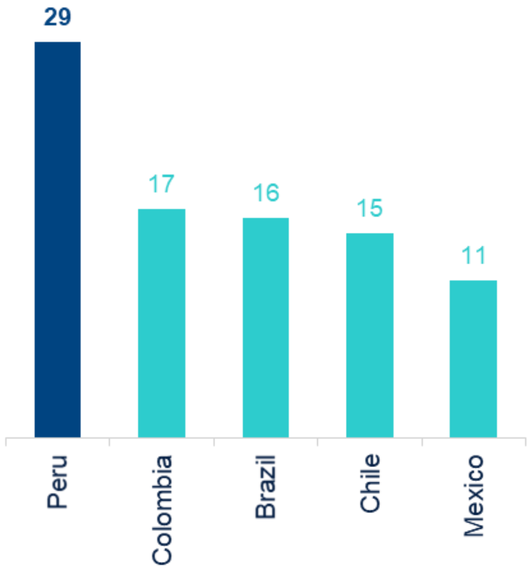
Source: INEI and BBVA Research (forecasts).

Despite the challenges, Peru has the necessary conditions to accelerate growth in a sustained manner: Strong macroeconomic fundamentals

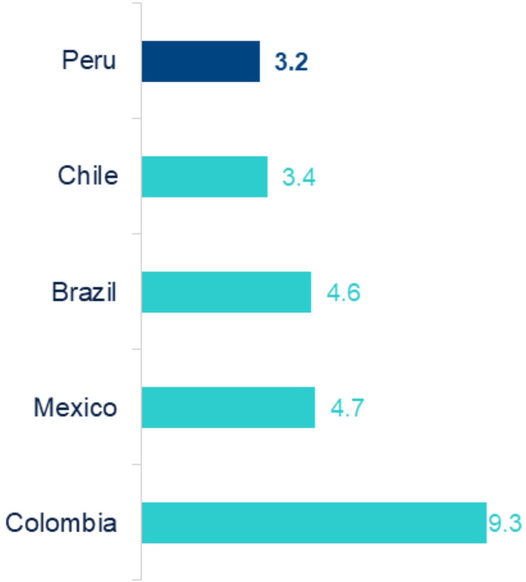
PERU: GROSS PUBLIC DEBT
(% OF GDP)



LATAM: NET INTERNATIONAL RESERVES IN 2023 (% GDP)



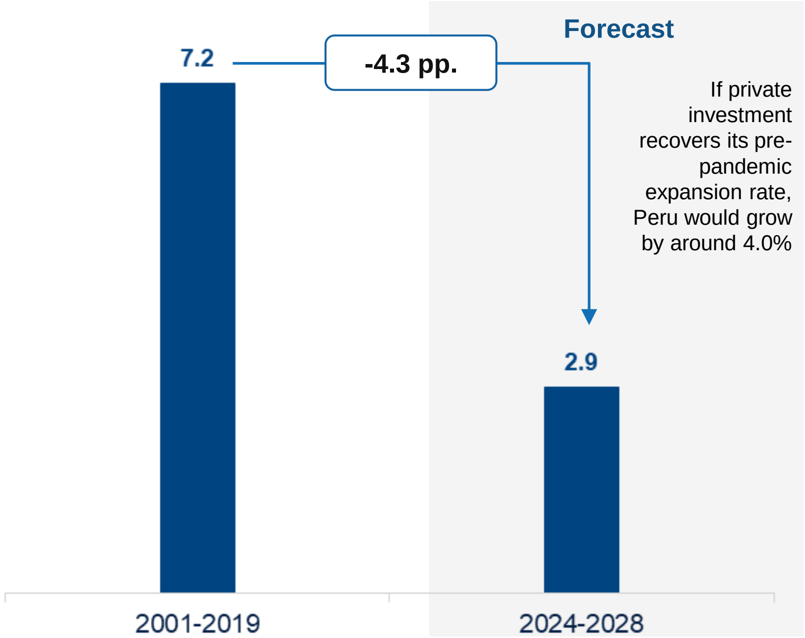
LATAM: INFLATION IN 2023
(Y/Y END OF PERIOD)



Source: IMF, Central Banks and MEF.

In addition, a better climate for small businesses and the consolidation of trust would give more support to private investment. There are also opportunities

PRIVATE INVESTMENT
(CHG. % ANNUAL AVERAGE)



Source: BCRP and BBVA Research (forecasts).

OPPORTUNITIES

- Mining (energy transition)
- Infrastructure development
- Space to provide banking for those without banks and promoting greater financial inclusion
- Demographic bond

Opportunities in mining: projects in addition to those considered in the baseline scenario that could potentially begin construction

PROJECTS IN ADDITION TO THOSE CONSIDERED IN THE BASELINE SCENARIO

CURRENT MINING INVESTMENT PORTFOLIO[1]

Copper	USD 35.59bn 27 projects	Trapiche, Coroccohuayco, Los Chancas, Michiquillay, Cotabambas, El Galeno, La Granja, Yanacocha Sulfuros, etc.
Gold	US$ 5,072 million. 4 projects	Conga, Ollachea, Tantahuatay repositioning
Iron	US$ 4,681 million. 2 projects	Apurimac Iron, Pampa de Pongo
Other (Zinc, Silver and Phosphates)	US$ 3,238 million. 13 projects	Expansion Huancapetí, Expansion Pachapaqui, Ayawilca, Florida Canyon, Hilarión, Raura repositioning, Romina, Shalipayco, expansion Huachocolpa, Corani, San Luis, Yumpag, Amp. Bayóvar
TOTAL	**US$ 48,601** **46 projects**	

1: MINEM portfolio. Only projects that are not already included in the baseline scenario are considered.
Source: Apoyo Consultoría, MINEM (Ministry of Energy and Mines) and BBVA Research.

CHARACTERISTICS OF SOME OF THE MINING PROJECTS IN THE MINEM PORTFOLIO

Project/ Mining Company	Investment (USD million)	Main Mineral	State[2]	Start of construction[2]	End of construction[2]
Romina (Volcano)	150	Zinc	Construction to start	2024	2027
Corani (Beer Creek Mining)	579	Silver	Detail engineering	2024	2027
Huancapetí Expansion (Lincuna)	345	Zinc	Feasibility	2024	2029
Pampa de Pongo (Jinzhao)	1 781	Iron	Feasibility	2025	2033
Trapiche (Buenaventura)	1 038	Copper	Feasibility	2026	2029
Coroccohuayco Integration (Glencore)	1 500	Copper	Pre-feasibility	2027	TBD

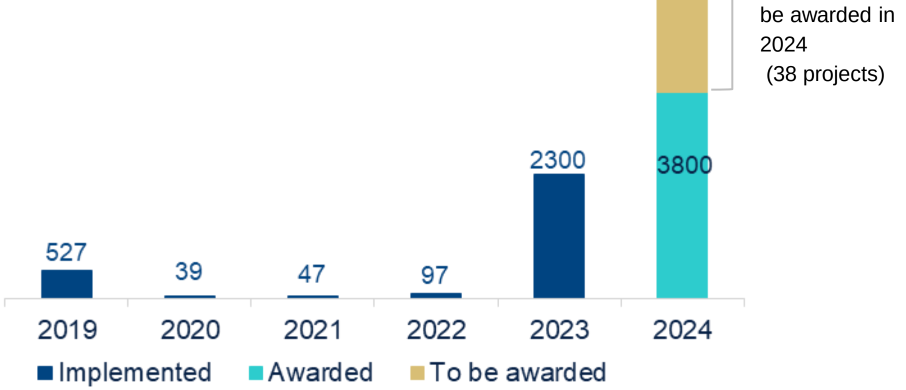
2: Status and dates of construction indicated by the MINEM.
Source: Apoyo Consultoría, MINEM and BBVA Research.

Opportunities in infrastructure: Public-Private Partnership projects yet to be awarded in ProInversion Portfolio, G2G projects that could start soon

PPP: PROJECT AWARDS
(MILLIONS OF USD)

PPPs AWARDED IN 2024

Project	Investment (USD million)	Start of construction[1]
Port of Marcona	400	2026
Lima peripheral beltway	3 400	2027
Total	**3 800**	



1: Estimate.
Source: ProInversión.

PPP: MAIN PROJECTS TO BE AWARDED
(MILLIONS OF USD)

Transport
- Longitudinal de la Sierra Segment 4 (914)
- Huancayo - Huancavelica Railway (140)
- Chimbote Port Terminal 1/ (172)

Industry
- Ancón Industrial Park (762)

Sanitation
- WWTP Trujillo (409)
- WWTP Huancayo (172)
- WWTP San Martín (105)
- WWTP P. Maldonado (89)
- WWTP Chincha (70)
- WWTP Cajamarca (56)

Transmission
- Transmission Plan Electrical Projects — Groups 1, 2, 3 and 4 (900)

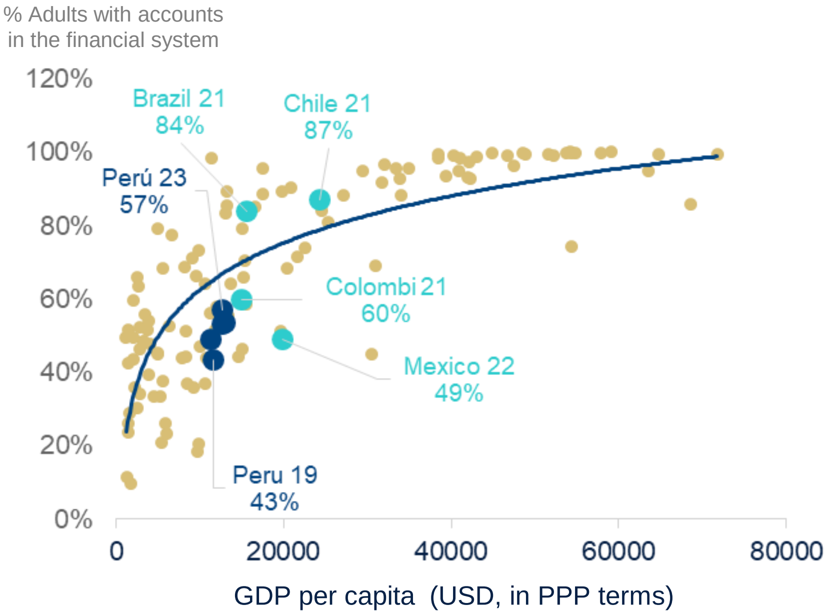
G2G RECENTLY AWARDED

Transport
- New central highway (6.4)

Source: MEF and ProInversión

Opportunities in banking inclusion and financial inclusion, which would also accelerate growth

BANKING ACCESS BY LEVEL OF ECONOMIC DEVELOPMENT[1] (%, PEOPLE OVER 15 YEARS OF AGE)



1: Information for 2021, except Mexico, which corresponds to 2022, and Peru, which has information from 2019 to 2023. In addition, for Peru, the population over 18 years of age is taken into account.
Source: World Bank, SBS, INEI, and BCRP.

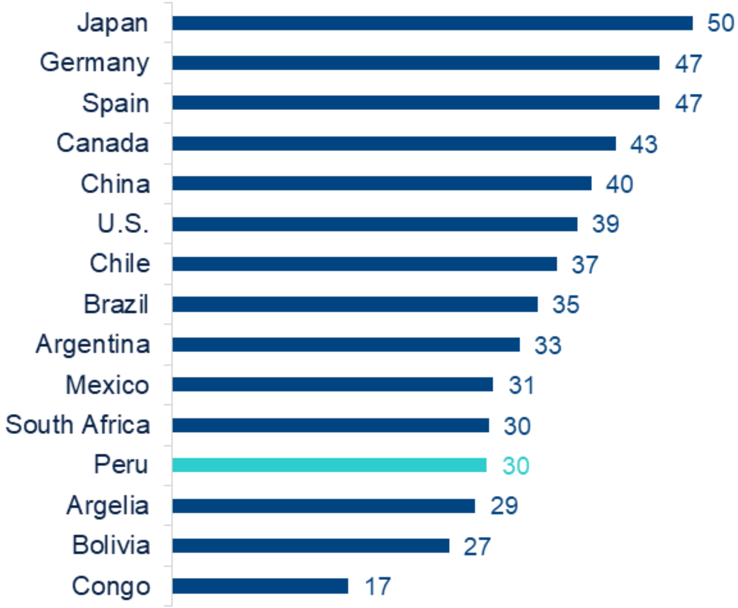
Financial inclusion gap in Peru

On average, a country with a per capita income similar to Peru's shows banking access levels of around 68% of its adult population

In Peru, with a Level of banking penetration of 57%, there is room to include almost 2.5 million more adults in the financial system

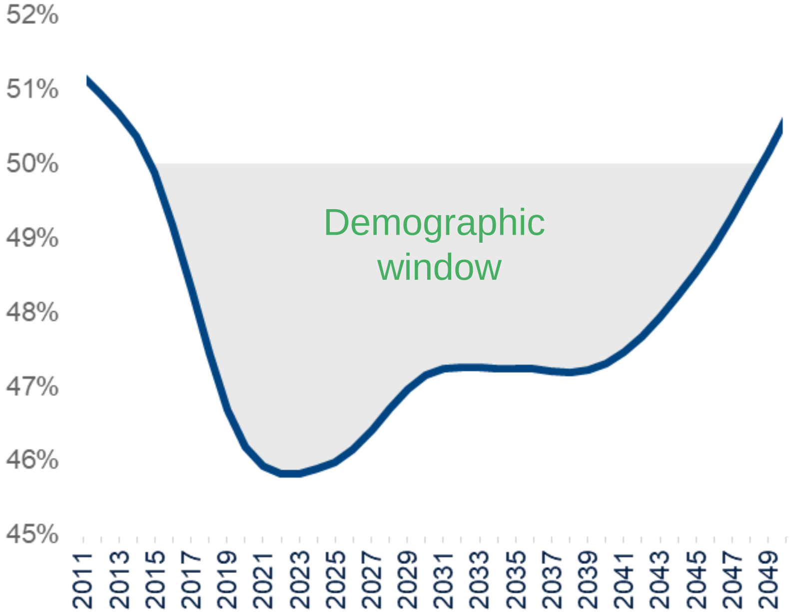
Opportunities due to the demographic window

AVERAGE AGE OF THE POPULATION IN 2024 FOR SELECTED COUNTRIES
(YEARS)



Source: Global Data (Information for 2021 to 2024) and INEI.

DEPENDENCY RATIO[1]
(DEPENDENT POPULATION AS A % OF WORKING-AGE POPULATION)



1: Dependency ratio is calculated as the division between the dependent population (0 to 13 years old and 66 years old and older) by the working-age population (14 to 65 years old).

BBVA Research

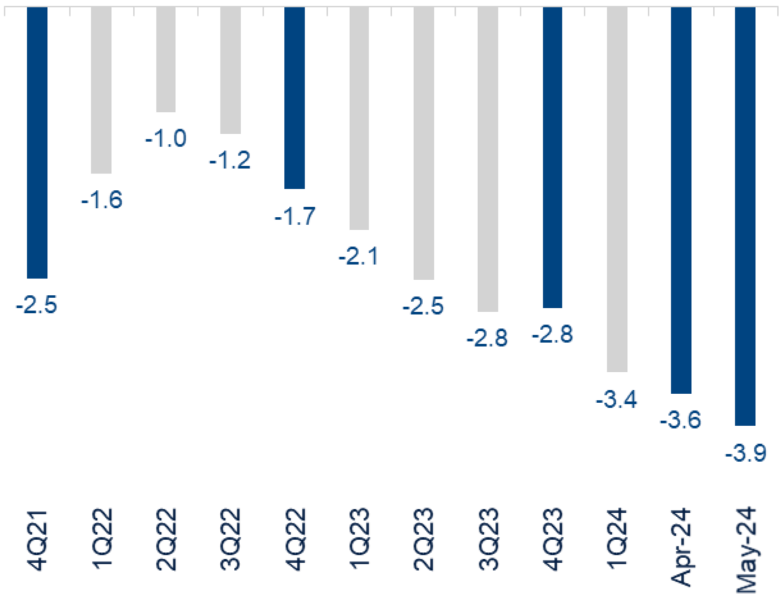
04

Peru economic forecasts

4.2. Fiscal balance and public debt

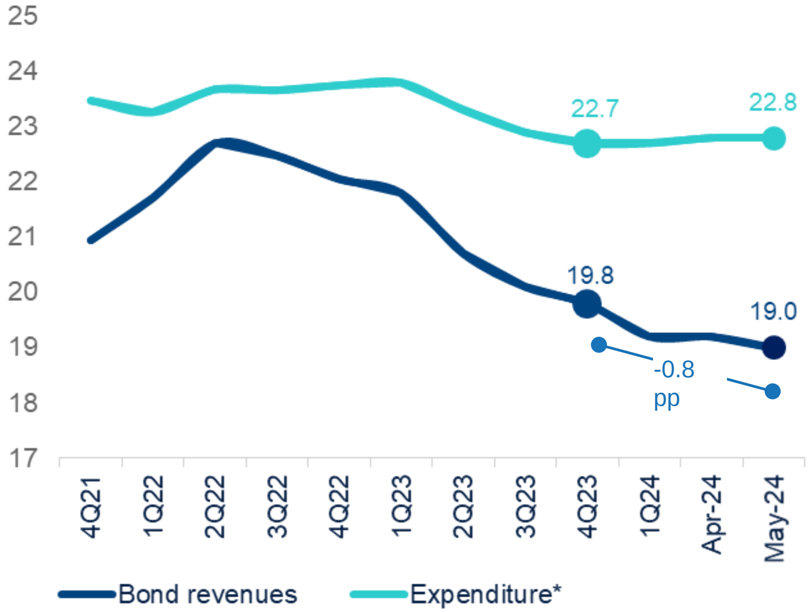
So far this year, the fiscal deficit has been widening to reach 3.9% of GDP, mainly due to a decrease in revenues ...

FISCAL BALANCE
(NFPS, CUMULATIVE LAST FOUR QUARTERS, % OF GDP)



Source: BCRP.

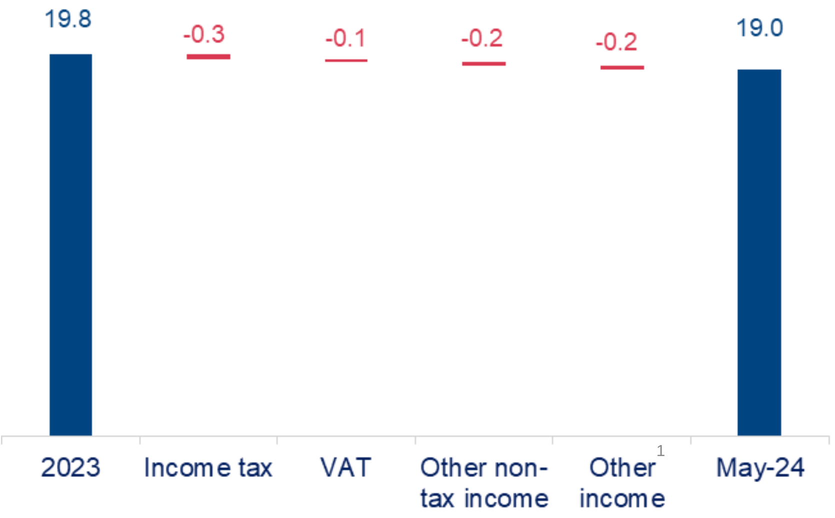
FISCAL REVENUE AND EXPENDITURE
(CUMULATIVE LAST FOUR QUARTERS, % OF GDP)



*Considers interest expense and the primary balance of public companies.

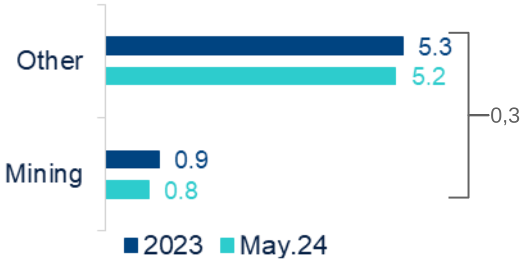
… which is due to the fact that the recovery of economic activity is still in its early stages and the postponement of tax payments by some taxpayers

CENTRAL GOVERNMENT REVENUE
(% OF GDP)



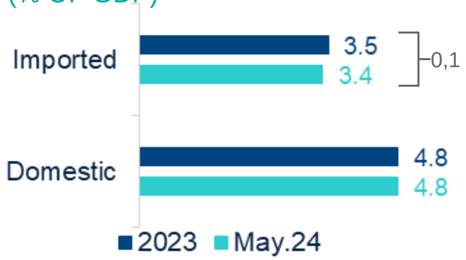
1: Includes import tax, selective consumption tax, other national government tax revenues, local government tax revenues, and tax refunds.
Source: BCRP.

INCOME TAX
(% OF GDP)



Lower collection due to the regularization of the 2023 tax year due to: (i) lower profits in 2023, (ii) postponement of the payment of individuals and MSEs, and (iii) the application of balances in favor of the taxpayer

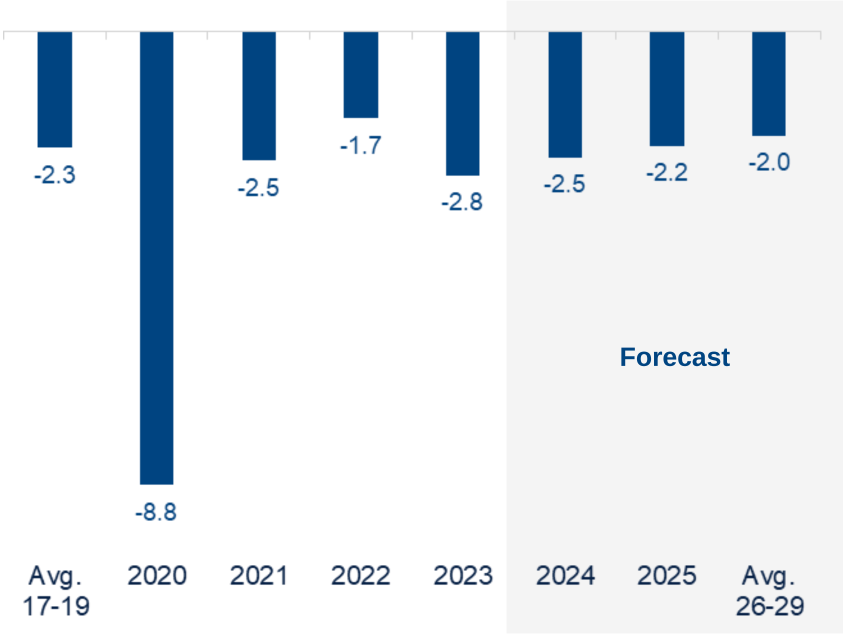
VAT
(% OF GDP)



Decrease in imports (by volume and price) and higher amount of refunds.

A decrease in the fiscal deficit is expected in 2024 because the rebound in GDP and better metal prices will favor an improvement in revenue collection

FISCAL BALANCE
(NON-FINANCIAL PUBLIC SECTOR, % OF GDP)

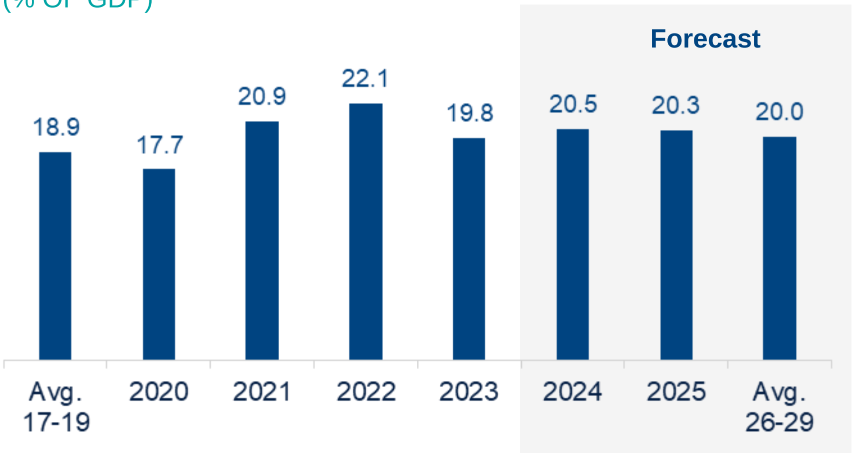


Source: BCRP and BBVA Research (forecasts).

- Starting in the second half of 2024, we estimate a reduction in the deficit going forward due to the positive impact of increased activity and high export prices on fiscal revenues.
- The end (in June) of the postponement of the regularization of income tax for individuals and companies (SMEs) will also have a positive impact on revenues.
- On the expenditure side, we don't expect much support for deficit reduction: although the aid and stimuli that were provided in 2023 (Con Punche Perú) will be withdrawn and expenditure related to El Niño will decrease, there will be a higher current expenditure related to salaries, depending on what emerges from the budget.
- In the baseline scenario, fiscal policy will henceforth be aimed at consolidating public finances. In this context, fiscal deficits will trend toward a level equivalent to 2% of GDP.
- The bias, however, leans toward higher expected deficits, due, for example, to the risk of further upward adjustments in public sector salaries (such as those in this year's budget) or the implementation of new tax exemptions.

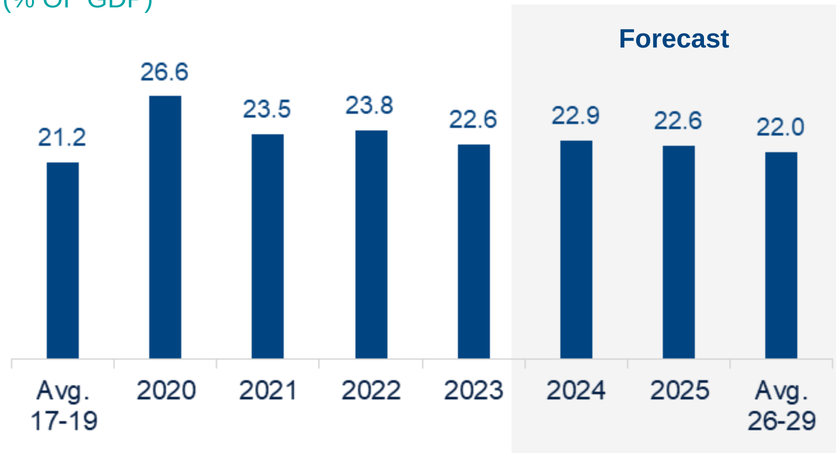
Fiscal deficit will trend toward 2% of GDP in the medium term: revenues will stabilize above pre-Covid levels, but there will be more inflexible expenditure

CENTRAL GOVERNMENT REVENUE
(% OF GDP)



Going forward, it is projected that revenues will stabilize at around 20% of GDP, above pre-pandemic levels, which takes into account a decrease in tax non-compliance.

GENERAL GOVERNMENT EXPENDITURE*
(% OF GDP)



SPENDING ON WAGES (% OF GDP)

Avg. 17-19	2020	2021	2022	2023	2024
6.2	7.4	6.2	5.9	6.2	6.7

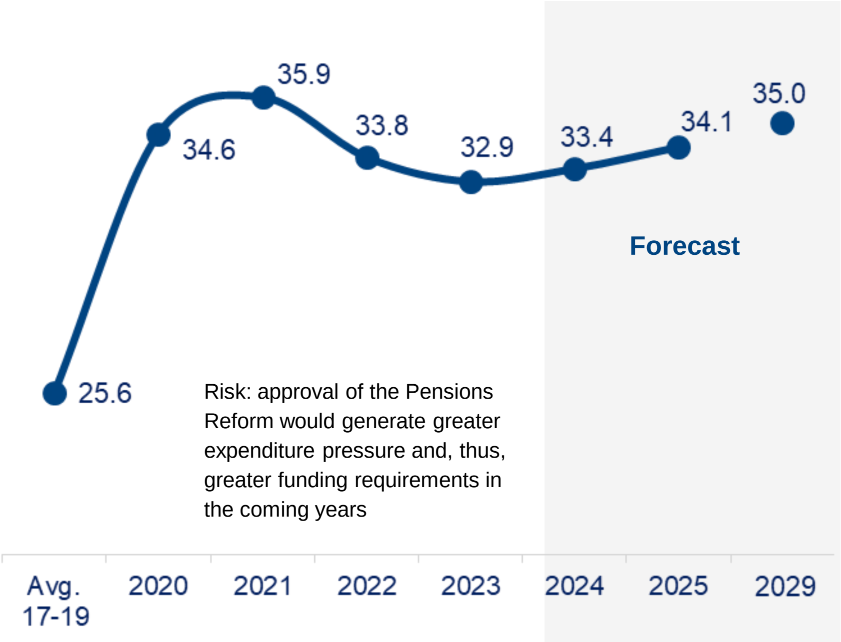
Pressure from spending on wages does not allow for a more pronounced decline in the fiscal deficit.

Source: BCRP and BBVA Research (forecasts).

* Considers the results of non-financial public enterprises and interest on public debt.

Although there is no problem with fiscal sustainability in the medium term...

GROSS PUBLIC DEBT
(NON-FINANCIAL PUBLIC SECTOR, % OF GDP)



Source: BCRP and BBVA Research (forecasts).

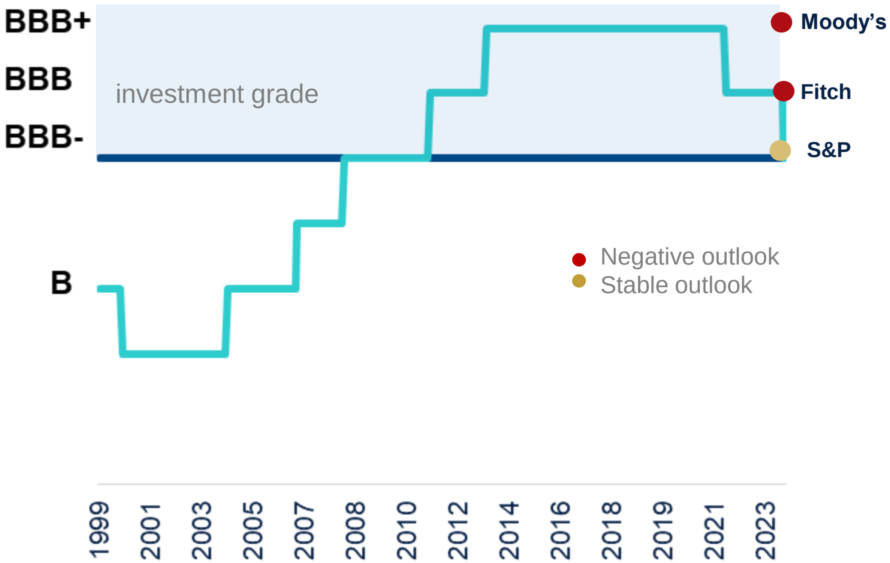
NON-FINANCIAL PUBLIC SECTOR INDICATORS

	2019	2020	2021	2022	2023	2024 (f)	2025 (f)
Assets (% of GDP)	13.7	12.4	14.2	12.8	10.5	9.6	9.1
Net debt (% of GDP)	12.9	22.2	21.8	21.0	22.5	23.8	25.0
Dollarization of public debt (%)	32	43	54	52	48	47	44
Gross Debt / Tax Revenue	181	261	220	197	218	215	217
Gross Debt / Tax Revenue total	136	195	171	153	166	163	168
Interest as % of tax revenues	7.0	9.0	7.2	7.1	8.4	8.5	8.8

(f) forecasts.

… S&P cut its sovereign credit rating due to the uncertainty generated by the political situation; Fitch, on the other hand, kept it unchanged for now

SOVEREIGN CREDIT RATING



Source: Datosmacro, Gestión and S&P Global.

S&P Global Ratings downgraded Peru's rating to "BBB-" due to political uncertainty that limits growth; the outlook is stable

April 25, S&P Global

"A fragmented Congress and the government's limited political capital weigh on business sentiment and pose an opportunity cost to growth, restricting Peru's ability to reconstitute fiscal space."

Fitch maintains Peru rating, but warns of downside risk

April 26, Gestión newspaper

Moody's: "We are in no hurry to change our rating"

April 28, Gestión newspaper

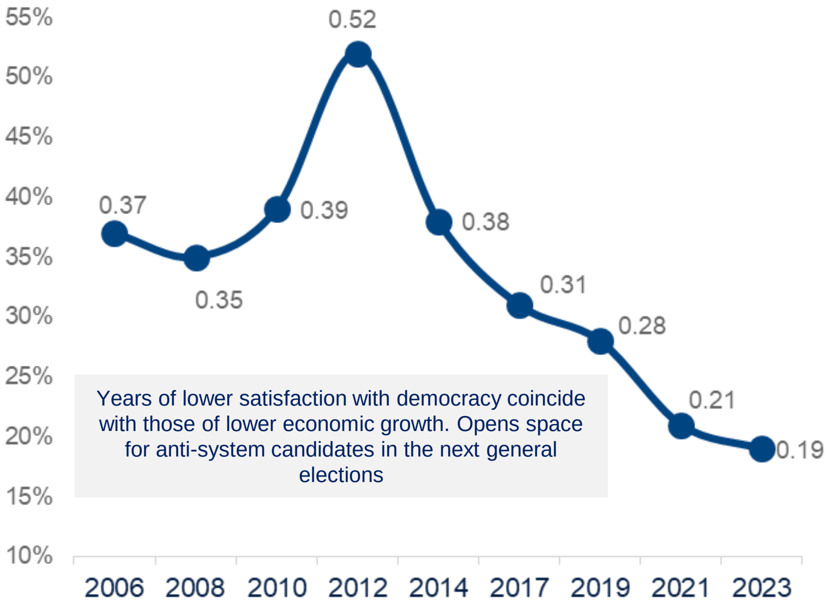
Context of political fragmentation reduces the quality of economic proposals and lowers satisfaction with democracy

S&P: "We expect Peru's **complex political landscape** to persist in the run-up to the upcoming presidential and congressional elections." This **limits the government's ability to implement more timely policies to boost investment and economic growth**, in our opinion. Persistent political uncertainty represents an opportunity cost for growth despite favorable copper prices."

CONGRESS | LEGISLATIVE INITIATIVES

- Increase in public sector compensation in the 2024 Budget by PEN 10 billion (annual average in five previous years was PEN 3.4 billion), which is equivalent to an inflation-adjusted 13%.
- Inclusion in the teaching profession of teachers who have not passed tests.
- Inclusion in the public system of doctors who have not passed SERUM (Rural and Marginal Urban Health Service).
- Seventh Withdrawal of Funds from the Private Pensions System.
- More labor measures: minimum wages, labor union protection, among others.
- On the positive side, (temporary) elimination of interest rate ceilings

PERU | SATISFACTION WITH DEMOCRACY 2006-2023
(% SURVEY RESPONDANTS)



Source: LAPOP (April 2024).

Research

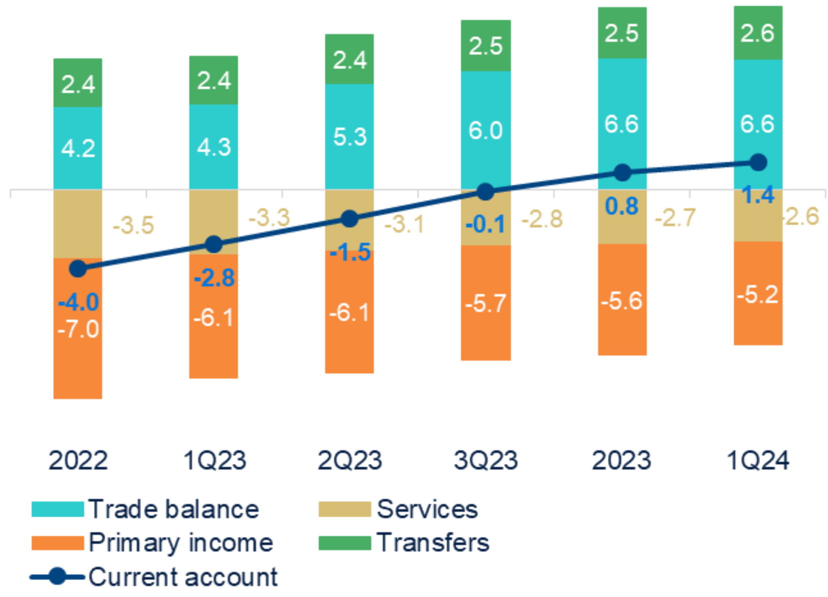
04

Peru economic forecasts

4.3. External sector and exchange rate

There are no external imbalances: lower remittances from foreign companies continue to support current account performance

BALANCE OF PAYMENTS CURRENT ACCOUNT
(CUMULATIVE LAST 4 QUARTERS, % OF GDP)



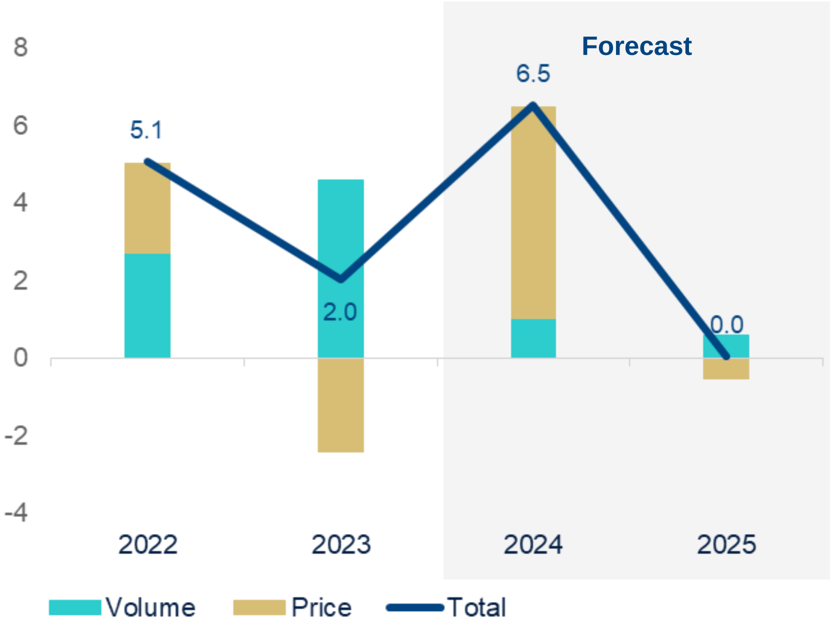
Source: BCRP.

- Lower remittances of profits from foreign companies, especially in mining and the hydrocarbons sector (higher costs), were the main driver of the improvement in the current account in 1Q24.
- The trade surplus remains high at around USD 17.9 billion, supported by (i) higher metal prices, (ii) higher export volumes due to the increase in mining output, and (iii) a decrease in imports due to lower prices and volumes, the latter as a result of the slowdown in local activity.

In 2024, exports will be supported by higher metal prices, plus the normalization of sectors most affected by El Niño

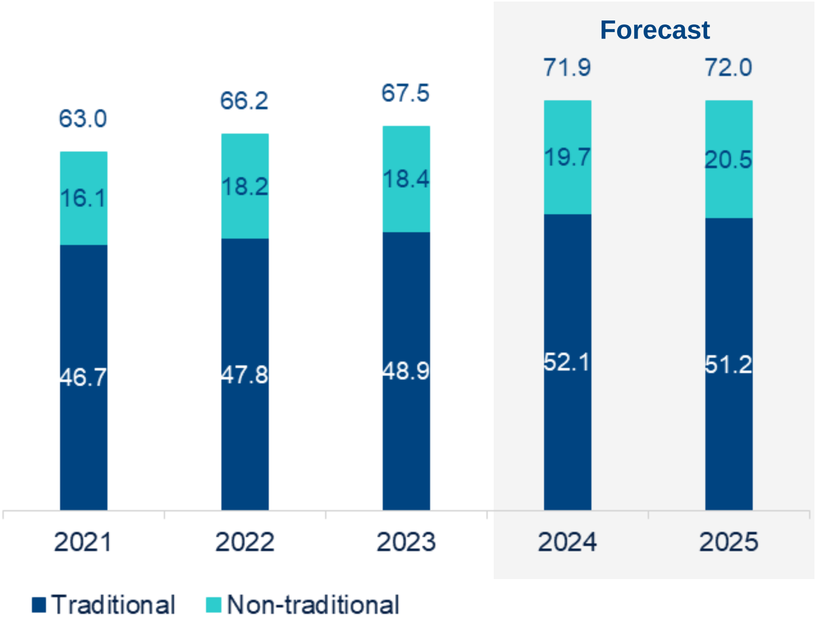
EXPORTS OF GOODS
(% CHANGE YEAR-ON-YEAR)

Higher metal prices are estimated to add approx. USD 2 billion to exports in 2024



Source: BCRP and BBVA Research (forecasts).

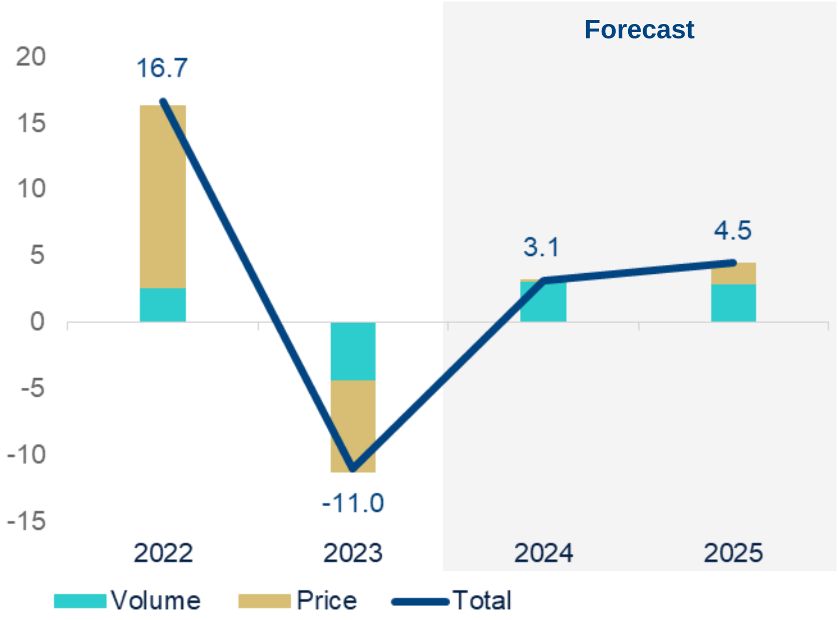
GOODS EXPORTS
(USD BILLIONS)



Source: BCRP and BBVA Research (forecasts).

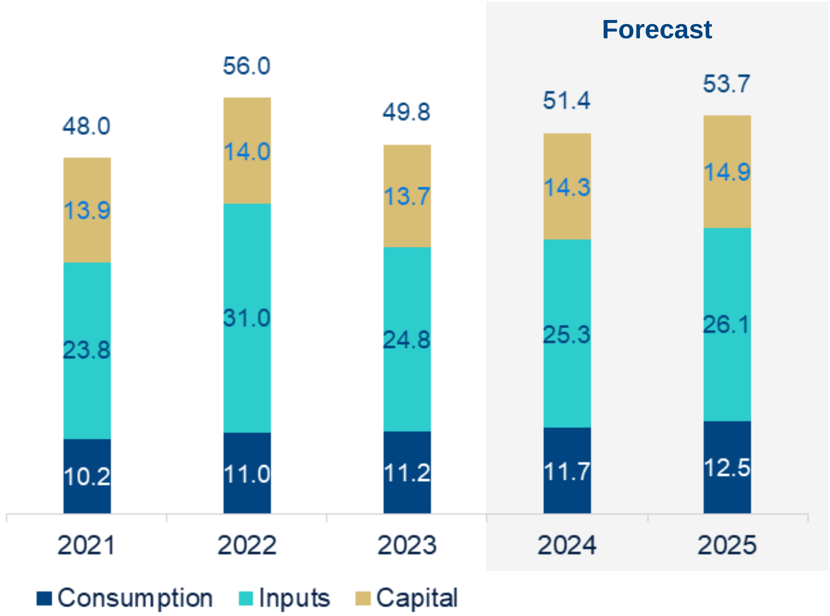
Better performance of imports going forward as activity rebounds after negative shocks in 2023

GOODS IMPORTS
(% CHANGE YEAR-ON-YEAR)



Source: BCRP and BBVA Research (forecasts).

GOODS IMPORTS
(USD BILLIONS)

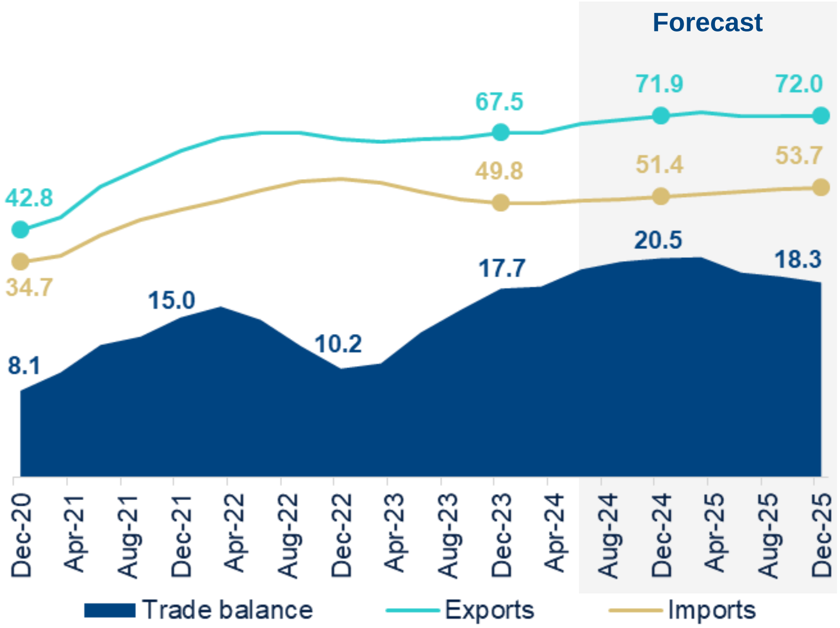


Source: BCRP and BBVA Research (forecasts).

In the balance, the trade surplus will increase again this year, reaching its peak, and then moderate in 2025 when the rebound in activity is complete

TRADE BALANCE

(USD BILLIONS, CUMULATIVE LAST 12 MONTHS)

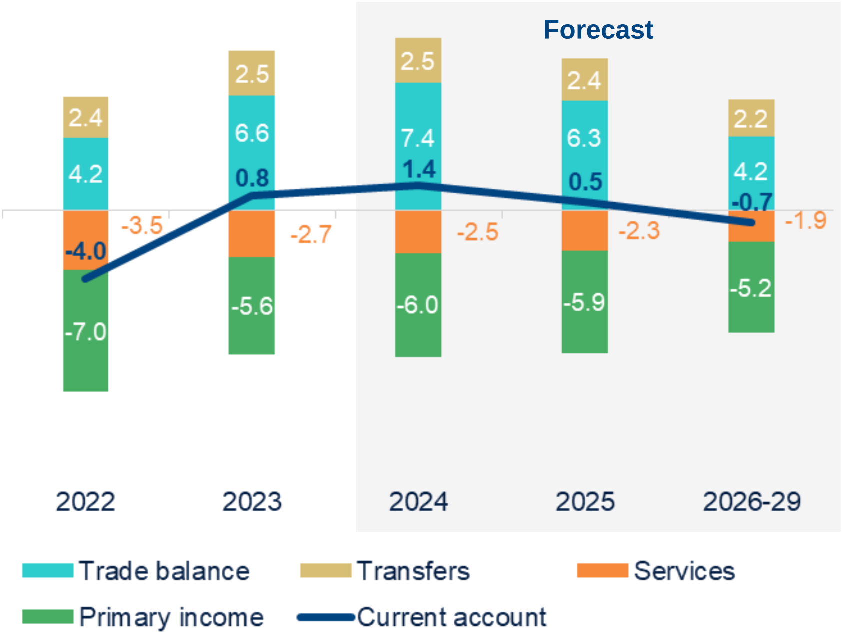


Source: BCRP and BBVA Research (forecasts).

- In 2024, mining (by prices and volume) and the normalization of supply in sectors most affected by El Niño (fishing, agriculture) will drive exports, while on the import side, normalization after the shocks of 2023 will be more gradual. Against this backdrop, the trade surplus will increase again this year.
- In 2025, some moderation in the trade surplus will emerge when the rebound in activity (especially domestic demand) is completed (propelled by low inflation and interest rates throughout the year), which will generate higher demand for imports.

In this context, the current account of the balance of payments will remain positive this year and the next, also supported by the recovery in tourism

BALANCE OF PAYMENTS CURRENT ACCOUNT
(% OF GDP)

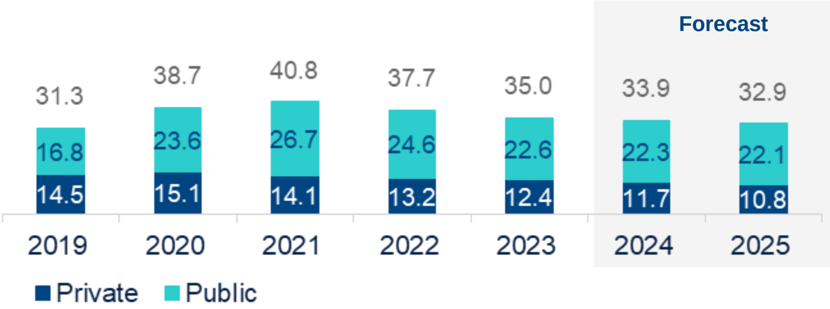


Source: BCRP and BBVA Research (forecasts).

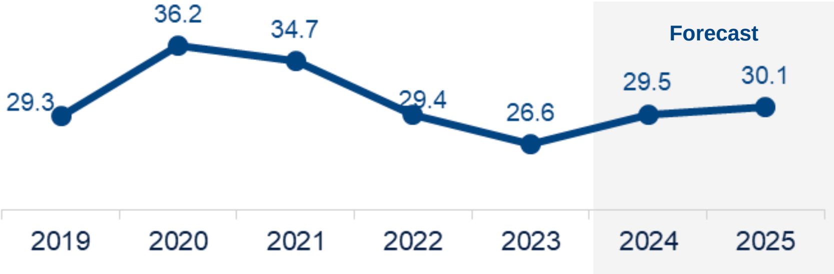
- In 2024, the current account should improve due to (i) a larger trade surplus and (ii) an improvement in the services account (a trend toward normalization of inbound tourism and lower freight costs).
- Subsequently, the trade surplus will moderate due to the absence of new investment projects to boost goods exports, while goods imports will increase as domestic demand also increases.

The strength of the external accounts and limited need for financing remain one of the strengths of the Peruvian economy

MEDIUM- AND LONG-TERM EXTERNAL LIABILITIES
(% OF GDP)



NET INTERNATIONAL RESERVES
(% OF GDP)



Source: BCRP.

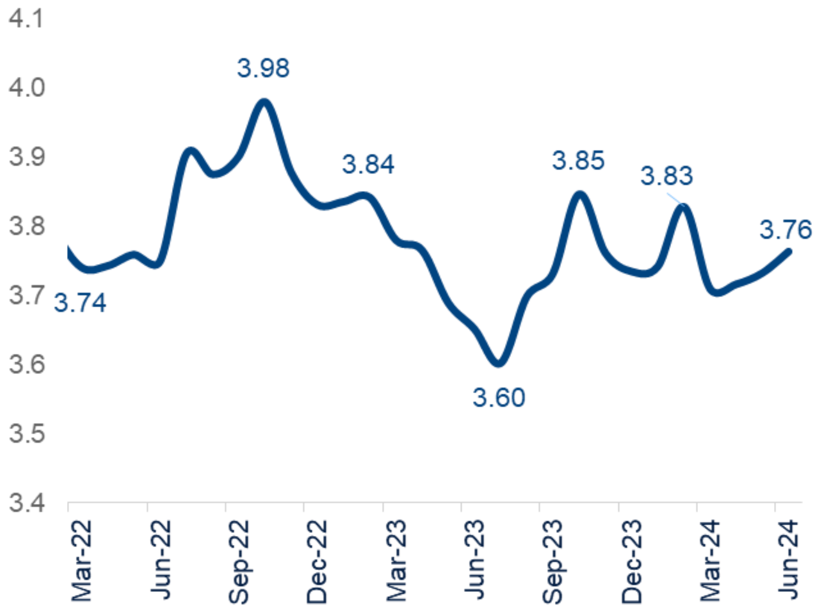
- Improved current account and lower interest rates will imply greater external soundness going forward.
- Hand in hand with fiscal soundness, medium- and long-term external liabilities will be gradually reduced as debts are repaid in the absence of significant financing needs for 2024 and 2025.

NET INTERNATIONAL RESERVES

	2019	2020	2021	2022	2023	2024	2025
NIR / GDP (%)	29.3	36.2	34.7	29.4	26.6	29.5	30.1
Net International Reserves / short-term external debt	8.6	7.5	8.1	7.4	6.0	7.8	8.2
NIR / short-term external debt plus current account deficit	7.3	9.2	5.4	3.7	7.4	12.2	9.4

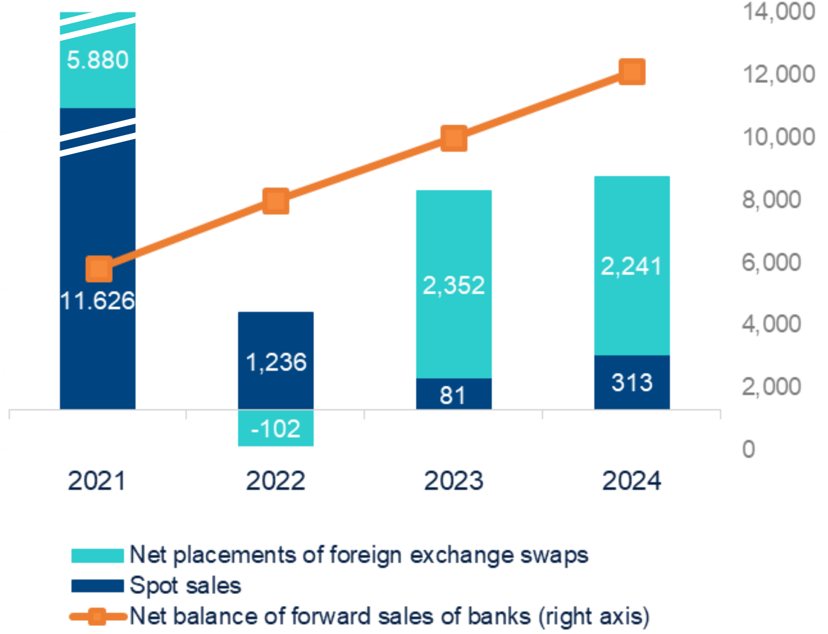
In the foreign exchange market, USD-PEN moves in response to the market's outlook on the Fed's interest rate, with a very active BCRP

EXCHANGE RATE[1]
(SOLES PER USD, AVERAGE MONTHLY LEVEL)



1: As of June 17
Source: BCRP and Bloomberg.

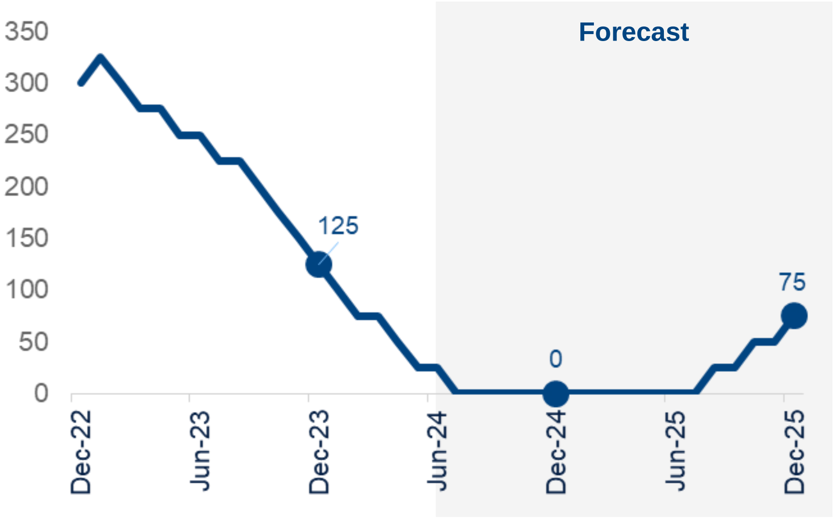
FOREIGN EXCHANGE INTERVENTIONS OF THE BCRP (*) (USD MILLIONS; SELLING POSITION)



(*) As of June 14
Source: BCRP.

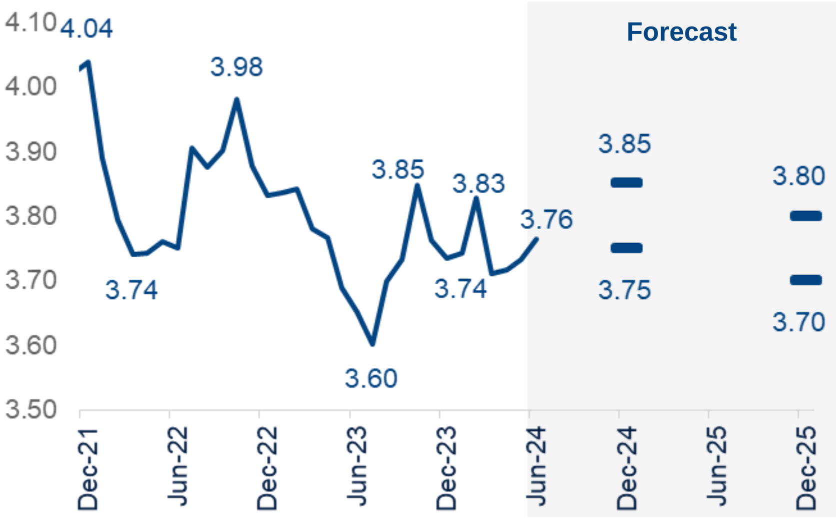
PEN is expected to depreciate in 2024 due to a narrowing interest rate differential, tempered by a current account surplus

SHORT-TERM INTEREST RATE DIFFERENTIAL
(BCRP VS. FED, BP)



Source: FRED, BCRP and BBVA Research (forecasts).

EXCHANGE RATE[1]
(SOLES PER DOLLAR, AVERAGE LEVEL FOR THE MONTH)



1: As of June 17
Source: BCRP and BBVA Research (forecasts).

A decrease in PEN-USD interest rate differential will undermine the appeal of local-currency-denominated assets. Geopolitical risks and presidential elections in some key areas of the world will also trigger more defensive positions. In 2025, the rate differential will shift in favor of the PEN (and the current account of the balance of payments will remain in surplus), which will prompt the strengthening of the local currency.

BBVA Research

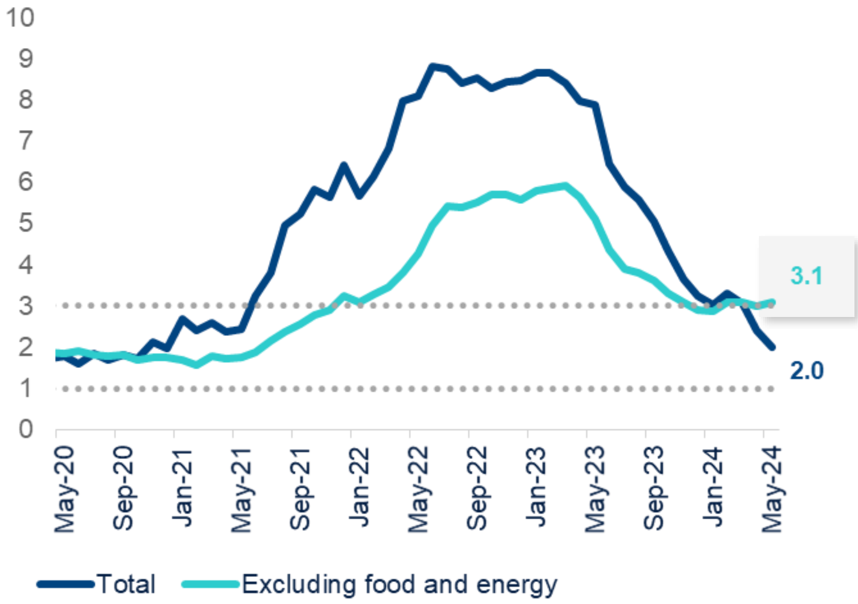
04

Peru economic forecasts

4.4. Inflation and monetary policy

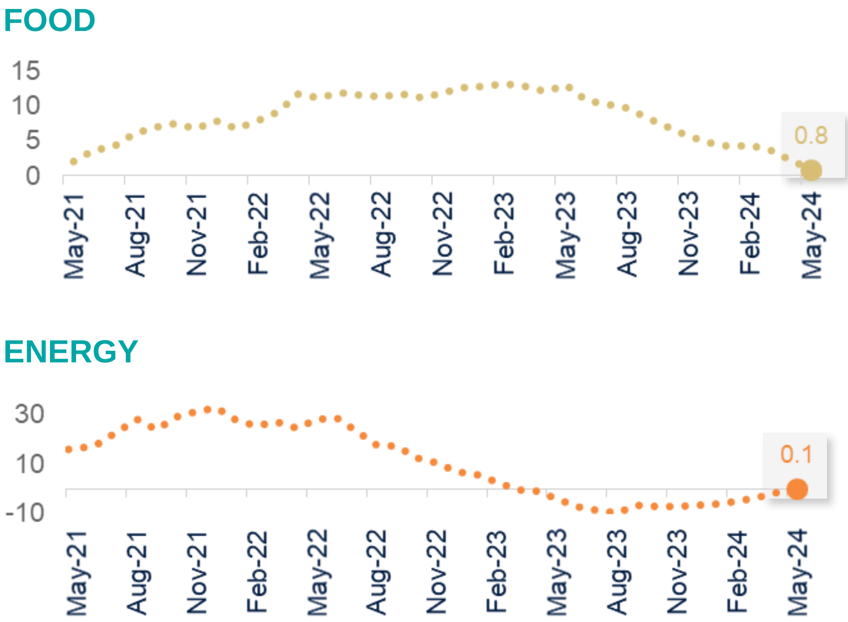
Inflation eased quickly in recent months due to the normalization of supply shocks, but core inflation has encountered more resistance, ...

INFLATION: TOTAL & UNDERLYING
(% CHANGE OF CPI)



Source: INEI.

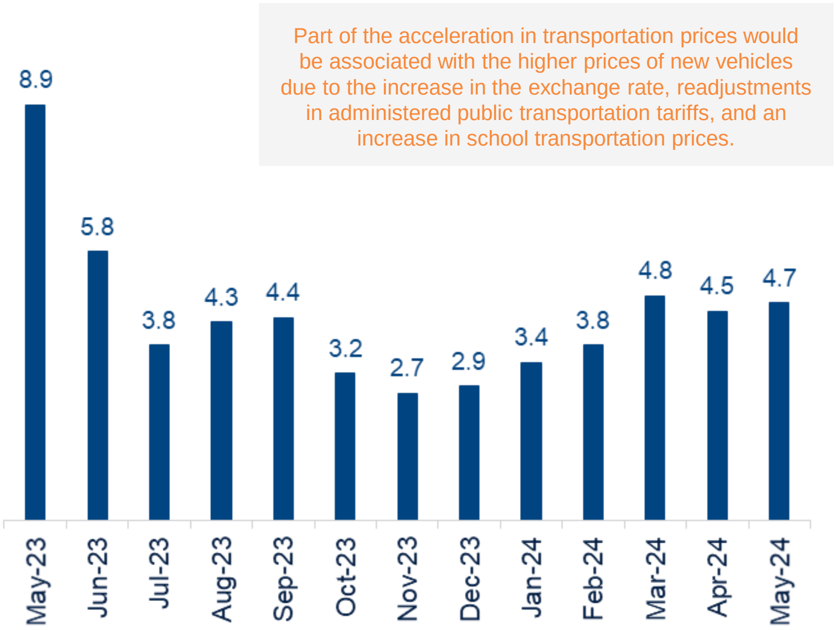
INFLATION: FOOD & ENERGY
(% CHANGE YEAR-ON-YEAR)



Source: INEI.

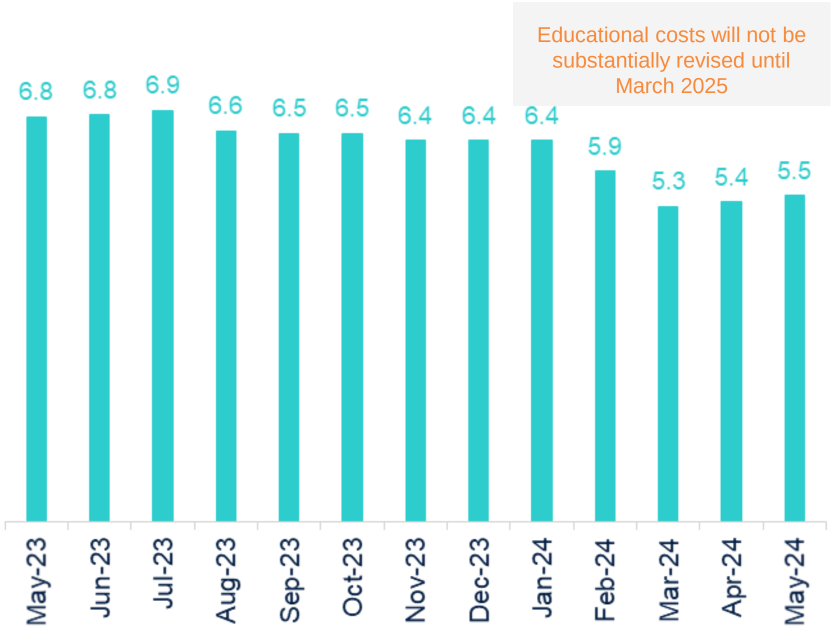
… associated with an acceleration in transport and water prices, and the still high increase in education prices

TRANSPORT PRICES
(% CHANGE YEAR-ON-YEAR)



Source: INEI.

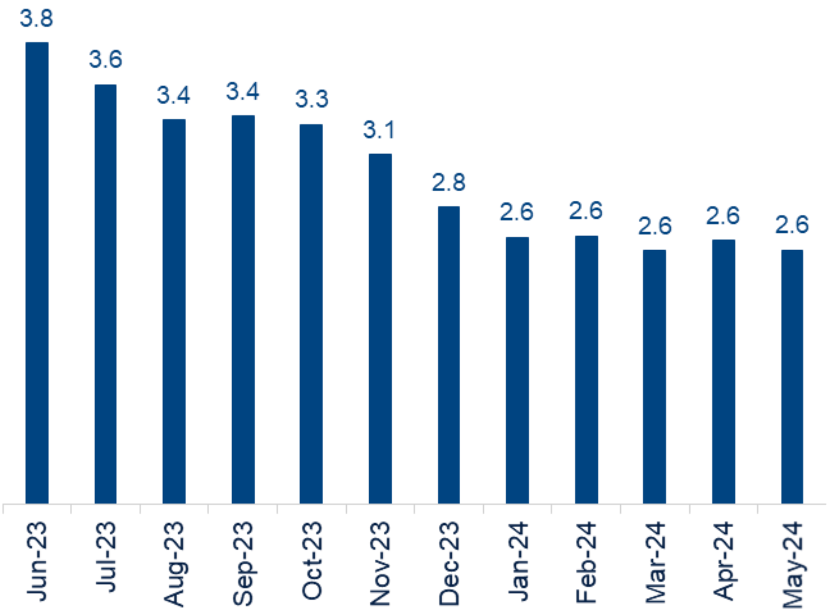
EDUCATION PRICES
(% CHANGE YEAR-ON-YEAR)



Source: INEI.

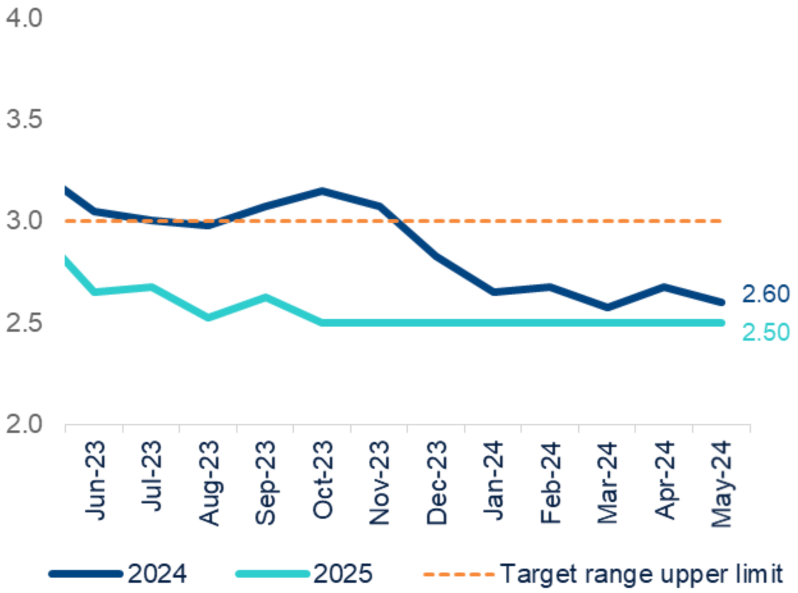
After correcting downward, inflation expectations are already within the central bank's target range

1-YEAR AHEAD INFLATIONARY EXPECTATION
(% Y/Y CHANGE EXPECTED FOR CPI)



Source: BCRP.

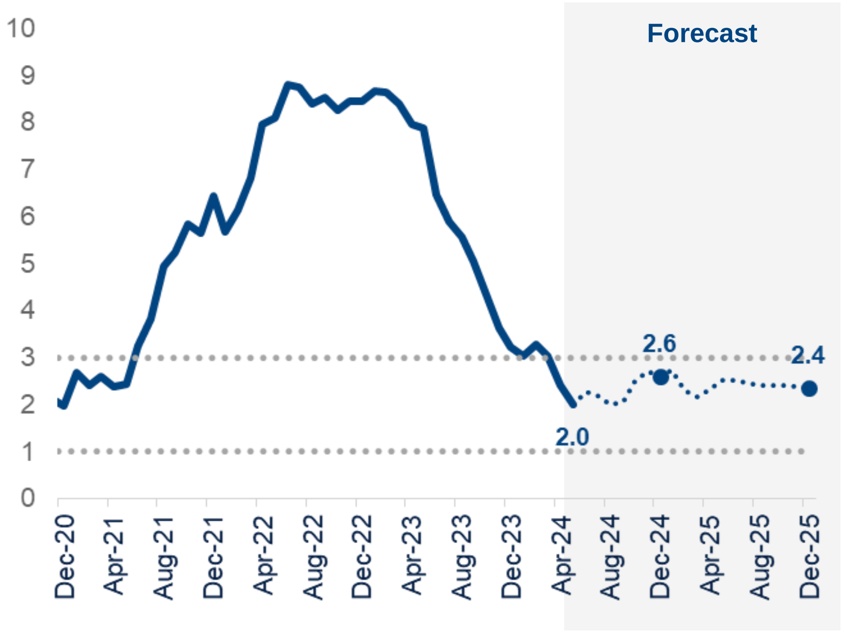
INFLATION FORECASTS
(BY YEAR-END, %)



Source: BCRP.

Inflation around the center of the target range in the next months, although a low comparison base will generate some rebound toward the end of the year

INFLATION
(% CHANGE OF CPI)



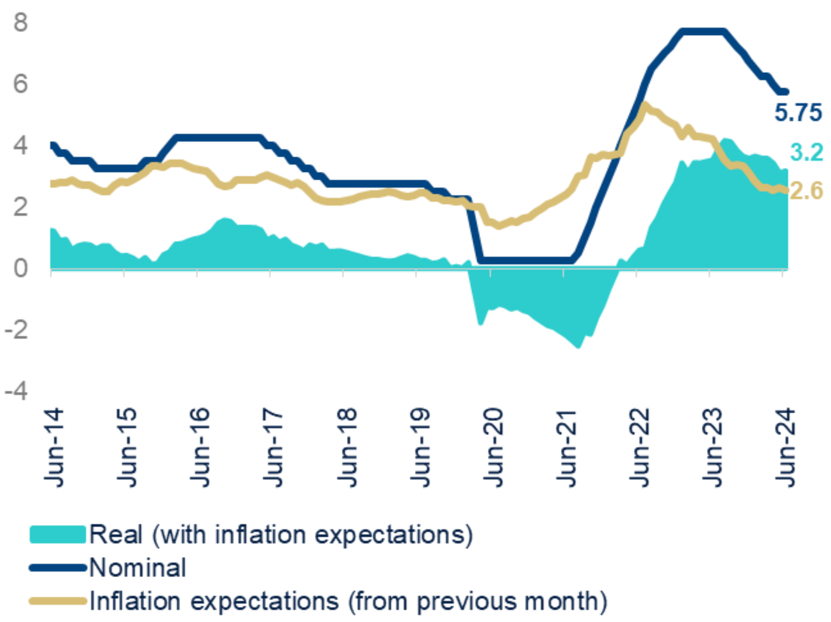
Source: BCRP and BBVA Research (forecasts).

- Inflation will remain around the center of the target range in the coming months in an environment where the weather has normalized and the basis for comparison is relatively favorable, and despite the increased economic activity. Low year-on-year comparison base in the final months of 2024 will lead the year to end at 2.6%.
- The growth in activity and the prices of imported inputs (oil, food) in 2024 have been revised upward, but inflation has receded in recent months faster than expected, so the inflation forecast for the year (2.6%) is not being modified in the balance sheet.
- Inflation will consolidate in 2025 within the target range, assuming normal weather conditions.

The central bank has been cutting the policy rate since September, albeit cautiously in the face of volatility in the markets associated with the Fed

MONETARY POLICY INTEREST RATE

(%)

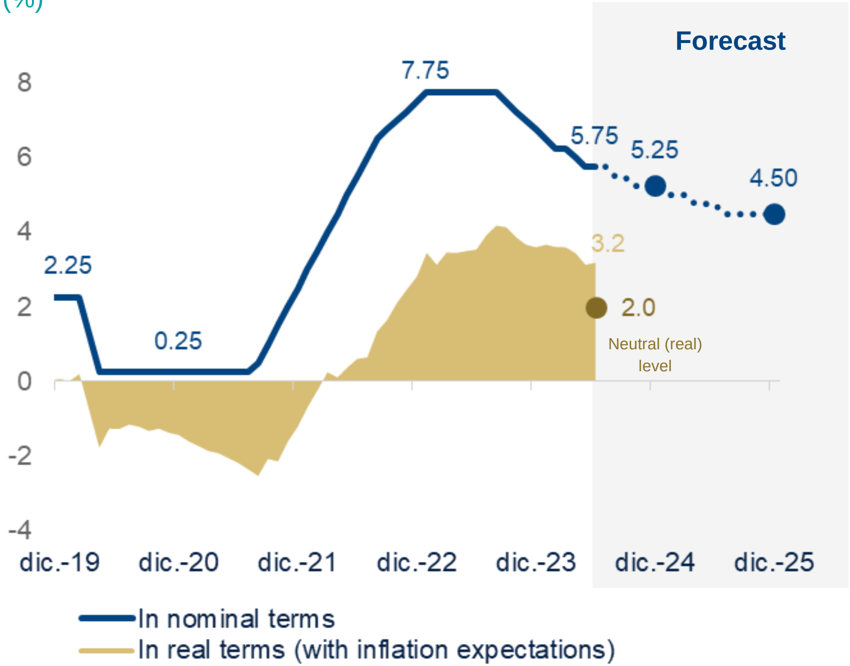


Source: BCRP.

- The BCRP has been cutting its reference rate since September, albeit gradually: 8 reductions of 25 bp each, up to a level of 5.75% in June (with a pause in March and another in June).
- The Central Bank is acting cautiously, depending on the data that emerges, despite the weak growth in activity. It is likely attentive to the volatility in the financial markets. The real ex-ante interest rate remains at elevated levels.
- Most recent statement from the BCRP: Inflation will remain around 2.0% in the coming months. It thus opens the space for further cuts in its policy rate. With inflationary expectations anchored within the target range, reductions in the nominal rate will translate more clearly into decreases in the real rate.
- However, it reiterated that it will closely monitor not only the trend in inflationary expectations and economic activity when making its decisions, but also that of core inflation: This is located around the ceiling of the target range and has been showing some persistence associated with some service items.

Baseline scenario is consistent with additional monetary easing: the policy rate should undergo three additional cuts in the remainder of the year

MONETARY POLICY RATE
(%)



Source: BCRP and BBVA Research (forecasts).

- Domestic factors suggest that rate cuts will continue in the coming months: (i) inflation and inflationary expectations in the target range, (ii) still nascent recovery of activity, and (iii) contractionary monetary stance.
- However, the normalization of the reference interest rate will be more gradual going forward: The BCRP has shown that it is not comfortable with a very pronounced depreciation of the PEN. In that sense, it will closely observe the behavior of the Fed and the interest rate differential.
- Taking into account the domestic factors indicated but also the expected path for the Fed rate, we see the BCRP reference rate for the end of 2024 at 5.0% (upward revision of 75bp).
- The timing of the cuts will depend on the behavior of the USDPEN and core inflation at the time the decisions are made.
- By the end of 2025, the neutral level of 4.50% would be reached (estimated considering 2.0% real rate and 2.5% average inflation).

BBVA Research

05

The main risks to Peru's economic outlook

Main local risks to the baseline scenario for Peru

ON THE EXTERNAL SIDE

- Persistence in inflation and higher interest rates for longer
- Negative supply shock from current geopolitical conflicts, U.S. elections, protectionism, and climate events
- Global economy moderates more than expected due to problems in China

ON THE LOCAL SIDE

- Implementation of additional Investment projects that would give a greater boost to activity and strengthen confidence
- Populist measures affecting competitiveness (labor market, pension system)
- Renewed political and social tensions
- Increased insecurity due to increased crime and the spread of illegal economies

BBVA Research

06

Summary of macroeconomic forecasts

Creating Opportunities

Summary of macroeconomic forecasts

	2021	2022	2023	2024 (f)	2025 (f)
GDP (% CHG.)	**13.4**	**2.7**	**-0.6**	**2.9**	**2.7**
Domestic demand (excluding inventories, % CHG.)	16.0	2.4	-0.6	2.8	2.8
Private spending (% CHG.)	17.6	2.6	-1.6	2.5	2.8
Private consumption (% CHG.)	12.4	3.6	0.1	2.7	2.6
Private investment (% CHG.)	37.0	-0.5	-7.3	1.6	3.5
Public expenditure (% CHG.)	9.1	1.4	4.1	4.2	2.7
Public consumption (% CHG.)	4.8	-0.2	4.6	2.4	2.4
Public investment (% CHG.)	24.7	6.0	2.8	9.5	3.6
Exports (% Chg.)	13.3	5.2	4.9	3.5	2.0
Imports (% Chg.)	17.9	3.9	-1.4	3.4	2.7
Exchange rate (vs. USD, EOP)	**4.04**	**3.83**	**3.74**	**3.75–3.85**	**3.70-3.80**
Inflation (% y/y, EOP)	**6.4**	**8.5**	**3.2**	**2.6**	**2.4**
Monetary policy interest rate (%, EOP)	**2.50**	**7.50**	**6.75**	**5.00**	**4.50**
Fiscal balance (% of GDP)	**-2.5**	**-1.7**	**-2.8**	**-2.5**	**-2.2**
Current account balance of payments (% of GDP)	**-2.2**	**-4.0**	**0.8**	**1.4**	**0.5**
Exports (USD billion)	63.0	66.2	67.5	71.9	72.0
Imports (USD billion)	48.0	56.0	49.8	51.4	53.7

(e) Estimate. (f) Forecast. Forecast closing date: June 17 , 2024.
Source: BBVA Research.

Summary of macroeconomic forecasts

	2022	2023	2024 (f)	2025 (f)
GDP (chg. %)	2.7	-0.6	2.9	2.7
Primary GDP (chg. %)	**0.9**	**2.8**	**2.3**	**3.0**
Agricultural	4.5	-2.4	1.7	3.6
Fishing	-11.4	-19.7	28.1	6.0
Metal mining	0.0	9.3	2.4	1.2
Hydrocarbons	4.0	0.7	-0.7	8.4
Primary manufacturing	-2.5	-2.4	2.2	5.6
Non-primary GDP (chg. %)	**3.2**	**-1.4**	**3.2**	**2.8**
Construction	3.1	-7.9	3.5	4.0
Trade	3.3	2.4	3.1	2.4
Non-primary manufacturing	2.2	-7.9	2.5	2.1
Services	3.2	0.0	3.3	2.9

(e) Estimate. (f) Forecast. Forecast closing date: June 17 , 2024.
Source: BBVA Research.

Disclaimer

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

Research

Peru Economic Outlook

June 2024

Creating Opportunities