

Peru Economic Outlook

October 2024

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Key points



Global situation



Monetary easing underway in the U.S. and the eurozone, with inflation falling due to lower demand and improved supply. Labor markets are slowing, manufacturing remains weak, but services and consumption remain strong. Increased financial volatility, although markets continue to discount a soft landing of economic activity.

The Peruvian economy is moving forward with its cyclical recovery. After a second quarter in which this recovery was still incipient (+3.6% year-on-year), July's result, although favored by an additional workday, surprised positively (4.5%). This economic rebound is taking place in an environment of (i) weather normalization; (ii) better conditions for private spending; and (iii) positive impact of pension funds withdrawals. In the second quarter, the recovery of domestic demand continued, mainly driven by higher public investment and a partial recovery of private consumption; private investment continues to show signs of weakness. In this context, the job market is improving: in July 156K formal jobs were created. The outlook for the third quarter remains favorable and indicators suggest that economic activity maintained a positive performance.



Domestic situation

On the external side there are no imbalances: terms of trade are improving (due to favorable metal prices) and the services deficit is decreasing, which favors the current account of the balance of payments. On the fiscal side, the deficit remained at 4.0% of GDP in August, raising the risk of not meeting the target at the end of the year.

Key points



Global macro outlook: Growth



Global growth will converge to moderate levels. In the US, forecasts are revised upwards due to better data, but a future slowdown is still expected. In the Eurozone, forecasts remain unchanged: falling inflation and interest rates will drive a cyclical recovery. In China, recent stimulus will support growth, but it will hardly prevent a structural slowdown.



Global macro outlook: rates and inflation



Monetary conditions will gradually become less restrictive given the moderation of inflation and labor markets. The Fed will be more aggressive than anticipated in this normalization, but interest rates are expected to remain relatively high. The cycle of monetary easing will continue in the Eurozone and China as well.



Global Risks



Risks to growth and inflation are now more balanced. The slowdown in labor markets and the situation in China raise fears of a sharp slowdown. However, dynamic demand, fiscal policy and geopolitical tensions keep high inflation risks alive.

Key points



Domestic macro outlook: economic activity



The baseline scenario considers that (i) the weather anomaly has dissipated and forecasts suggest normal conditions in the coming months; (ii) on the political and social side, the context remains relatively stable, although with certain regulatory risks arising from Congress; (iii) the withdrawal of pension funds was greater than expected; (iv) business confidence continues to improve and is consolidating in optimistic territory, which will favor investment; (v) financial conditions would turn more favorable for private spending; and (vi) the construction of important investment projects such as Zafranal, Reposición Antamina, and Chavimochic III, all three considered for 2025, will soon begin.

In that context, and given that lower-than-expected output growth in 2Q24 will be offset by a higher than previously estimated impact of pension funds withdrawals, we maintain our GDP growth forecast at 2.9% for 2024. In the second half of the year, the recovery of some sectors negatively impacted in 2023 by weather anomalies (agriculture, some branches of manufacturing such as the textile sector) will continue. Non-primary sectors will benefit from higher private spending. For 2025, our forecast remains at 2.7%, a year in which pension fund withdrawals will no longer provide support.

Key points



Domestic macro outlook: fiscal accounts



In August, the fiscal deficit reached 4.0% of GDP (weak revenues), but in the remainder of the year, with the improvement in activity, revenues will gradually recover and the deficit will moderate. Even so, it will exceed the ceiling of the fiscal rule (2.8%) and will close 2024 at 3.4%. In 2025, the deficit will be reduced to 2.2% of GDP, in line with the target, as revenues continue to improve: (i) economic activity will keep normalizing and terms of trade will remain high (income tax regularization of the fiscal year 2024 will be important), (ii) extraordinary revenues (sale of a company in the electricity sector), and (iii) introduction of new taxes (VAT on digital services). **In the following years, the deficit will tend to 2% of GDP and with it gross public debt will reach 35% of GDP by the end of the forecasting horizon (2029).**



Domestic macro outlook: external accounts



The Peruvian economy has no external imbalances, which makes it easier for it to cushion episodes of financial markets 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 1.7% in 2Q24 (accumulated over the last 4 quarters)**. The improvement in the external position since 2022 is explained by lower imports (decrease in prices of oil and food, decrease in volumes due to sluggish economic activity) and lower remittances of profits from foreign companies. Improved terms of trade have given an additional boost so far this year. We expect **the external surplus to remain in place this year and next year** due to persistently high export prices.

Key points



Domestic macro outlook: exchange rate



The foreign exchange has been relatively volatile so far 2024 amid changes in the market's outlook on how the Fed will act going forward: The BCRP has been quite active in the FX market. In the remainder of the year, the path we expect for the sol-dollar interest rate differential should not generate much pressure on the PEN, but it cannot be ruled out that geopolitical tensions and the elections in the US will impose transitory upward pressures on the exchange rate. The external accounts surplus will support the PEN. Thus, we estimate that the USDPEN will close the year in a range between 3.70 and 3.80 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 3.65 and 3.75 soles per dollar.



Domestic macro outlook: inflation



Inflation has remained close to the center of the target range (2.0%) since April 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, towards the end of the year, with a less favorable base effect, inflation will accelerate slightly and close 2024 at around 2.5%. The forecast for 2025 is 2.3%, slightly lower than in our previous forecast due to lower expected prices for oil and imported food inputs.

Key points



Domestic macro outlook: monetary policy

The Central Bank has been cutting its policy rate since September 2023, currently standing at 5.25%. The decline in inflation gave room for these cuts, which sought to normalize the position of monetary policy (still contractionary). However, the rate cuts process advanced only gradually amid both financial markets volatility, in turn due to uncertainty about the Fed's actions, and domestic core inflation resistance to ease.

- With core inflation currently at 2.6% (within the target range), we expect rate cuts to continue, closing the year at around 4.50%. This is suggested by the still weak recovery in economic activity and the restrictive monetary stance. However, rate cuts will be conditional on the behavior of the exchange rate. Next year, the policy rate will remain at 4.50%, a level that we estimate as neutral.



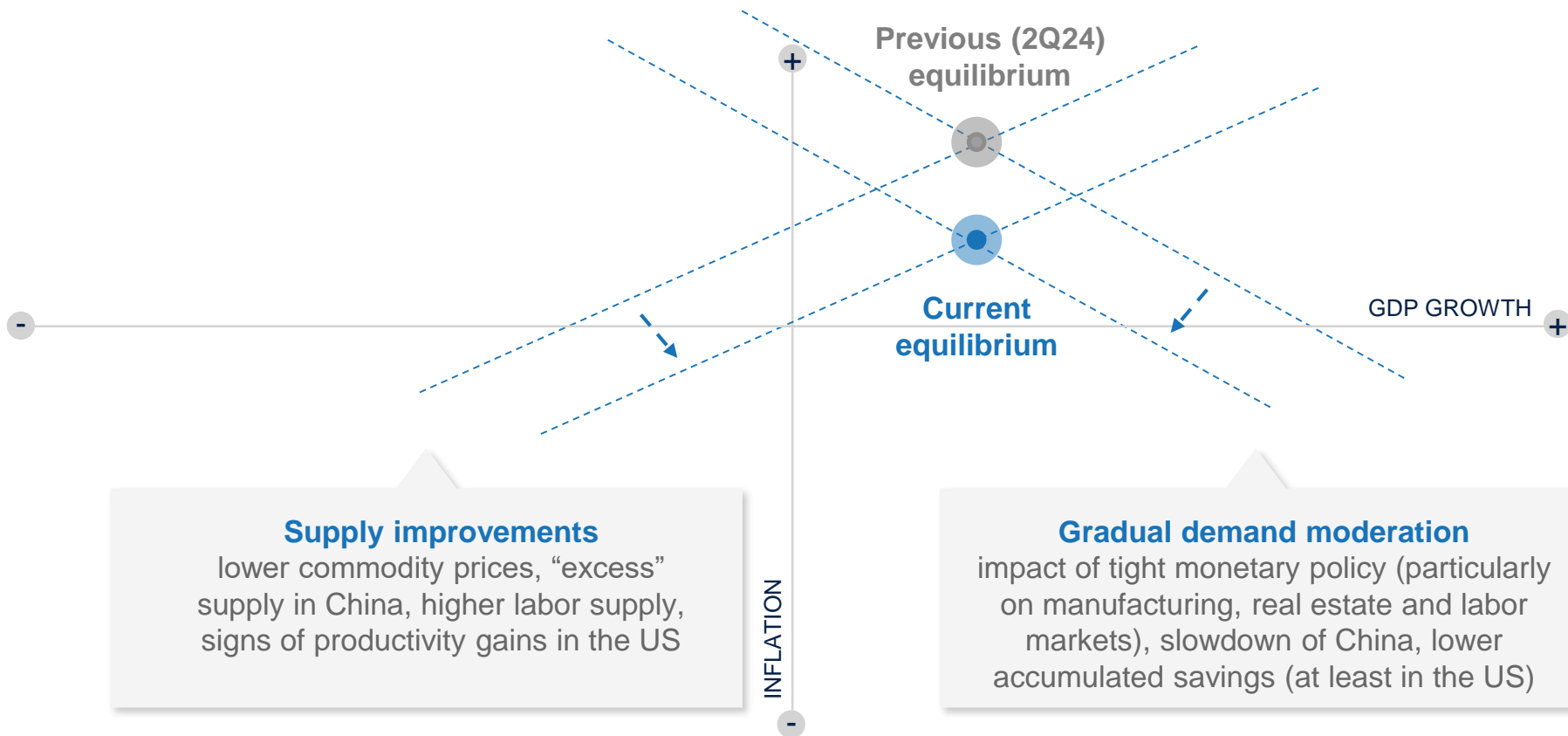
Main risks

On the external side, (i) higher demand due to monetary policy cuts and fiscal stimuli; (ii) negative supply shocks due to current geopolitical conflicts, elections in the U.S., protectionism, or weather 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-related projects (in mining and infrastructure), giving greater impetus to economic growth; (ii) renewed political and social tensions; (iii) even greater uncertainty in 2025 related to the elections process; (iv) higher citizen insecurity due to increased crime and illegal economies; and (v) weakening of public finances that compromises the sovereign credit rating.

01

International context: activity and financial markets

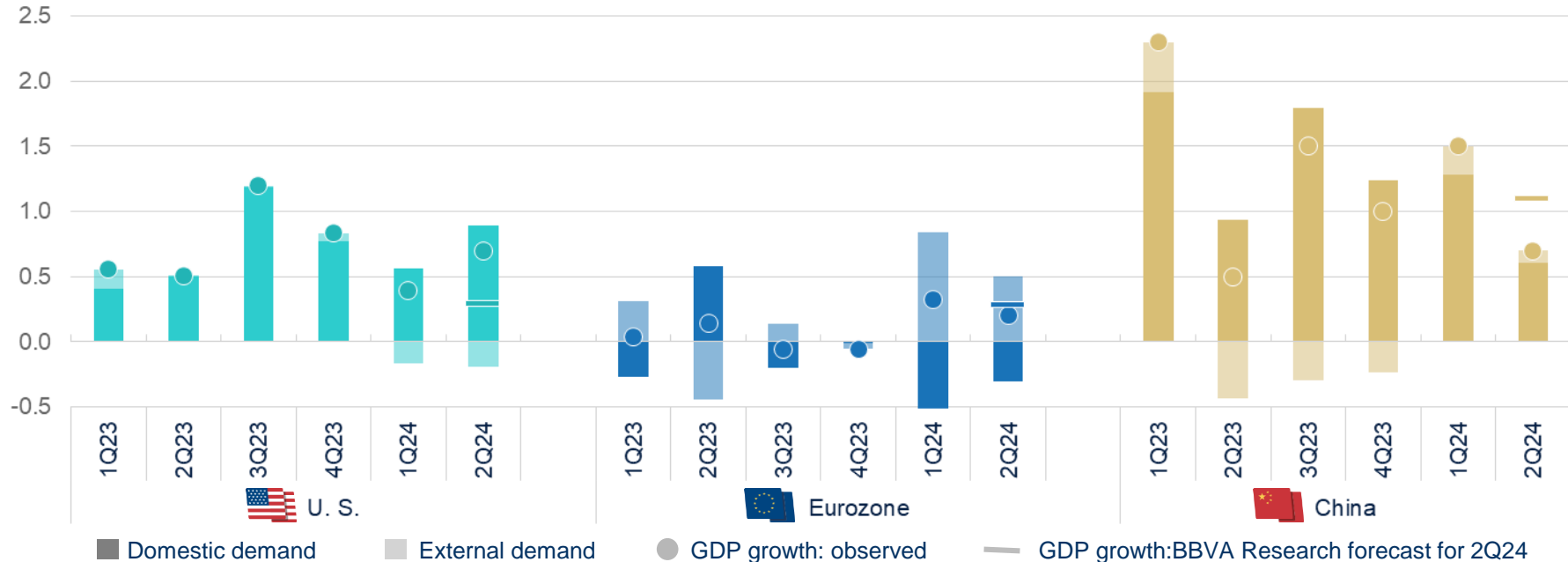
Recent developments: lower inflation and interest rates as well as resilient growth in a context of demand moderation and improvements in supply



Growth remains strong in the US, slightly positive in the Eurozone, and relatively weak in China despite policy support

GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH

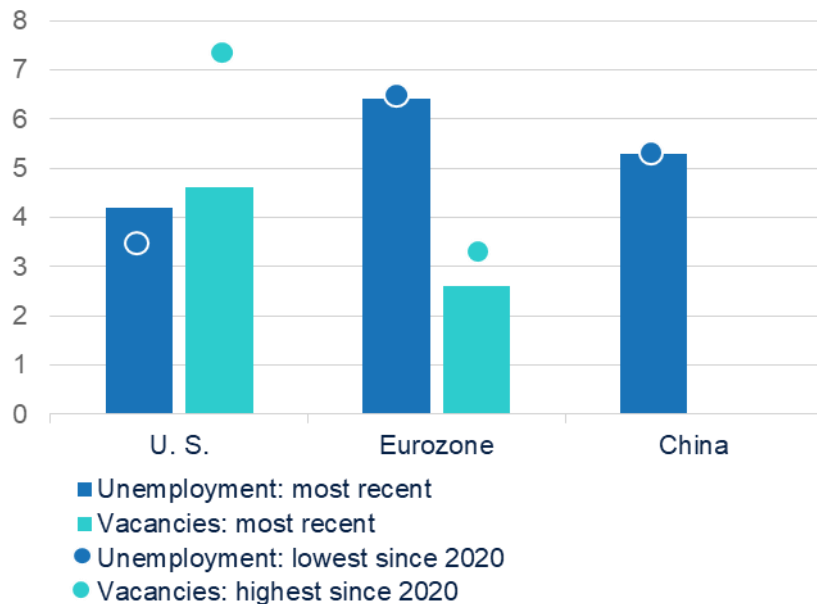
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)



Hard-landing fears have risen following labor market deceleration, but services remain relatively strong; weakness in manufactures persist

UNEMPLOYMENT AND VACANCY RATES (*)

(%)

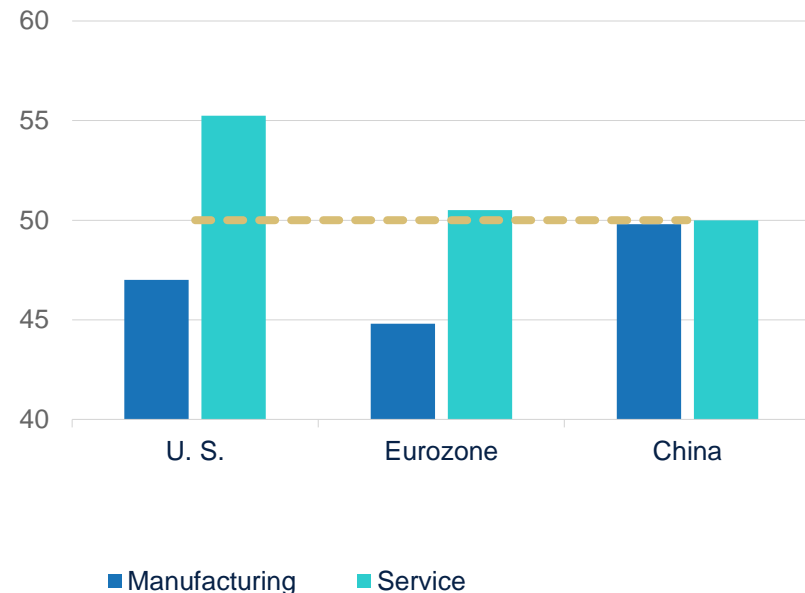


(*) Unemployment rate: unemployment as share of the labor force. Vacancy rate: job vacancies as share of the sum of total employment and job vacancies. Vacancies data not available for China.

Source: BBVA Research based on data from BLS, Eurostat and Haver.

PMI INDICATORS: MOST RECENT DATA (*)

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



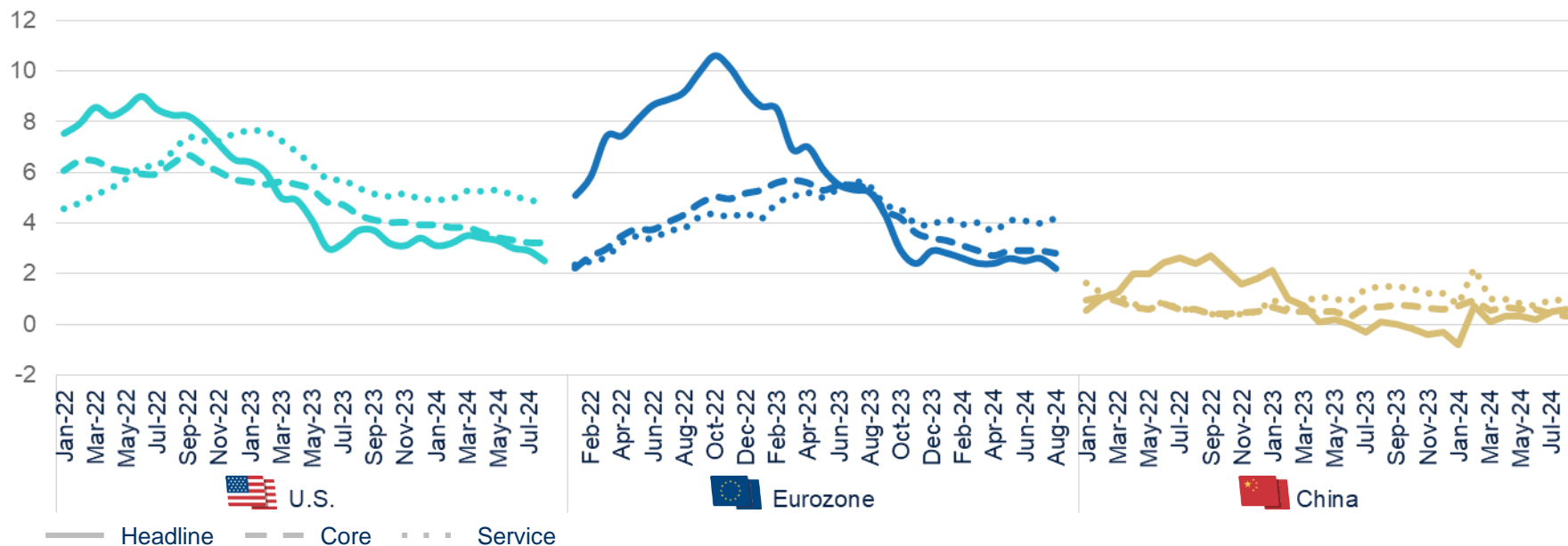
(*) September 2024.

Source: BBVA Research based on data from Haver.

Inflation has eased more than expected in the US, and has been broadly in line with forecasts in the Eurozone, but services inflation remains high

CPI INFLATION: HEADLINE, CORE AND SERVICE

(Y/Y %)

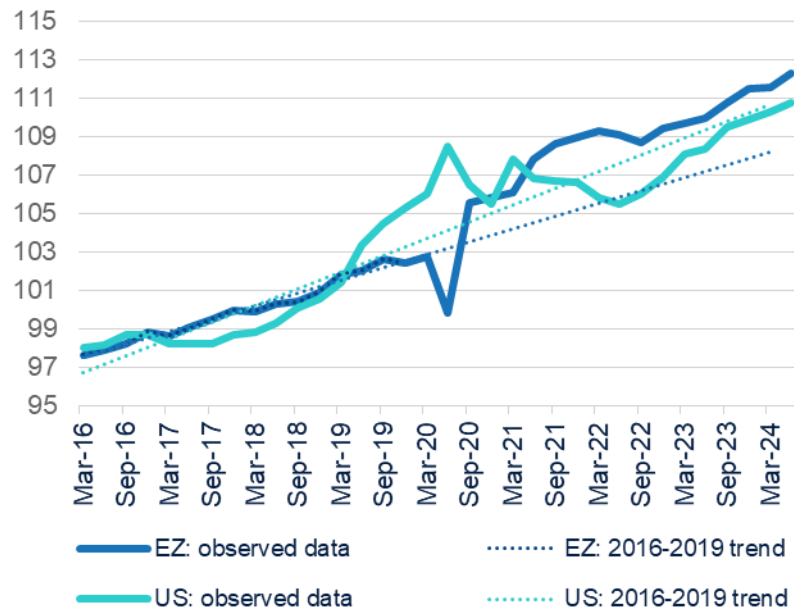


Source: BBVA Research based on data from Haver.

Despite still supportive fiscal policy, demand continues to weaken gradually amid still tight monetary conditions and weakness in China

GOVERNMENT CONSUMPTION

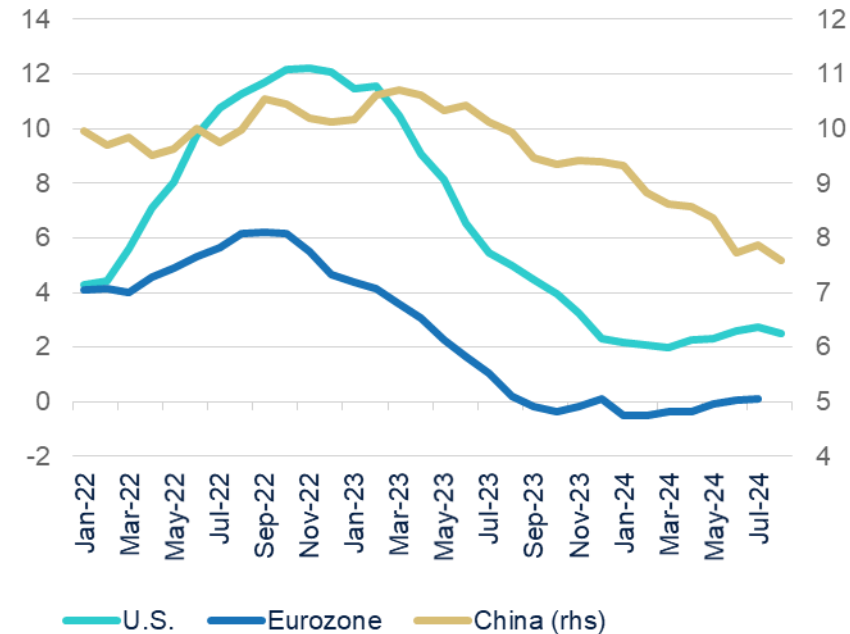
(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)



Source: BBVA Research based on BEA and ECB data.

BANKING LENDING

(YOY %)

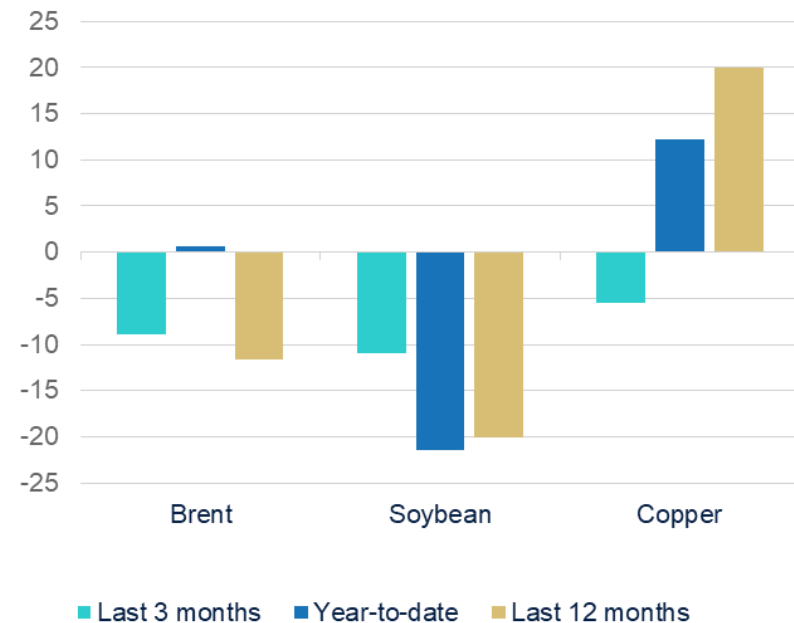


Source: BBVA Research based on data from Haver.

A fall in commodity prices, the expansion of the labor force and incipient productivity gains in the US have helped to improve supply conditions

COMMODITY PRICES (*)

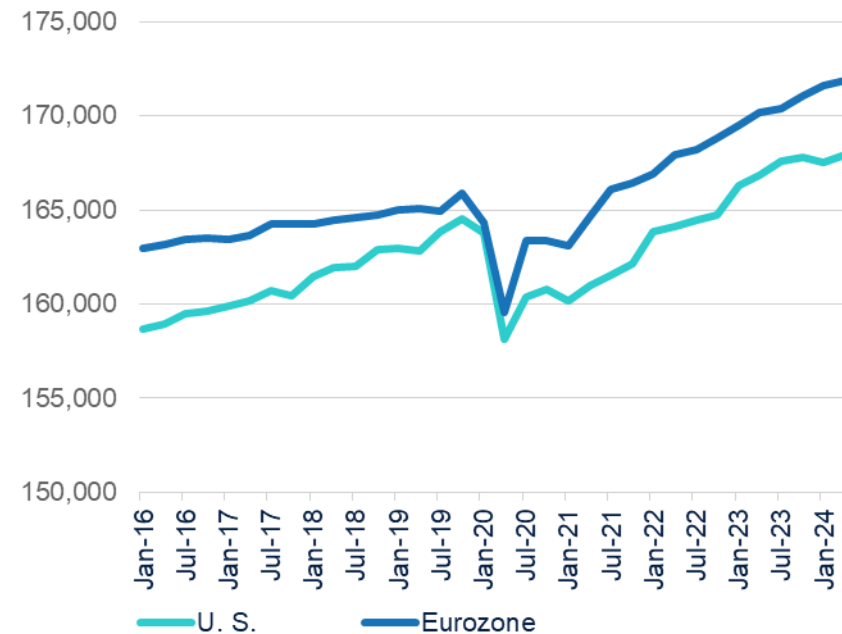
(% CHANGE DURING SELECTED PERIODS)



(*) Last available data: September 25th, 2024.
Source: BBVA Research based on data from Haver.

LABOR SUPPLY: LABOR FORCE LEVEL (*)

(THOUSANDS, QUARTERLY DATA)

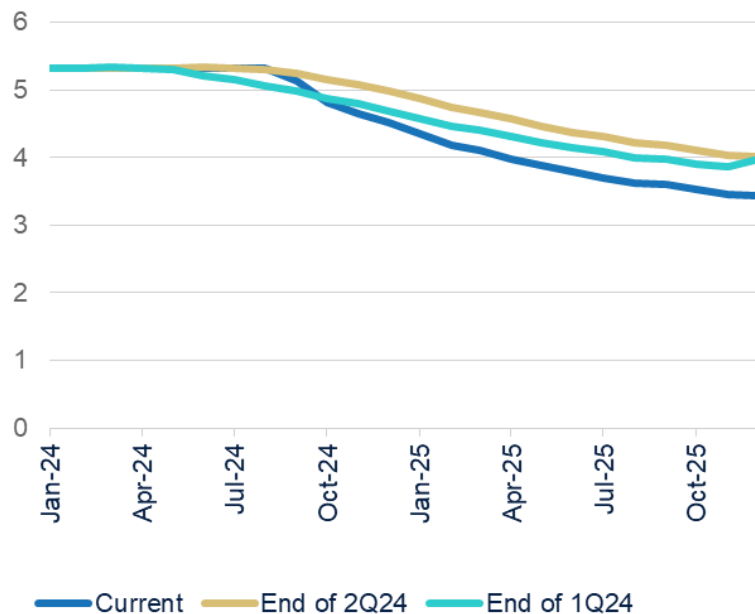


(*) U. S.: 16 years or older. Eurozone: 25 to 74 years old.
Source: BBVA Research based on data from the Fred and Eurostat.

Monetary easing has begun in the US (with a 50 bps cut) and has continued in the EZ (with a second 25 bps cut); markets see larger room for further cuts

US: IMPLICIT RATE IN FED FUND FUTURES (*)

(%)

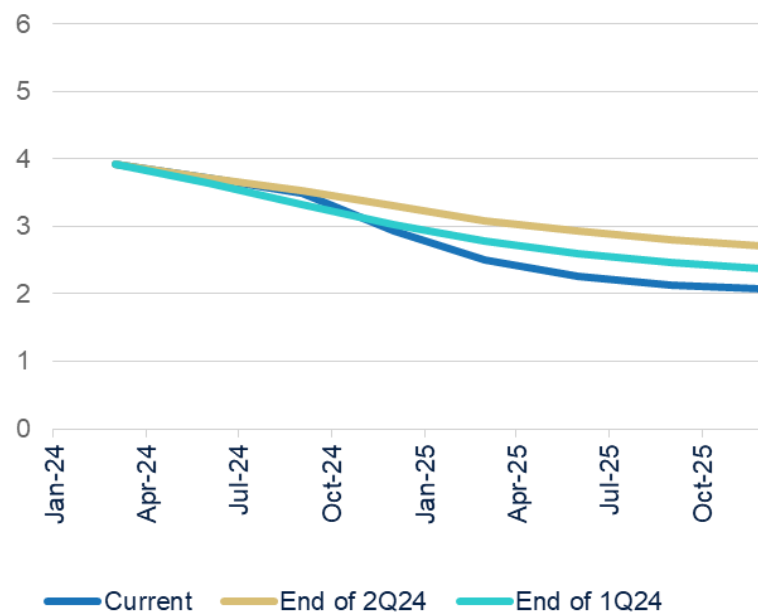


(*) Last available data: September 25th, 2024.

Source: BBVA Research based on data from Haver.

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

(%)

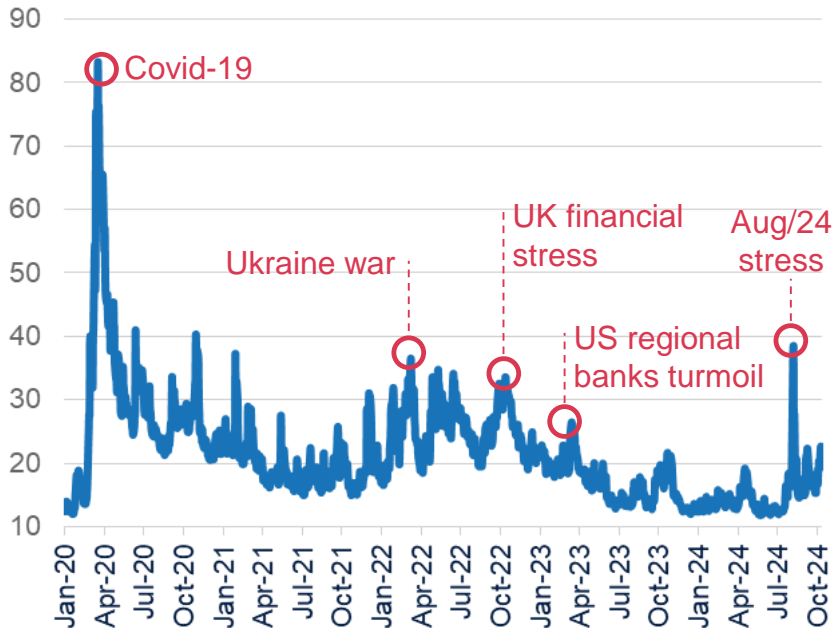


(*) Depo interest rates. Last available data: September 25th, 2024.

Source: BBVA Research based on data from Haver.

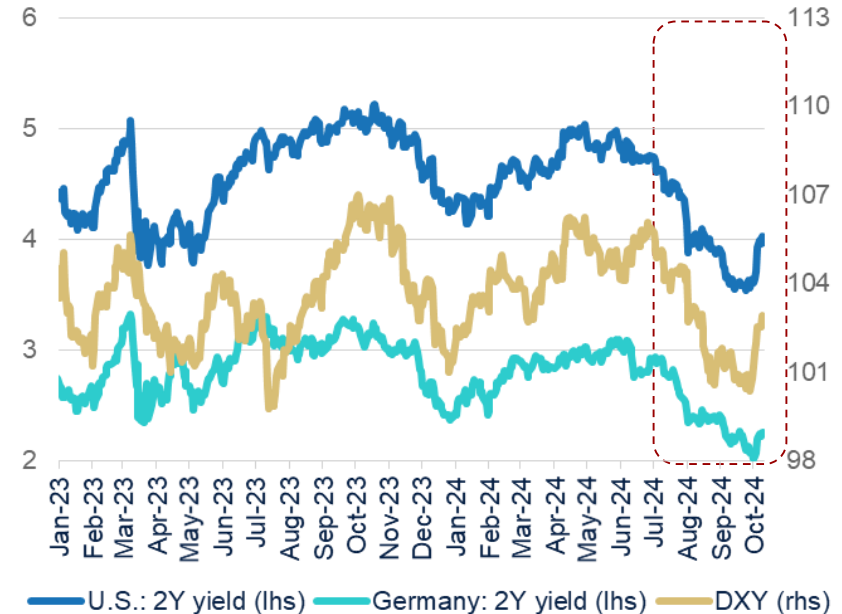
Financial volatility has risen on growth deceleration concerns but soft-landing view continues to prevail; sovereign yields and the USD have trended down

VIX (*)
(INDEX)



(*) Last available data: September 25th, 2024.
Source: BBVA Research based on data from Haver

SOVEREIGN YIELDS AND USD INDEX (DXY) (*)
(SOVEREIGN YIELDS: %; DXY: INDEX)

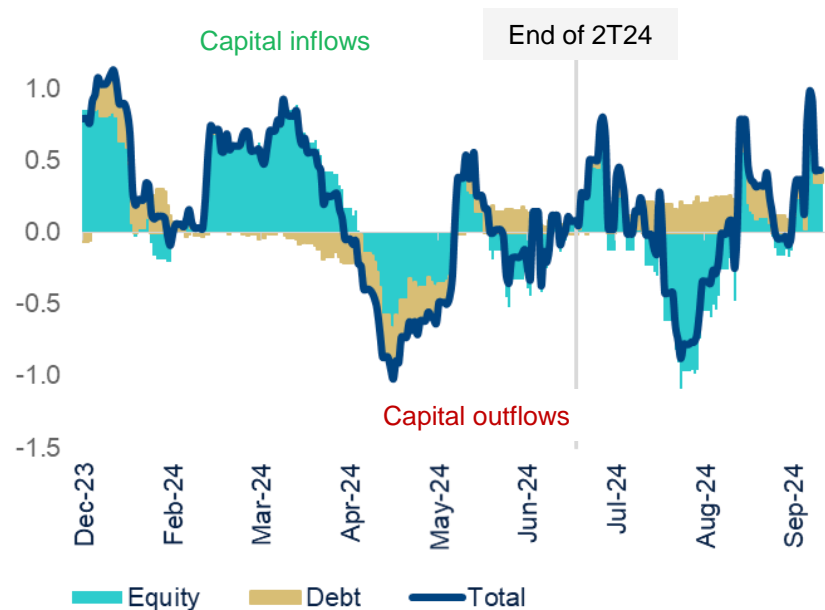


(*) A lower DXY index represents a weaker US dollar. Last available data: September 25th, 2024.
Source: BBVA Research based on data from Haver

Capital inflows to emerging markets and declining risk premia are observed in some LatAm countries (including Peru)

CAPITAL FLOWS TO EMERGING MARKETS¹

(USD BILLIONS, 28-DAY ROLLING AVERAGE)

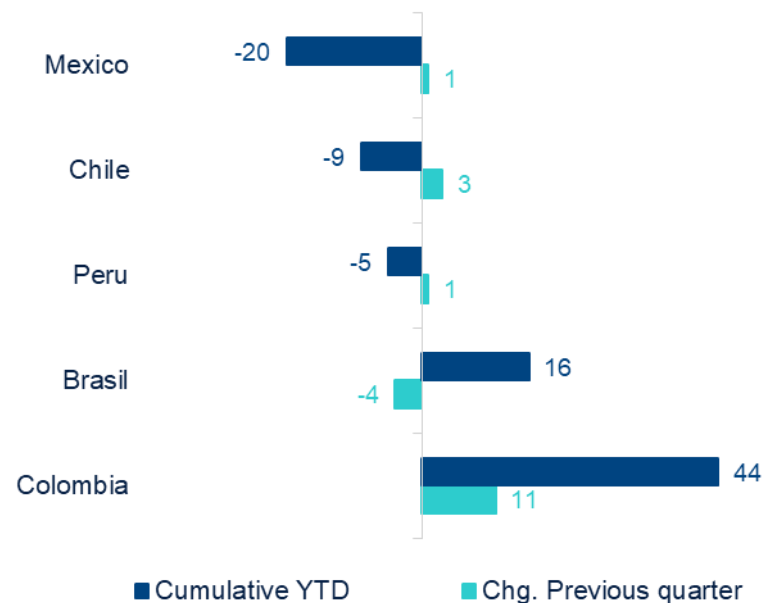


1: Includes China.

Source: IIF (information as of September 29).

LATAM COUNTRY RISK

(MEASURED WITH CDS, BP)



Source: BBVA Research with data from BCRP (information as of September 25).

LatAm sovereign debt yields and local currencies appreciate due to lower dollar interest rates

LATAM: SOVEREIGN BOND YIELDS 10-YEAR (%)

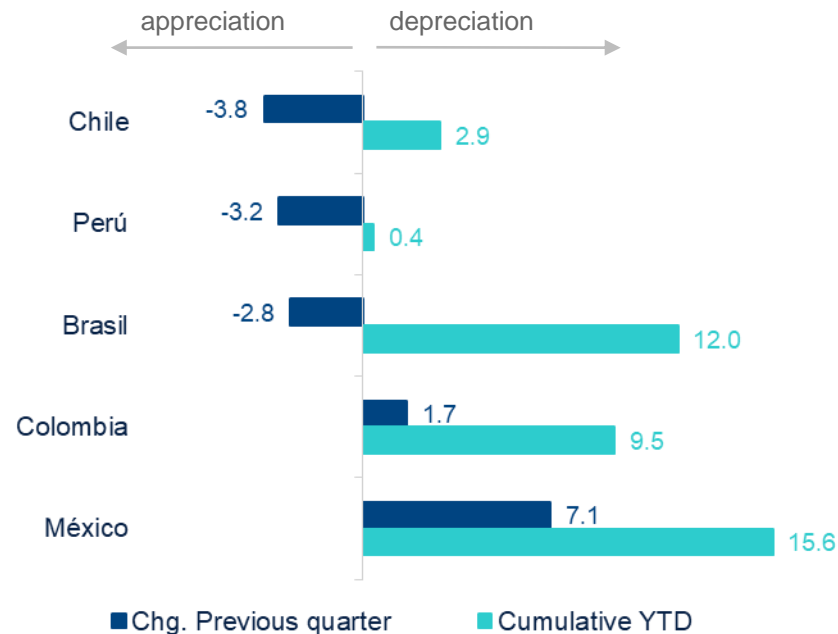
(%)



Source: BBVA Research with data from Investing (information as of October 1).

LATAM: EXCHANGE RATES

(LOCAL CURRENCY VS. USD, CHG. %)



Source: BBVA Research with data from central banks (information as of October 1).

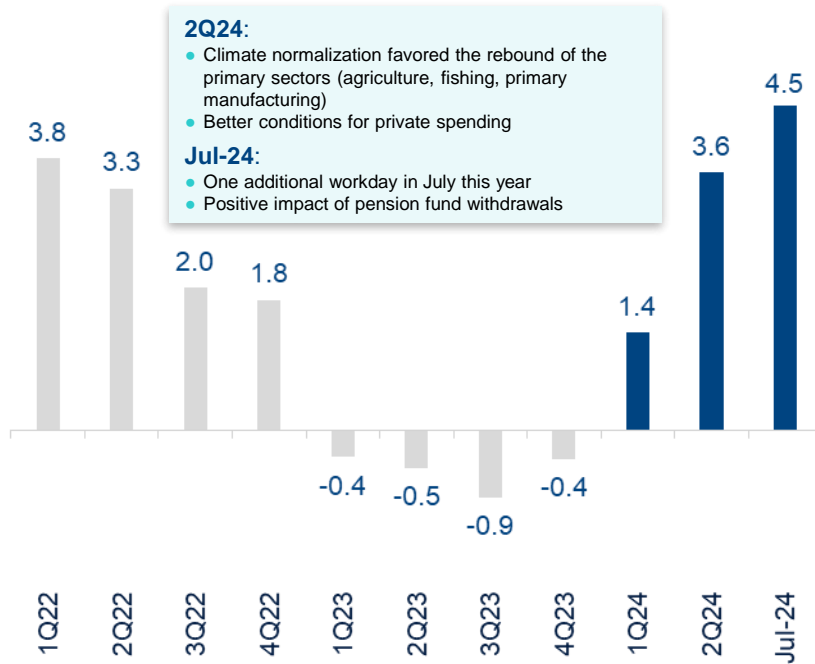
02

Local context:
activity, employment,
external and
fiscal accounts

The economy is moving forward with its cyclical recovery. Positive surprise in July's growth

GDP

(ANNUAL % CHG.)



Source: BCRP.

GDP SECTORS

(ANNUAL % CHG.)

	2023	1Q24	2Q24	July 24
GDP	-0.6	1.4	3.6	4.5
Primary GDP	2.8	0.8	7.2	2.2
Agriculture	-2.5	-0.4	8.0	-3.9
Fishing	-21.2	-29.5	184	14.9
Mining	9.2	8.8	-3.4	-0.7
Hydrocarbons	0.7	0.9	-2.9	21.5
Primary manufacturing	-2.3	-17.7	37.5	12.6
Non-primary GDP	-1.4	1.5	2.5	4.8
Non-primary manufacturing	-8.0	-1.8	0.7	10.4
Construction	-7.9	5.1	3.3	7.1
Trade	2.4	2.4	2.5	3.4
Electricity	3.7	3.9	1.4	3.0
Services	0.1	1.8	3.0	4.0
Financial services	-7.8	-4.5	-1.3	0.1
Telecom.	-5.8	-0.6	2.1	1.3
Accommodations ^{1/}	2.7	3.6	0.4	5.4
Transport	1.6	4.3	6.7	7.3
Other services ^{2/}	3.7	2.7	4.1	5.1

^{1/} Includes restaurants.

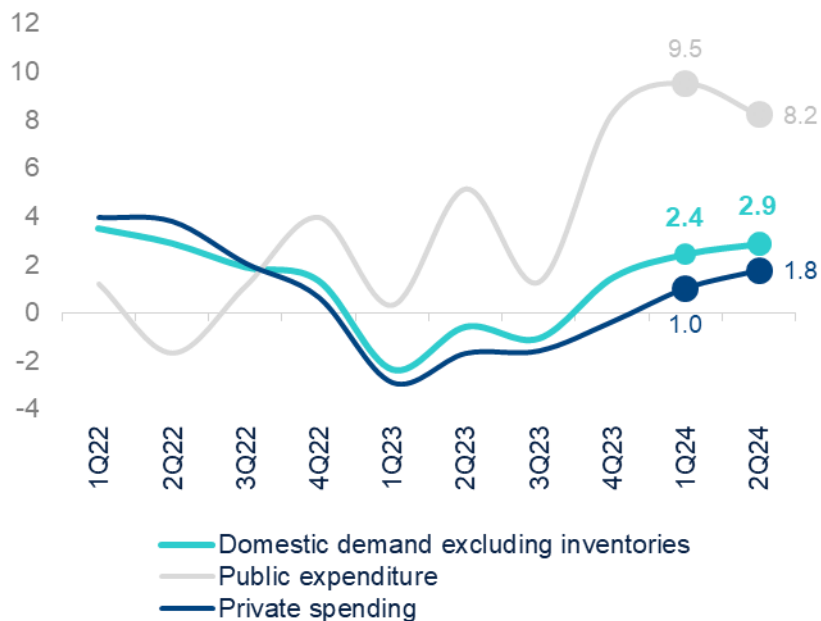
^{2/} Includes education, health services, real estate activities and other professional services activities.

Source: BCRP.

On the expenditure side, domestic demand accelerated: fiscal stimulus continues, while private spending improves, but only slowly

DOMESTIC DEMAND

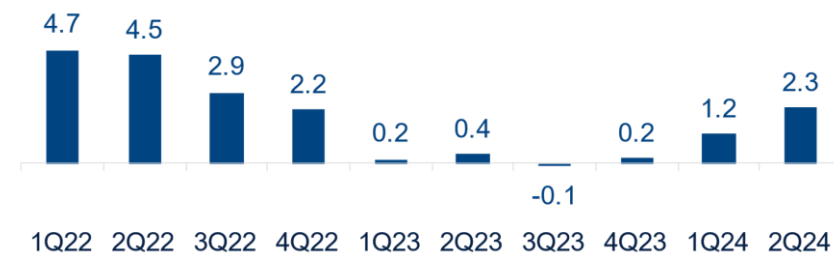
(ANNUAL % CHG)



Source: BCRP.

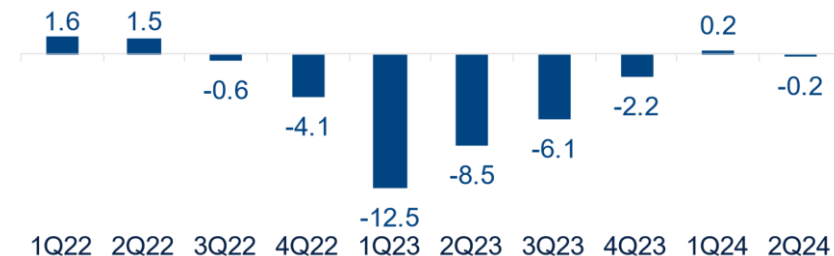
PRIVATE CONSUMPTION

(ANNUAL % CHG)



PRIVATE INVESTMENT

(CHG. % YOY)

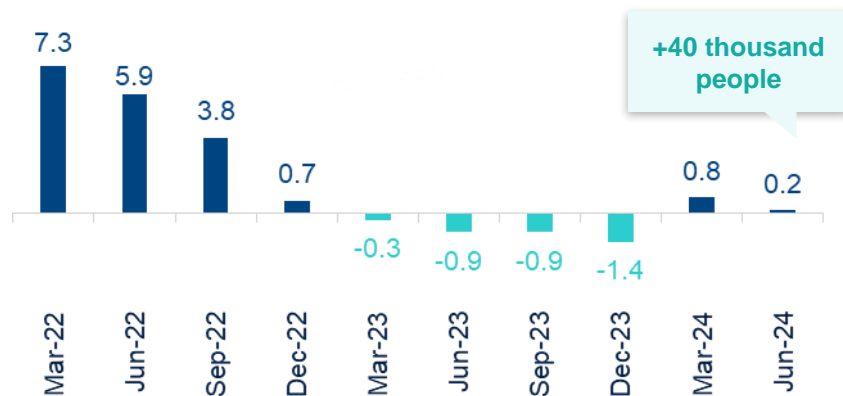


Source: BCRP.

Timid expansion of employment in 2Q24: The normalization of primary activities is not reflected in more jobs yet

EMPLOYMENT AT NATIONAL LEVEL ¹

(% CHANGE, 3-MONTH MOVING AVERAGE)



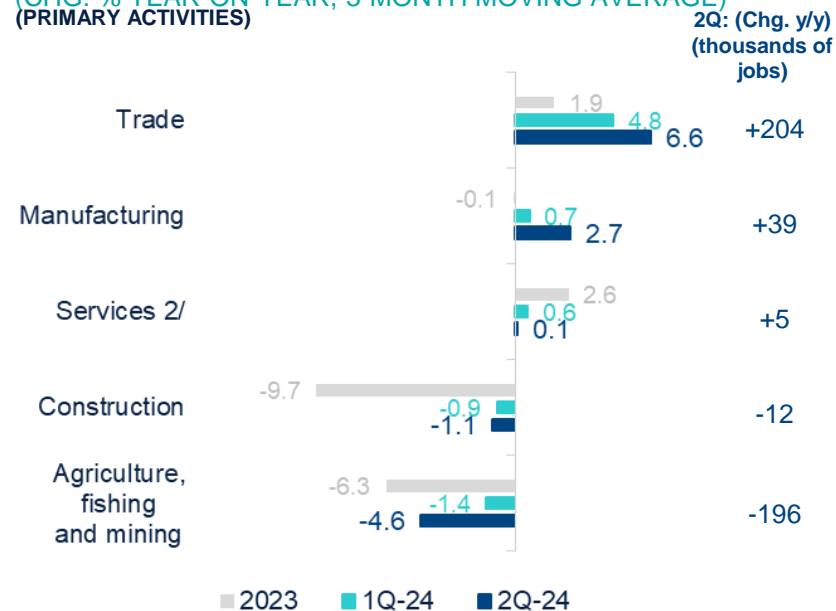
(Average last 3 months)

	Jun-22	Jun-23	Jun-24
Employed EAP (thousands)	17,453	17,290	17,329
Unemployment rate (%)	4.2	5.3	5.9

1: Until December 2022, Information from ENAHO is used; thereafter, the EPEN is used.
Source: INEI (ENAHO, EPEN). Preparation: BBVA Research.

EMPLOYMENT AT THE NATIONAL LEVEL BY SECTOR

(CHG. % YEAR-ON-YEAR, 3-MONTH MOVING AVERAGE)
(PRIMARY ACTIVITIES)



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.

However, the quality of employment and labor income improved

2Q24: EMPLOYMENT AT NATIONAL LEVEL BY CHARACTERISTICS

(% CHANGE)

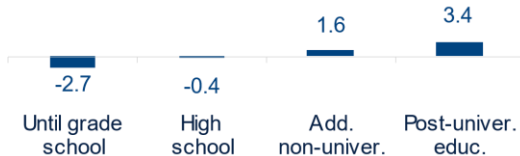
BY COMPANY SIZE



BY WORKER'S AGE

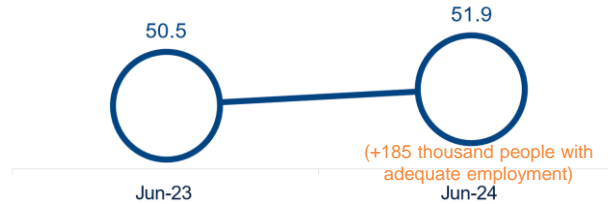


BY WORKER'S EDUCATION LEVEL

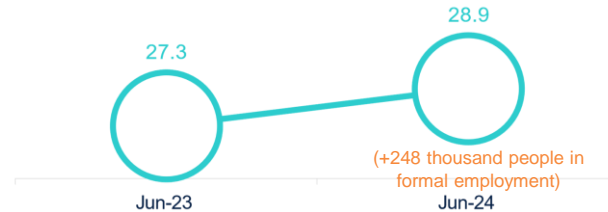


Source: INEI (EPEN).

2Q24: ADEQUATE EMPLOYMENT RATE (CUMULATIVE 12 MONTHS)



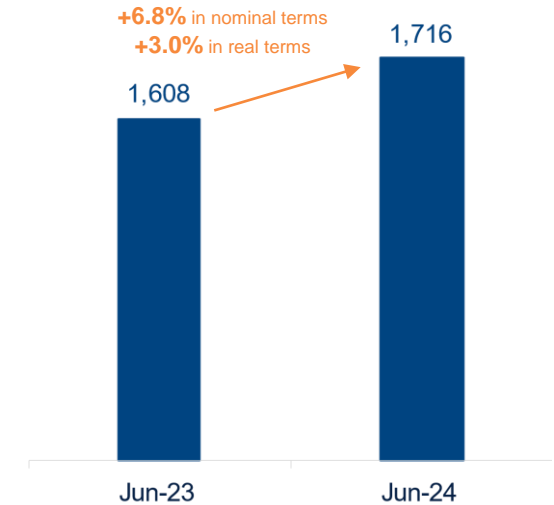
1Q24: FORMALITY RATE (12-MONTH CUMULATIVE)



Source: INEI (EPEN).

AVERAGE WORKER'S NOMINAL INCOME

(MONTHLY, IN SOLES)



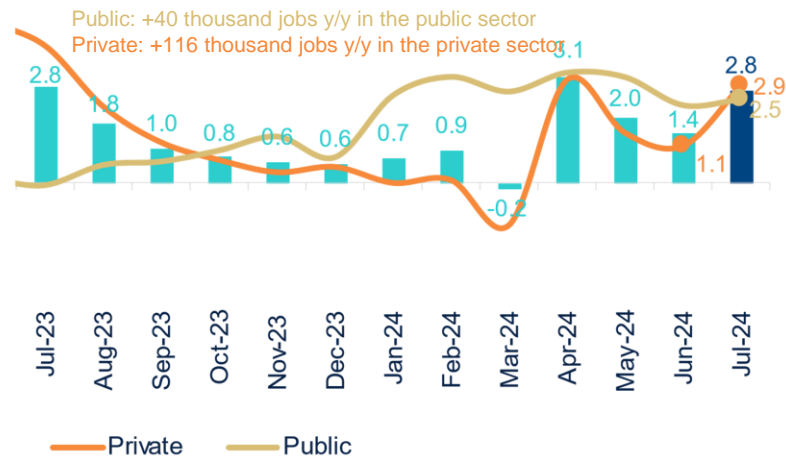
Payroll grew 3.2% in real terms in Q124

Source: INEI (EPEN).

Within formal employment, there was a notable increase in the number of jobs generated by the private sector, particularly in services

NATIONAL FORMAL EMPLOYMENT

(CHG. % YEAR-ON-YEAR)



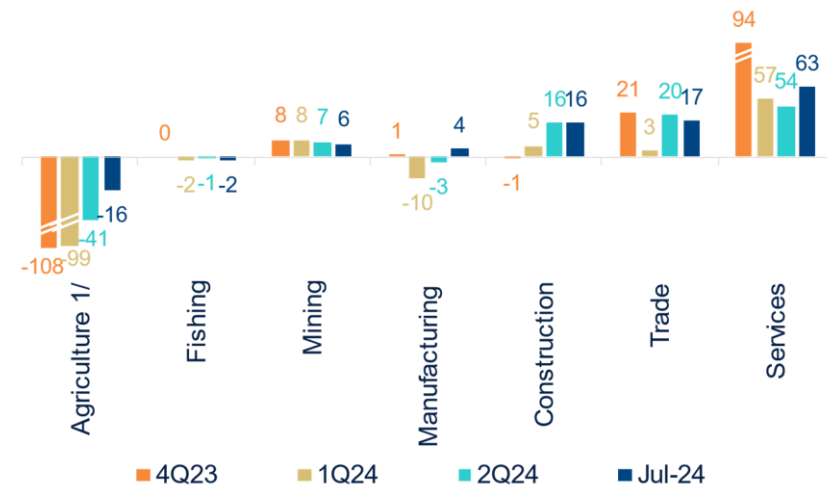
(THOUSANDS OF FORMAL JOBS)

	Jul-19	Jul-20	Jul-21	Jul-22	Jul-23	Jul-24
Total	5,207	4,868	5,195	5,515	5,671	5,828
Private	3,723	3,356	3,625	3,892	4,052	4,166
Public	1,484	1,512	1,570	1,623	1,620	1,662

Source: SUNAT (Electronic Records) and BCRP. Preparation: BBVA Research.

FORMAL EMPLOYMENT IN THE PRIVATE SECTOR BY SECTOR

(CHG. YEAR-ON-YEAR, THOUSANDS OF PEOPLE)



JULY 24: VAR. % YEAR-ON-YEAR)

Agriculture 1/	Fishing	Mining	Manufacturing	Construction	Trade	Services
-3.8	-10.5	-5.1	0.8	7.4	2.5	3.0

1: Includes fruit and vegetable processing and preservation

Source: SUNAT (Electronic Records) and BCRP. Preparation: BBVA Research.

Available expenditure and activity indicators suggest that the economy maintained a positive performance in the third quarter

ELECTRICITY PRODUCTION

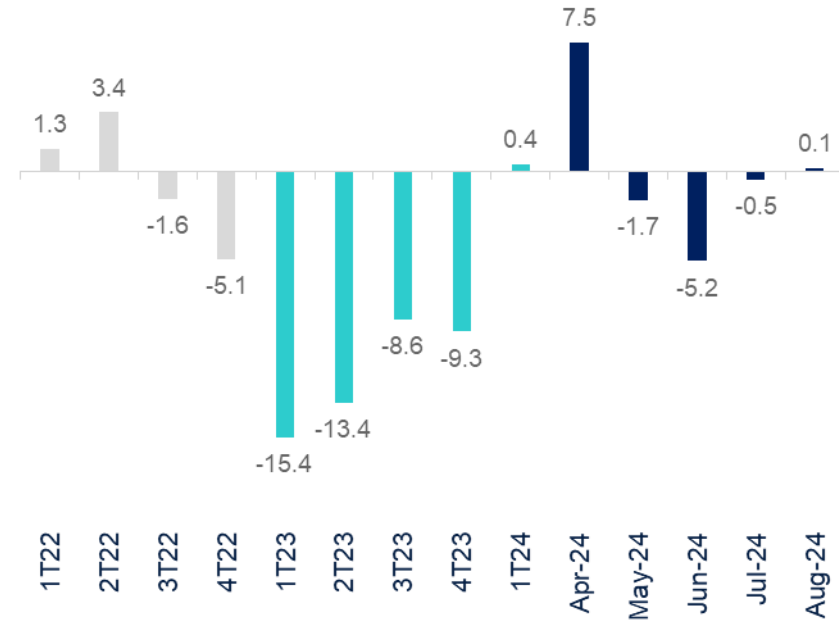
(CHG. % YEAR-ON-YEAR)



Source: INEI

DOMESTIC CEMENT CONSUMPTION

(CHG. % YEAR-ON-YEAR)

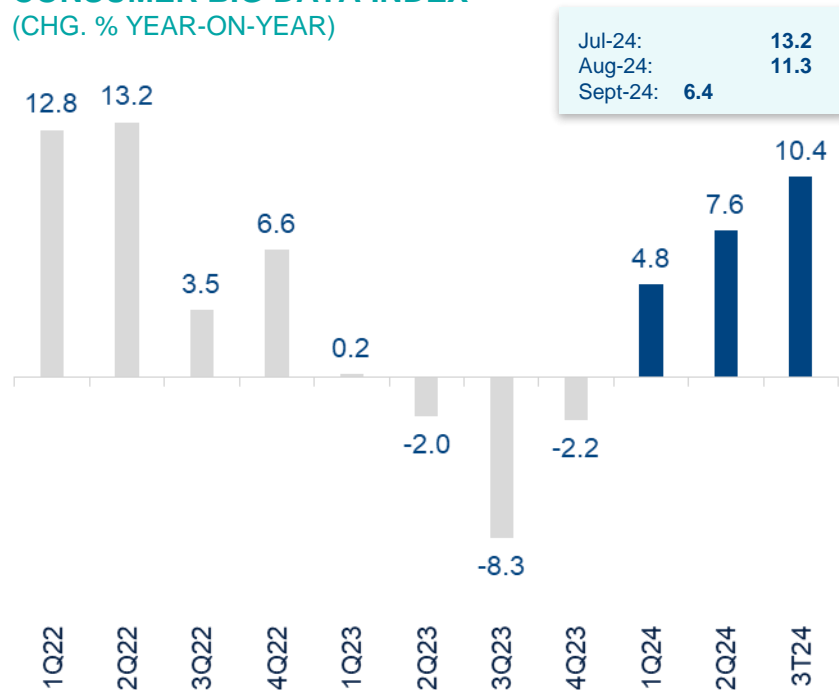


Source: ASOCEM

BBVA's Big Data Consumption Indicator reveals an increase in household expenditure, supported by higher formal employment and pension fund withdrawals...

CONSUMER BIG DATA INDEX ¹

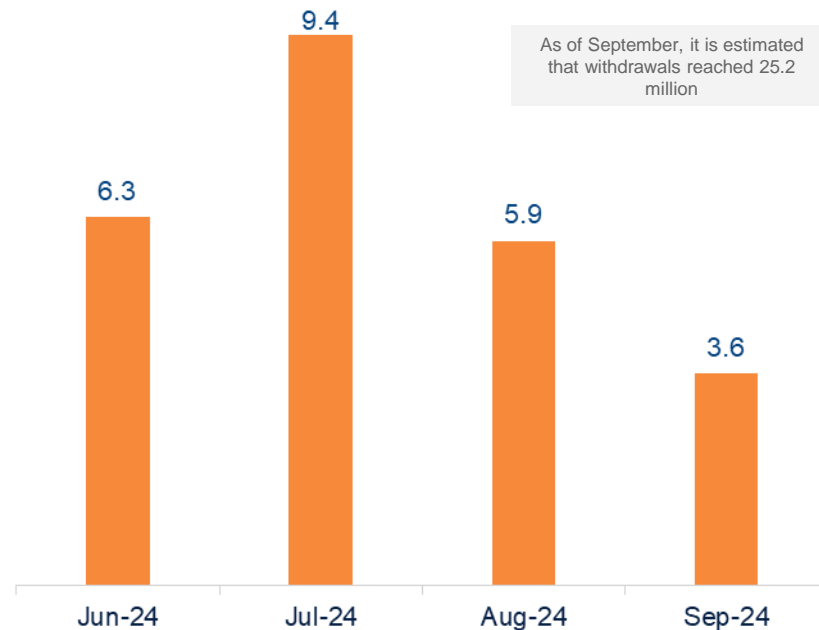
(CHG. % YEAR-ON-YEAR)



1: The Big Data Consumer Index groups together information on card purchases and cash withdrawals.
Source: BBVA.

ESTIMATED PENSION FUND WITHDRAWALS ¹

(BILLIONS OF SOLES)



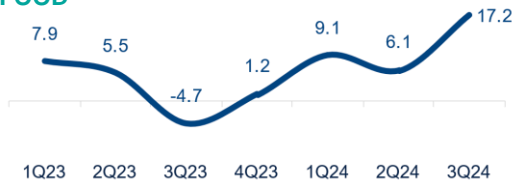
1: Estimated based on information from AFP and BBVA information
Source: BCRP and BBVA.

... reflected in greater spending in items such as entertainment, fashion and beauty, and household goods

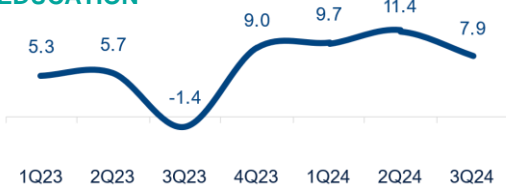
CARD PURCHASES

(% YEAR-ON-YEAR, IN REAL TERMS, SELECTED CATEGORIES)

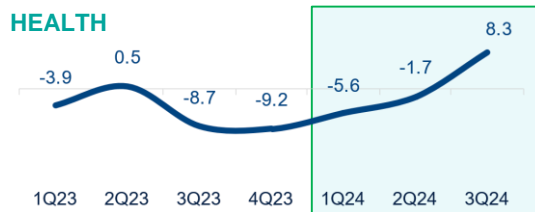
FOOD



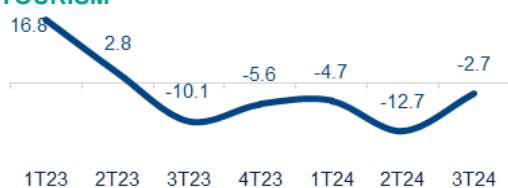
EDUCATION



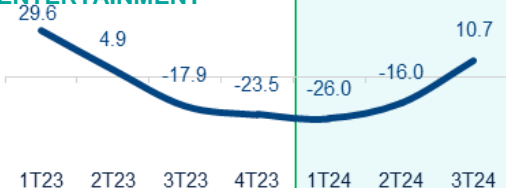
HEALTH



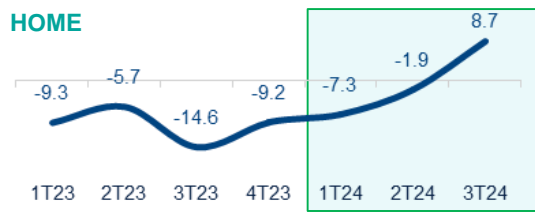
TOURISM



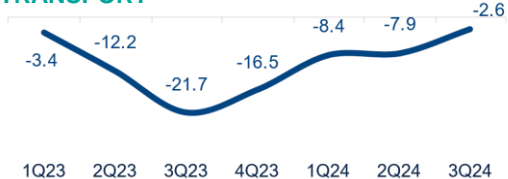
ENTERTAINMENT



HOME



TRANSPORT



FASHION AND BEAUTY



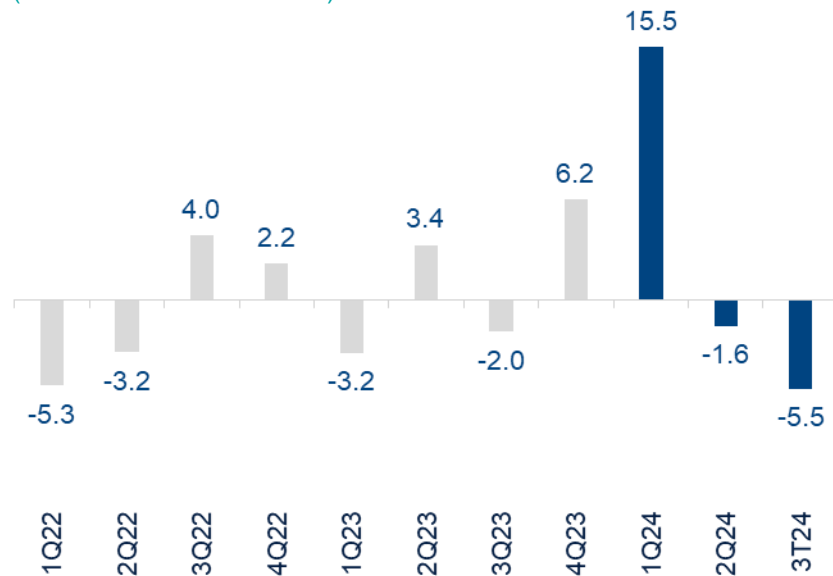
RESIDENTIAL UTILITIES



BBVA's Big Data Indicator of Total Investment continues to contract despite improving public investment, suggesting weakness in private investment

BIG DATA INVESTMENT INDEX (PRIVATE AND PUBLIC)¹

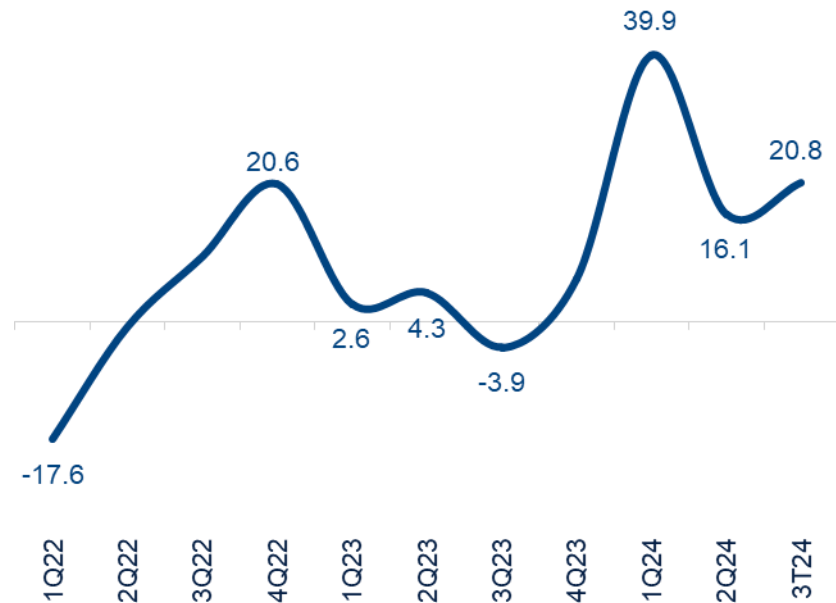
(CHG. % YEAR-ON-YEAR)



1: The Consumption and Investment Big Data Index groups revenue information to companies that belong to sectors related to the production of inputs, intermediates and capital goods. The ISIC revision is used for classification. The index includes spending by both the private and public sectors. Source: BCRP, MEF and BBVA Research.

PUBLIC INVESTMENT ¹

(CHG. % YEAR-ON-YEAR)

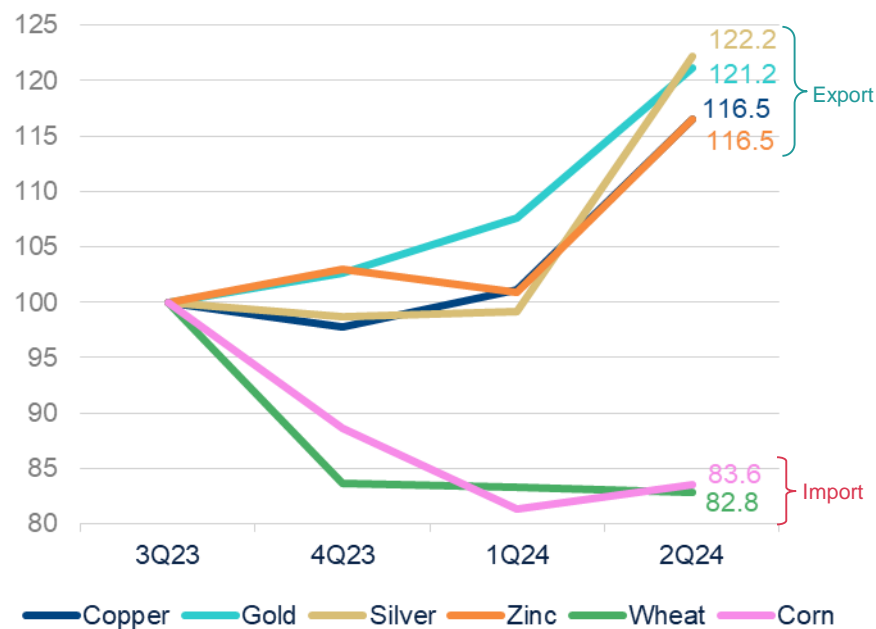


1: The figure for 3Q24 is estimated from the gross capital formation of the general government. Source: MEF and BBVA Research.

On the external side, terms of trade have risen substantially: higher metal prices and declining prices of food inputs

SELECTED EXPORT AND IMPORT PRICES

(INDEX, 3Q23 = 100)



Source: BCRP.

TERMS OF TRADE

(INDEX, 2007 = 100)

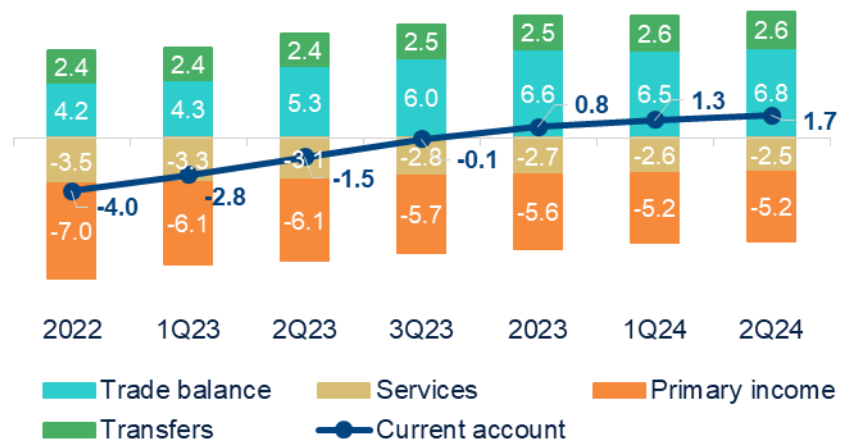


Source: BCRP.

Absence of external imbalances: improved terms of trade and lower services deficit favor the current account

BALANCE OF PAYMENTS CURRENT ACCOUNT

(CUMULATIVE LAST 4 QUARTERS, % OF GDP)



- Higher export prices for metals were the main factor contributing to the improvement in the current account in 2Q24. The services account also improved due to the sustained recovery of inbound tourism.
- The trade surplus remains elevated at a level around USD 18.7 billion, supported by higher copper, gold, silver and zinc prices.
- The prices of non-traditional exports have also been showing a significant expansion: 8.5% y-o-y in 1Q24 and 13.8% y-o-y in 2Q24.

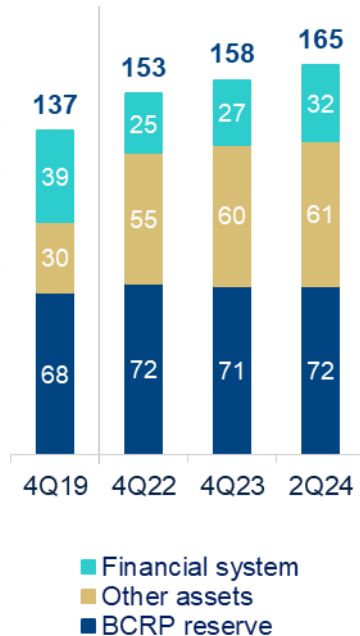
% GDP (accum. 4Q)	4Q22	4Q23	2Q24
National savings	16.8	18.2	19.5
Public sector	4.4	3.0	2.0
Private sector	12.5	15.3	17.5
External savings	4.0	-0.8	-1.7
Investment ¹	20.8	17.4	17.8

¹: Includes inventories.

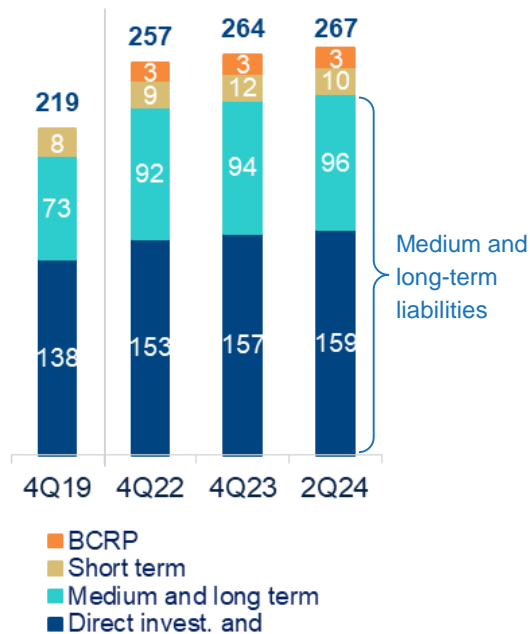
Source: BCRP.

Peru has an adequate composition of external assets and liabilities. NIR have reached an all-time high

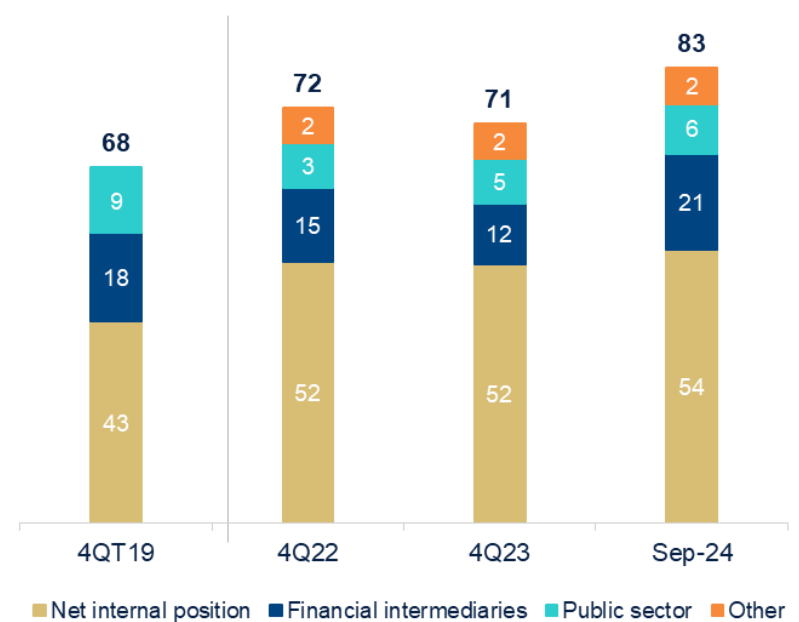
EXTERNAL ASSETS
(BILLIONS OF USD)



EXTERNAL LIABILITIES
(BILLIONS OF USD)



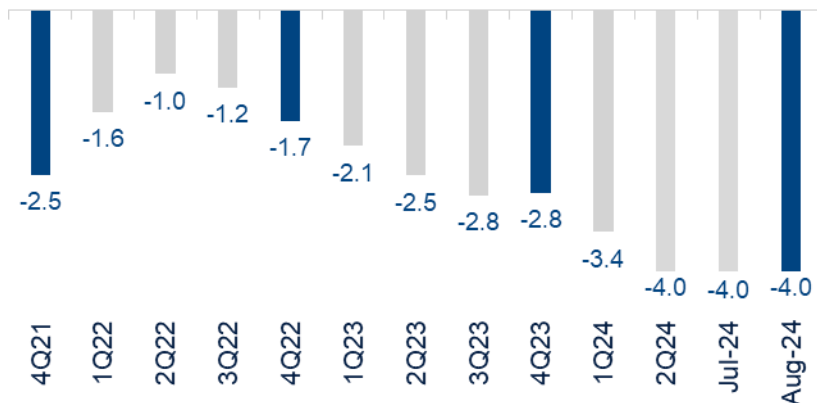
NIR 1/
(BILLIONS OF USD)



On the fiscal side, the deficit reaches 4.0% of GDP due to weak revenues. High risk of not meeting the year's goal (2.8%)

FISCAL RESULT

(NON-FINANCIAL PUBLIC SECTOR, CUMULATIVE OVER THE PAST TWELVE MONTHS, % OF GDP)



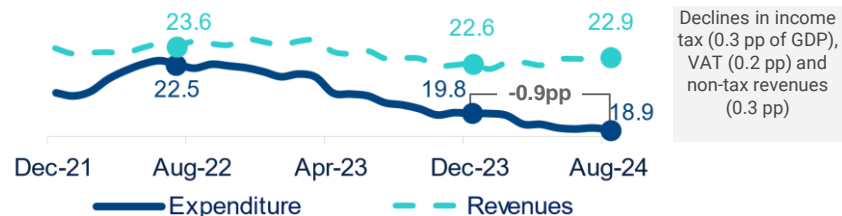
Despite the high and persistent fiscal deficit, Moody's recently maintained Peru's sovereign credit rating at Baa1 and upgraded the outlook from "negative" to "stable." This improvement is based on greater institutional stability, especially when compared to that of early 2023.

The Baa1 rating for Peru reflects its fiscal strength, shock buffers, and policymaking capacity to ensure macroeconomic stability, despite governance challenges. It seems to suggest that there is confidence that the high and persistent fiscal deficit, above the target ceiling, is transitory.

Source: BCRP.

FISCAL REVENUE AND EXPENDITURE

(NON-FINANCIAL PUBLIC SECTOR, CUMULATIVE OVER THE PAST TWELVE MONTHS, % OF GDP)



FISCAL INDICATORS

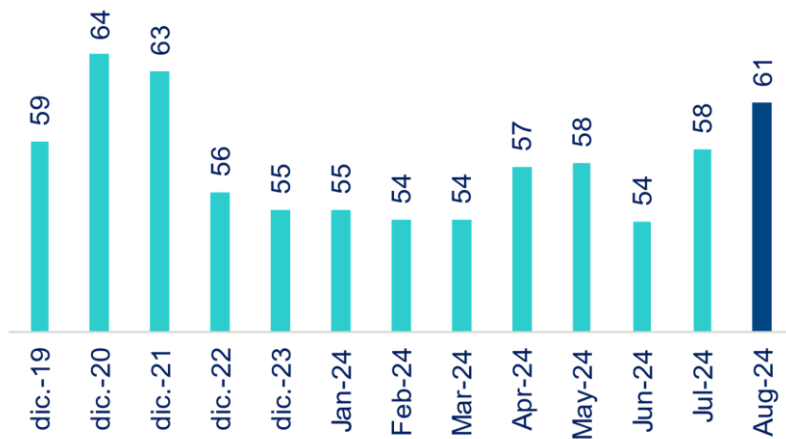
	2019	2021	2022	2023	Jun-24
Economic balance (% GDP) ^{1/}	-1.6	-2.5	-1.7	-2.8	-4.0
Assets (% GDP)	13.6	14.1	12.8	10.4	10.2
Gross public debt (% of GDP)	26.5	35.8	33.9	32.9	32.7
Net public debt (% of GDP)	12.9	21.7	21.1	22.5	22.5
Gross public debt (% fiscal revenues) ^{2/}	136	171	153	166	173
Dollarization of public debt (%)	32	54	52	48	49
Percentage of public debt at a fixed rate (%) ^{3/}	90	87	86	85	85
Average life of public debt (years) ^{3/}	12	13	12	12	12
Debt interest (% GDP)	1.4	1.5	1.6	1.7	1.8
Interest (% fiscal revenues) ^{2/}	7.0	7.2	7.1	8.4	8.9
Fiscal Stabilization Fund (% GDP)	2.3	0.0	0.6	1.2	1.2

1/ As of August (cumulative for the last twelve months). 2/ Accumulated in the last four quarters. 3/ As of March 2024.

Despite this, non-resident holdings of sovereign bonds have been rising

HOLDINGS OF SOVEREIGN BONDS BY NON-RESIDENTS

(BILLIONS OF PEN)



HOLDINGS OF SOVEREIGN BONDS BY NON-RESIDENTS

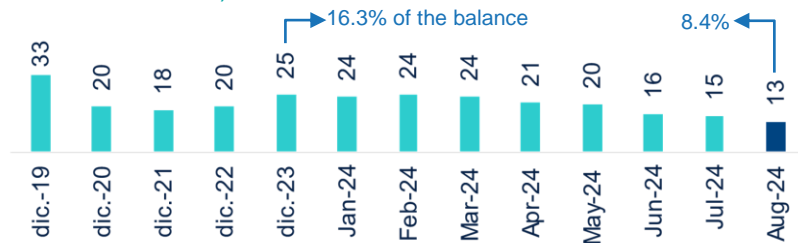
(% OF TOTAL BALANCE)

Month	Percentage (%)
Dec-19	48.7
Dec-20	51.9
Dec-21	49.4
Dec.-22	41.1
Dec-23	36.4
Jan-24	36.3
Mar.	35.5
Jun.	34.9
Jul.	37.4
Aug.	38.9

Source: MEF.

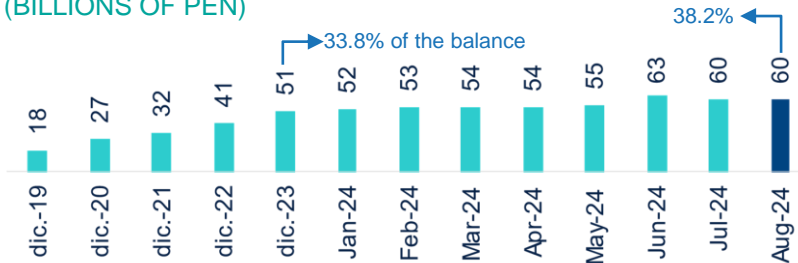
SOVEREIGN BOND HOLDINGS BY PRIVATE PENSION FUND MANAGERS

(BILLIONS OF PEN)



HOLDINGS OF SOVEREIGN BONDS BY BANKS

(BILLIONS OF PEN)

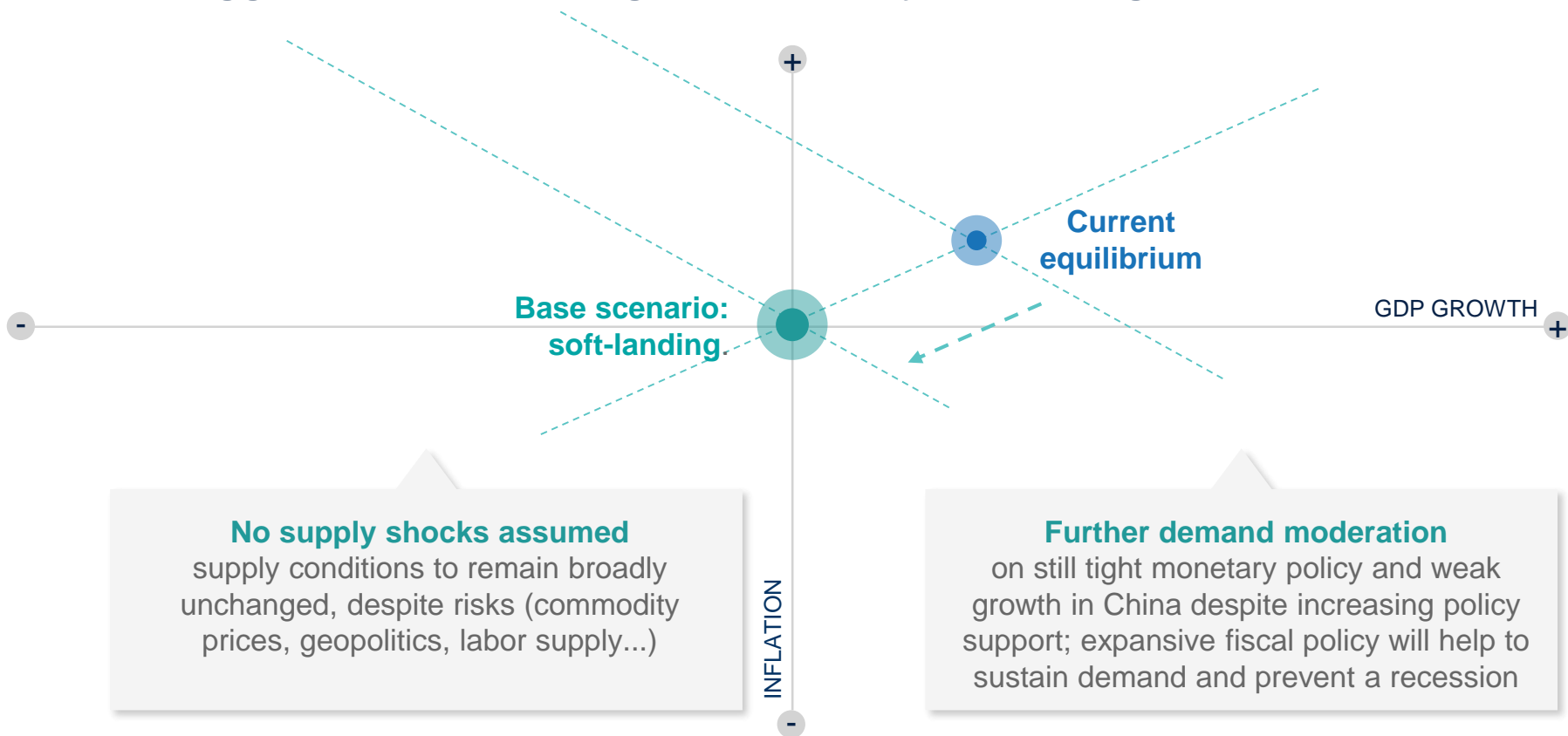


Source: MEF.

03

Global economic forecasts

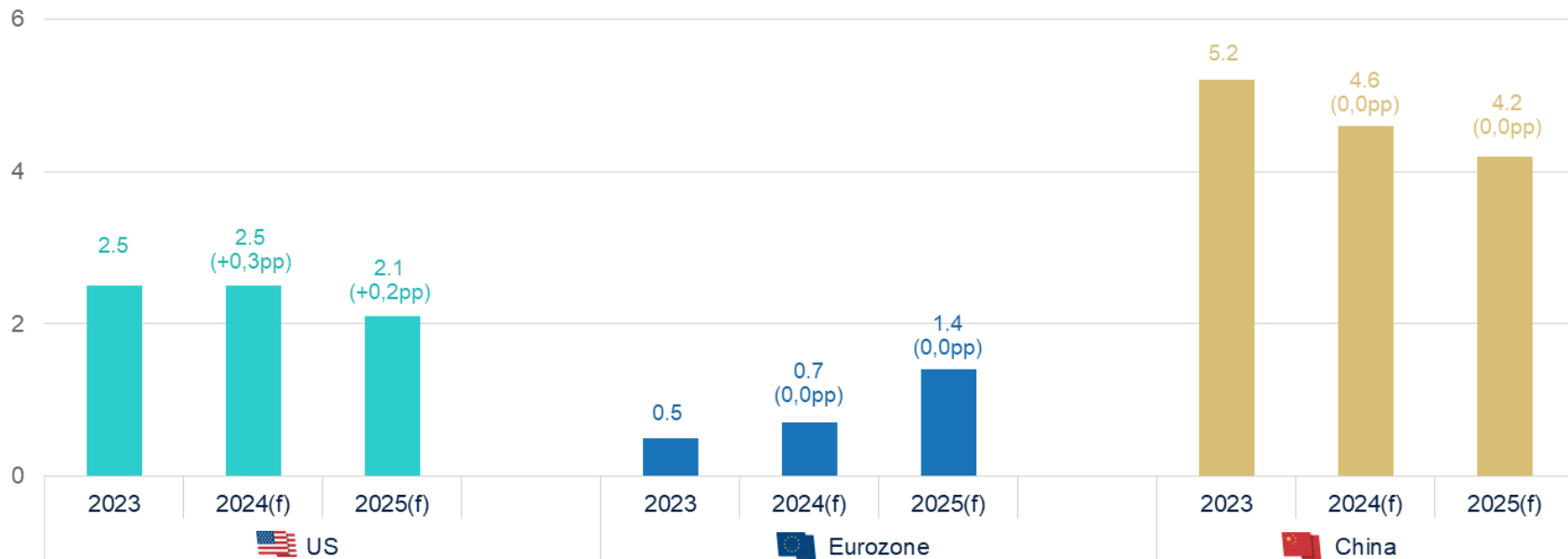
Base scenario: controlled inflation and demand slowdown will pave the way for more aggressive rate cuts; growth is likely to converge to moderate levels



GDP forecasts: growth revised up on resilient demand in the US; cyclical recovery in Eurozone; policy stimulus will help to sustain growth in China

GDP GROWTH (*)

(%, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



(*) Global GDP growth: 3.1% in 2023, 3.1% (unchanged in comparison to the previous forecast) in 2024 and 3.3% (unchanged in comparison to the previous forecast) in 2025.

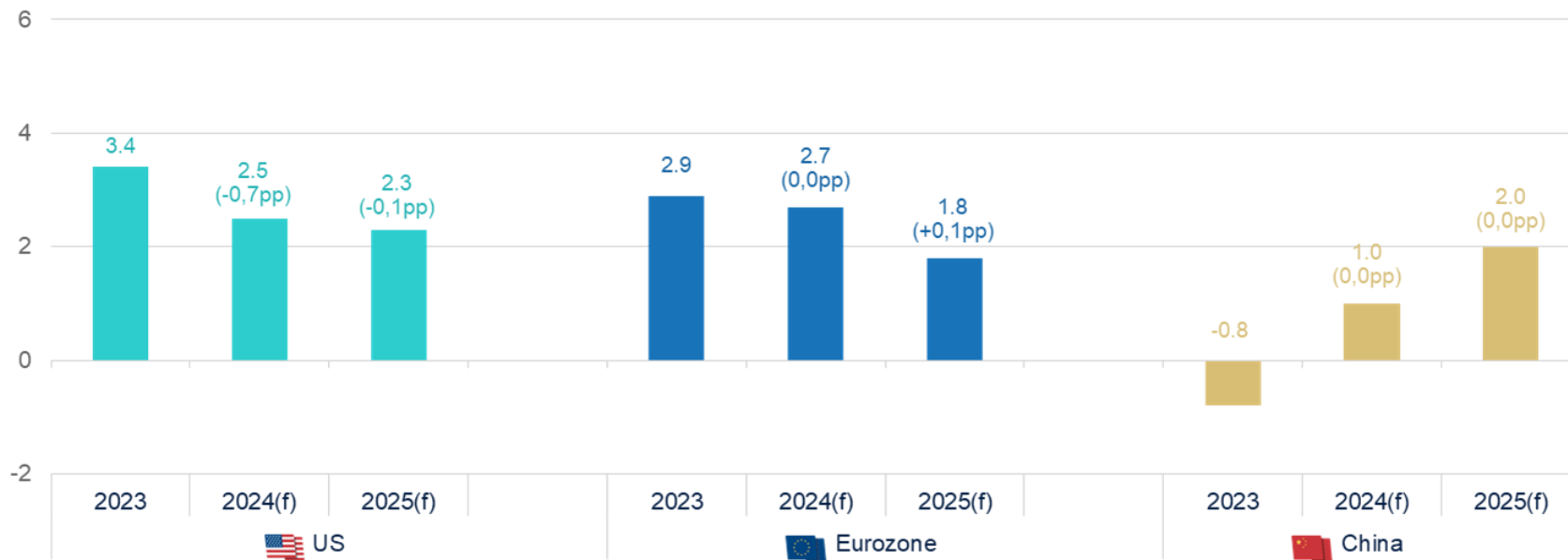
(f): forecast.

Source: BBVA Research.

Inflation forecasts: downward revision in the US on clearer labor market easing and favorable incoming data; no significant changes in Eurozone and China

HEADLINE CPI INFLATION

(Y/Y %, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



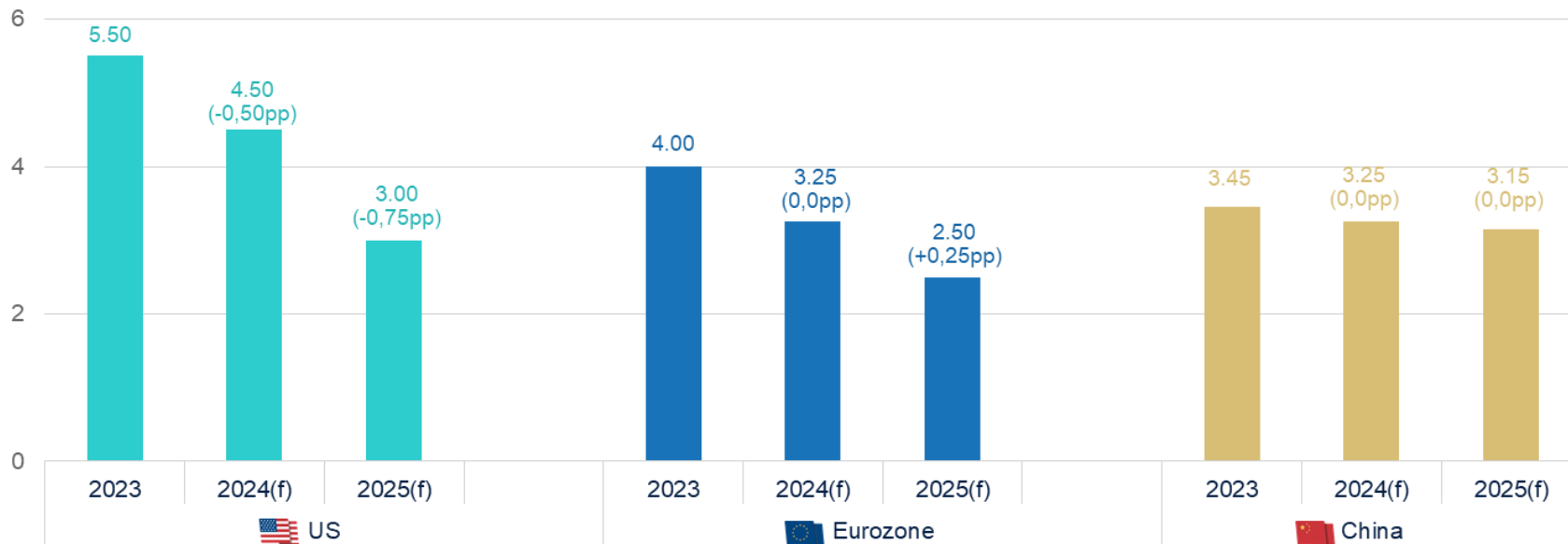
(f): forecast.

Source: BBVA Research.

Rate forecasts: further monetary easing is expected; the Fed is likely to cut rates at a 25bps pace till mid-2025; slightly higher long-term ECB rates

POLICY INTEREST RATES (*)

(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



(f): forecast.

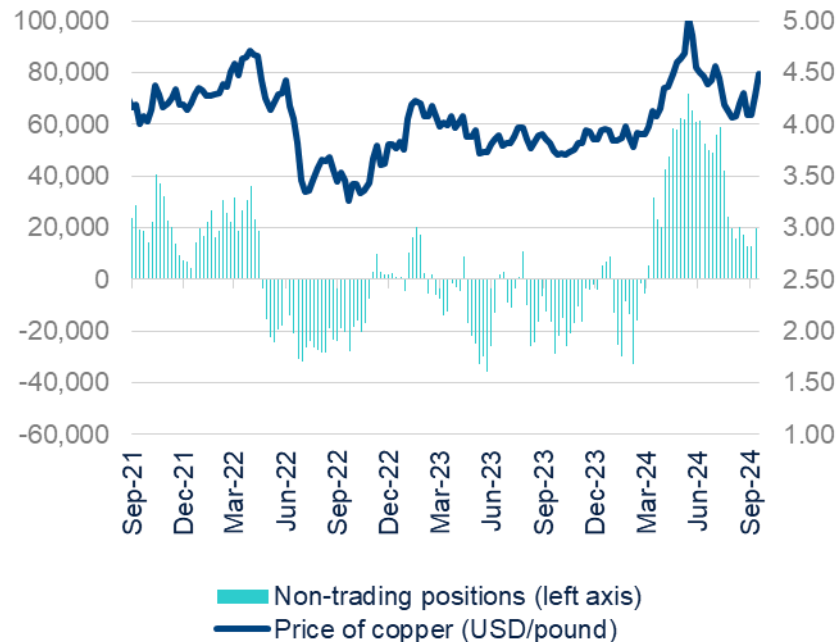
(*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research.

The price of copper has registered volatility in recent months associated, in part, with expectations regarding the performance of the Chinese economy

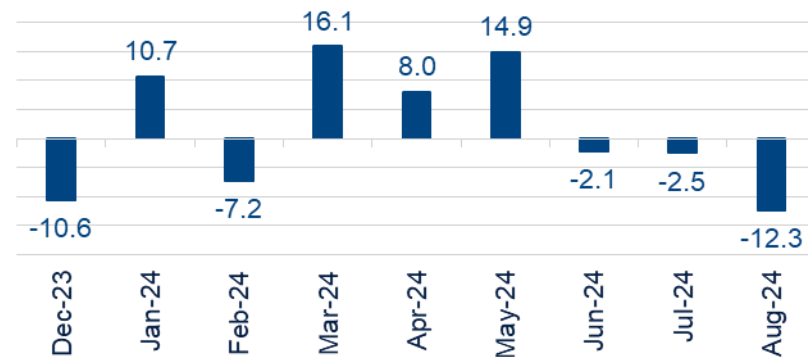
COPPER PRICE AND NON-COMMERCIAL POSITIONS

(USD PER POUND)



CHINA: COPPER IMPORTS

(CHG. % YEAR-ON-YEAR)

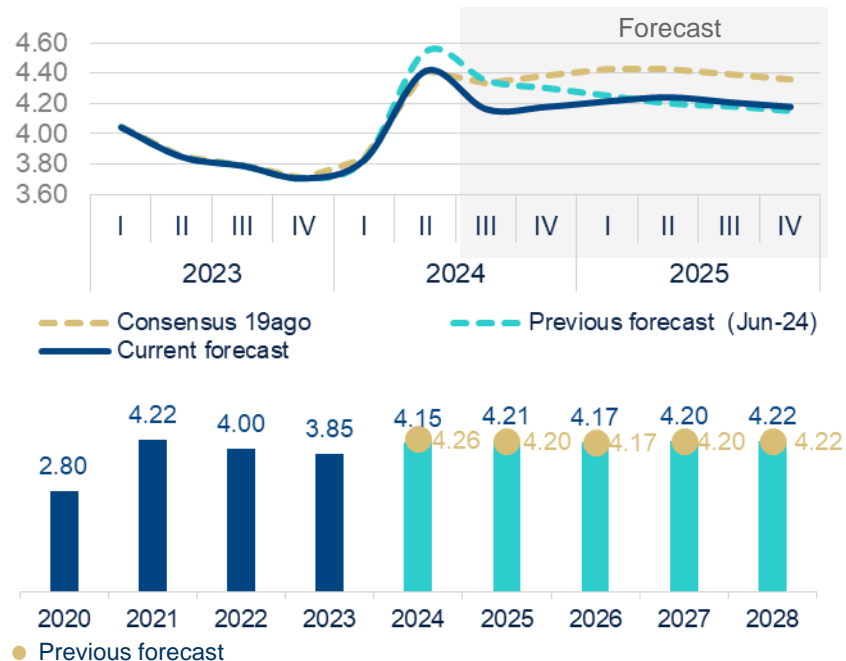


In recent months, the price of copper has experienced volatility in a context in which copper imports from China were reduced (pushing the price down) and, later, in which stimulus measures were announced by the government of that country to support its economy (driving the price up again).

Downward adjustment in our copper price forecast due to lower execution. In 1H25 support from robust expansion of demand, exceeding supply growth

COPPER PRICE

(QUARTERLY AVERAGE, USD/POUND)



Source: BCRP and BBVA Research.

- After reaching highs close to 5 USD per pound in May (2Q24), the price of copper corrected downwards in line with the moderation of global activity and the normalization of production in areas that had been affected by negative supply shocks (social conflicts, low grades).
- In our forecast, from the end of 2025 we anticipate structural demand for copper due to energy reconversion: (i) green infrastructure and (ii) electric vehicles. In addition, demand from AI centers and greater spending on defense.
- On the supply side, few large projects are expected to come online next year: (i) Malmyzh in Russia (300 thousand MT) and (ii) Kamo-Kakula Phase 3 in Congo (250 thousand MT).

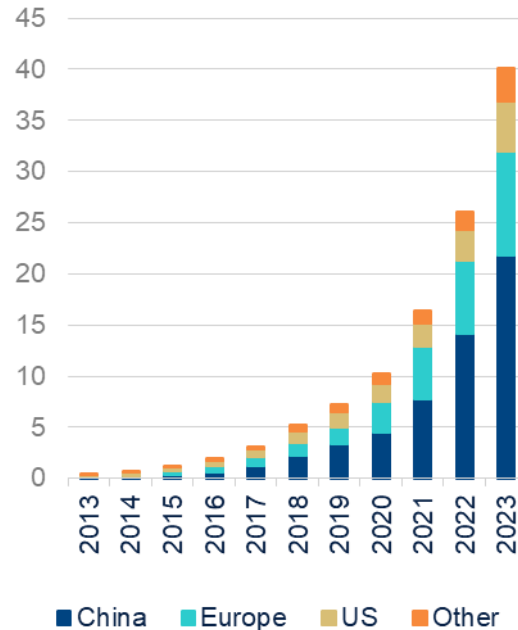
The use of electric vehicles introduces a structural change in copper demand in the medium/long term

COPPER USAGE BY VEHICLE TYPE (KG)

Type of vehicle	Use of copper
Conventional vehicle	23
Hybrid electric vehicle	40
Battery-powered electric vehicle	83
Hybrid electric bus	89
Battery-powered electric bus	224-369

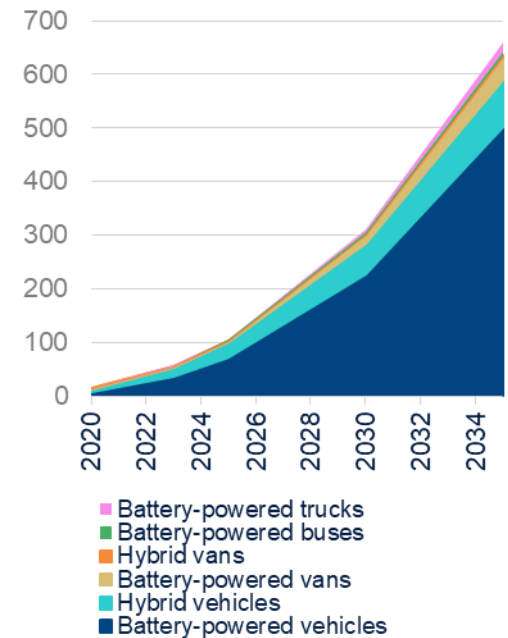
Source: International Copper Association.

NUMBER OF ELECTRIC CARS IN THE WORLD (MILLIONS)



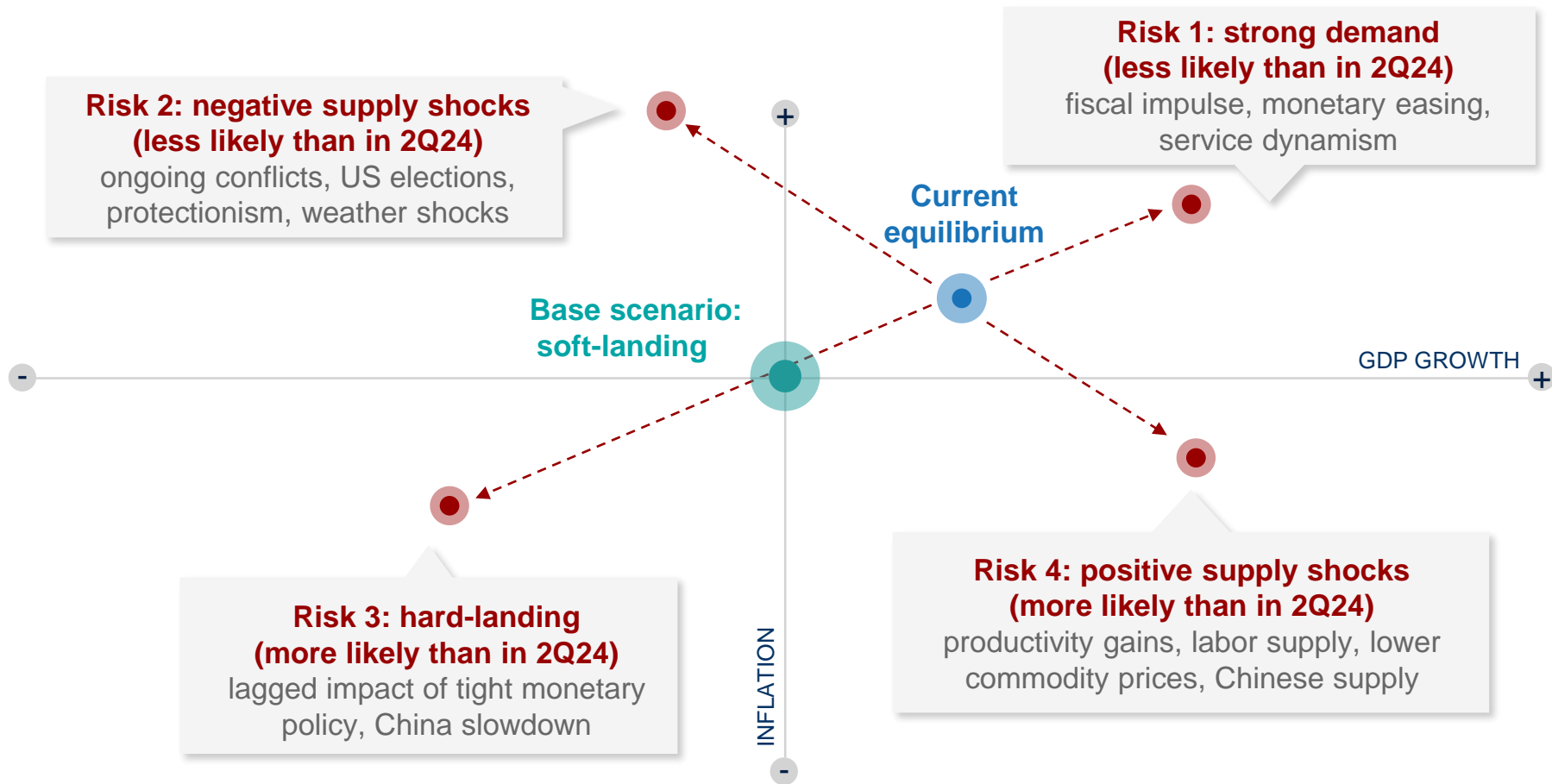
Source: International Energy Agency (IEA).

NUMBER OF ELECTRIC VEHICLES IN THE WORLD (MILLIONS)



Source: International Energy Agency (IEA).

Risks: still sizeable, but more balanced than before



04

Peru economic forecasts

4.1 Economic activity: Short and medium term

Quarterly forecast review

- 1 Current situation (the starting point):** the economy continues to recover, with macro fundamentals remaining solid, inflation under control, and exchange rate volatility.
- 2 Forecasts:** We maintain growth projections for 2024 and 2025 (at 2.9% and 2.7%, respectively). Forecast scenario considers an external environment with soft landing in the US and rate cuts, and, on the domestic side, private consumption recovering due to pension withdrawals, controlled inflation and additional cuts in the reference rate (easing of credit conditions). There is also a gradual improvement in confidence, a political scenario similar to the current one, and concerns on the fiscal side.
- 3** In the medium term, institutional weakness and political instability limit growth prospects. However, there are opportunities.

Peru's baseline scenario: main domestic considerations

DOMESTIC FACTORS CONSIDERED

1

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

2

Relatively stable social and political context. However, there are regulatory risks from Congress. The Base Scenario also considers that political uncertainty becomes more visible as the 2026 general elections approach.

3

Positive impact of pension fund withdrawals on growth in the second half of 2024. Impact has already started to be observed in private spending and will continue in the rest of the year. Withdrawals have been higher than those considered three months ago. Reversal of momentum in 2025 growth.

4

Business confidence is gradually advancing and consolidating in optimistic territory, which favors investment and, through it (employment), private consumption.

5

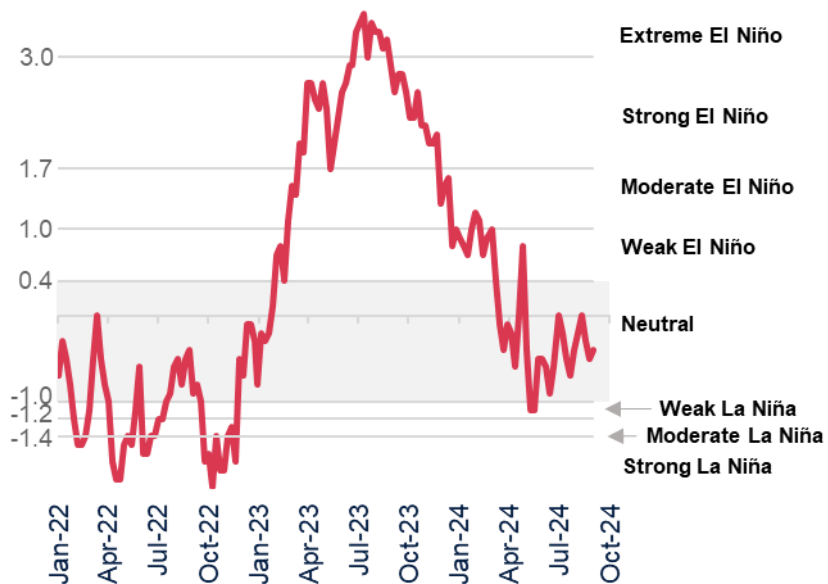
Better financial conditions for private spending: the easing of the monetary position continues, and in the baseline scenario it is assumed that credit conditions, currently restrictive, begin to gradually ease.

6

Upcoming start of construction of large investment projects, such as Zafranal and Antamina Replacement, on the mining side, and Chavimochic III, on the irrigation side, all three considered for 2025.

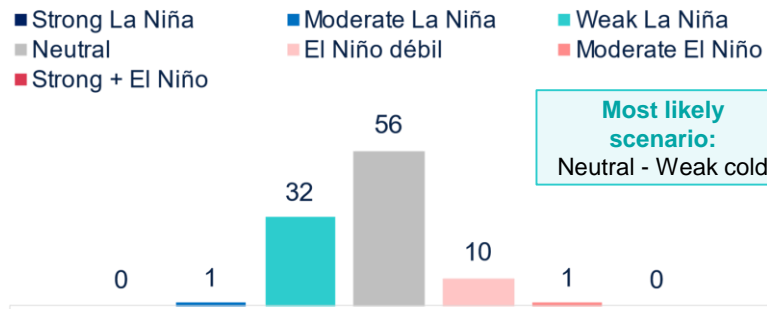
Weather conditions remain relatively normal over the forecast horizon, particularly in the sea adjacent to Peru

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

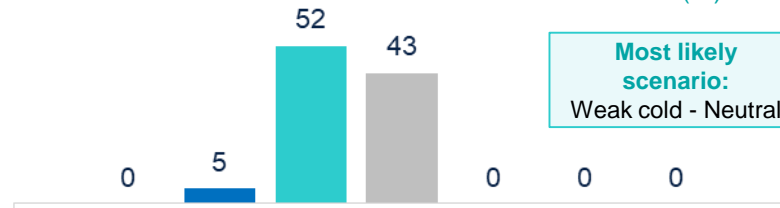


Source: ENFEN and NOAA. Preparation: BBVA Research.

EL NIÑO 1+2 | PROBABILITY OF OCCURRENCE BY SCENARIOS IN THE PERIOD DEC.24-MAR.25 (%)



EL NIÑO 3.4 | PROBABILITY OF OCCURRENCE BY SCENARIOS IN THE PERIOD DEC.24-MAR.25 (%)



Source: ENFEN and NOAA. Preparation: BBVA Research.

Political and social environment: baseline scenario considers relative stability and that the current government will complete its mandate in 2026

COLLECTIVE PROTEST ACTIONS

(NUMBER)



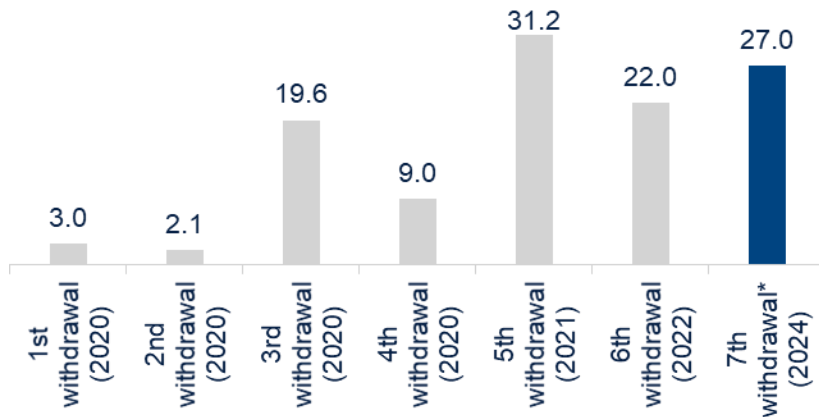
Source: Ombudsman.

WHAT ARE WE ASSUMING ABOUT...?

- **Completion of the current presidential term:** taking the current political context, the incentives and the relationship between the Executive and Congress, it is assumed that Dina Boluarte will conclude her term in 2026.
- **Social conflict:** low due to a certain fatigue of the demonstrators and lack of clear objectives and leadership. The most likely scenario remains that of relative social calm in the coming months.
- **2026 Elections:** baseline scenario considers that a moderate government with little political capital and low capacity to carry out reforms will take office in 2026.

Pension fund withdrawals (AFP): higher than expected, increasing its positive impact on private expenditure in the second half of the year

PRIVATE PENSION SYSTEM: AMOUNTS WITHDRAWN IN RECENT YEARS (BILLIONS OF PEN)



Cuatro millones de afiliados a AFP retiran más de S/ 27,000 millones

Uno de cada dos aportantes dispuso de sus ahorros. Congreso rechazó la reconsideración de la segunda votación que aprobó la reforma del sistema de pensiones.

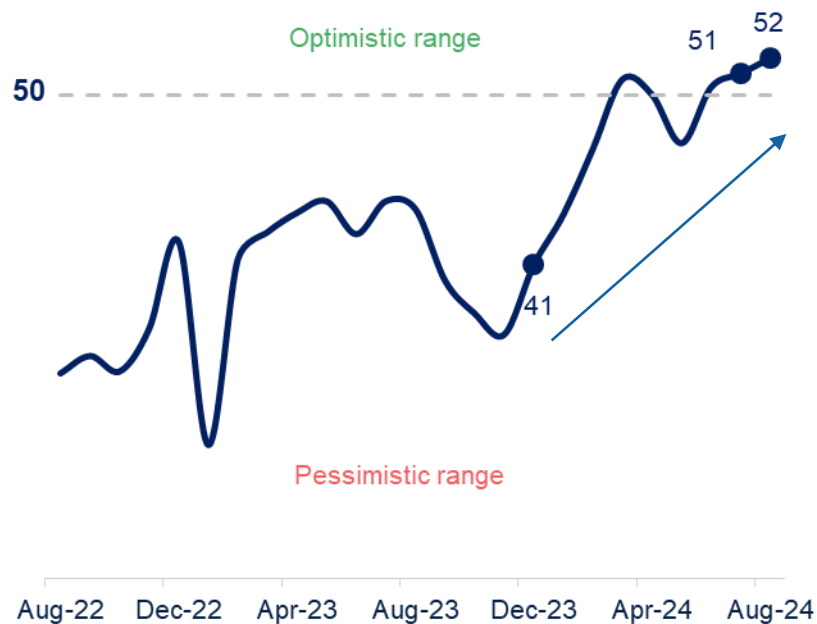
- In the June forecasts, an amount of **S/ 22 billion** was considered for the seventh withdrawal of funds from the AFPs, **with a positive impact of between 0.4 and 0.5 pp on GDP**.
- However, the withdrawal of funds from the AFPs has been greater than considered at that time: S/ 27 billion.
- Assuming that S/ 27 billion is ultimately withdrawn, the **positive impact on GDP in 2024 will be between one and two percentage points**.
- This will offset the negative surprise in activity growth in the second quarter (3.6% executed vs. 4.0% expected).

*/ AFP Integra projections as of August 19.

Source: Diario Gestión, AFP Integra and SBS. Preparation: BBVA.

Business confidence: gradual consolidation in the optimistic tranche favors improvement in private spending going forward

BUSINESS CONFIDENCE (POINTS)



Source: BCRP.

INVESTMENT EXPECTATIONS IN THE NEXT THREE MONTHS (POINTS)

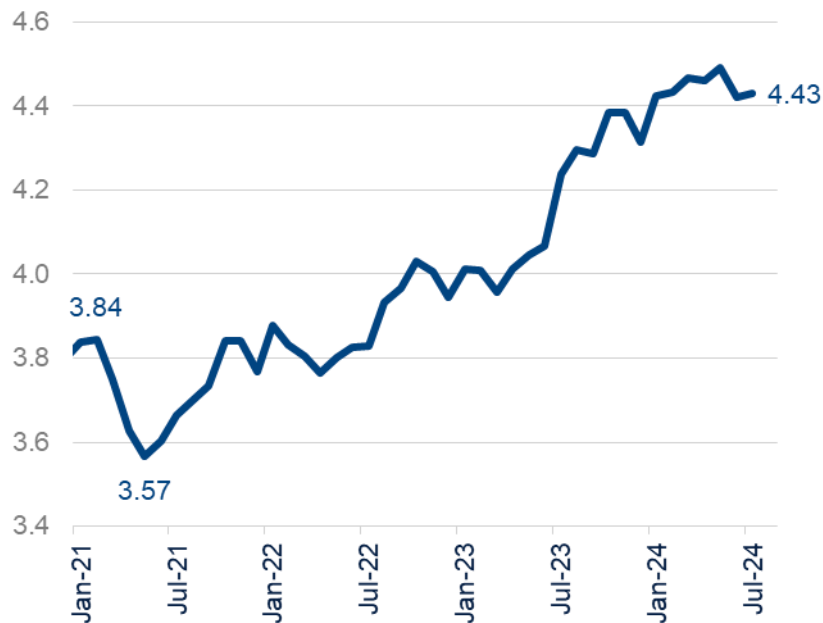


Source: BCRP.

Credit conditions: some flexibility going forward, considering that non-performing loans seem to have peaked and that banks' expectations are improving

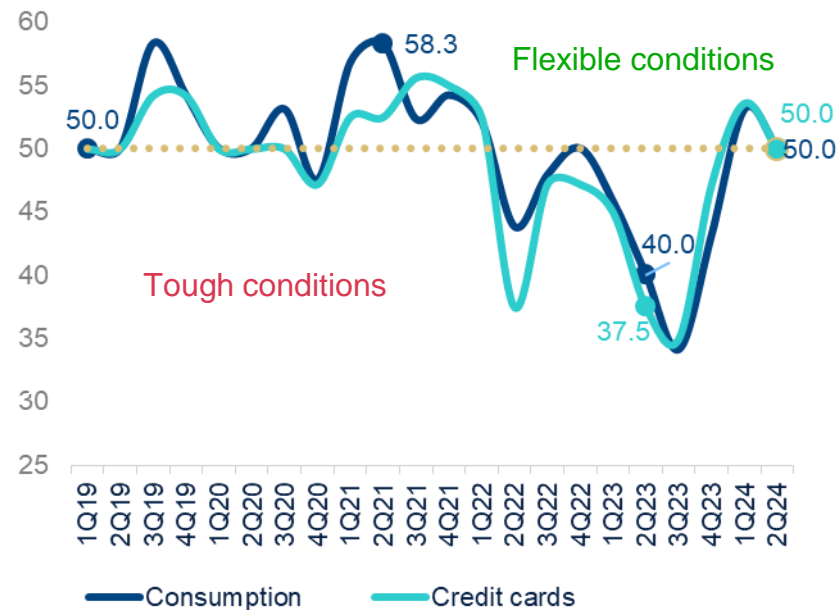
TOTAL NPL

(%)



Source: SBS

CREDIT CONDITIONS (EXPECTATION INDICATORS)



Source: BCRP

Investment projects: upcoming start of construction of some mining and infrastructure projects will support investment

MINING PROJECT

Zafranal
(USD 1,263 million)

- Copper-gold project located in Arequipa.
- It is expected to produce 76,000 MT of copper and 29,000 ounces of gold per year.
- It is currently in the detailed engineering stage and obtaining the implementation permits.

IRRIGATION PROJECT

Chavimochic III
(USD 750 million)

- Located in the north of Peru.
- It seeks to expand agricultural areas and thus promote agro-exports.
- In 2024, the contract was signed under the G2G modality with the government of Canada.

LATER...

2025

2027

MINING PROJECT

Antamina Replacement
(USD 2,000 million)

- It will increase by eight years the useful life of the Antamina mine (which annually produces around 400,000 MT).
- The environmental impact study was recently approved and there are only a few final permits left to approve.

TRANSPORTATION PROJECT

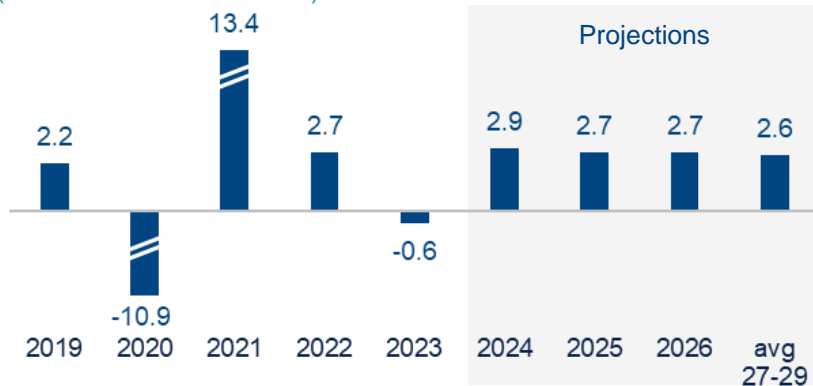
Peripheral ring road
(USD 3.4 billion)

- Beltway in the peripheral area of Lima, with a length of 35 km.
- The project will be carried out in 3 sections, starting construction of the first one in 2027. They are currently in the stage of land acquisition.

Considering these factors, we are maintaining our growth projections at 2.9% for this year and 2.7% for next year.

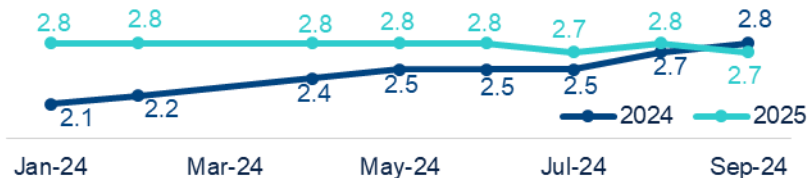
GDP

(CHG. % YEAR-ON-YEAR)



GDP MARKET CONSENSUS¹

(CHG. % YEAR-ON-YEAR)



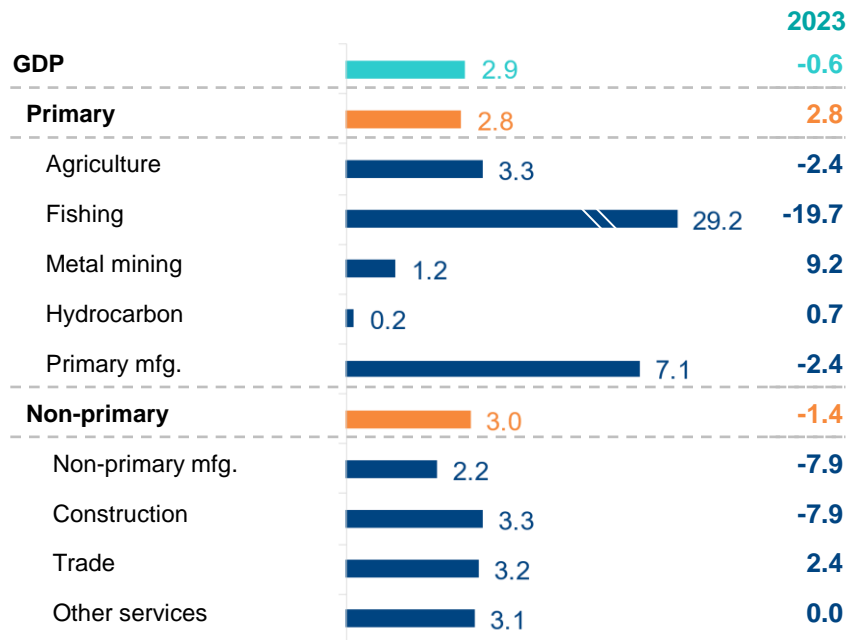
1: Median
Source: BCRP, Latin Focus Consensus Forecast and BBVA Research.

- In 2H24, the Peruvian economy will grow between 3.0% and 3.5% (2.5% in 1H24). Private spending will gain traction, while public expenditure will lose momentum, seeking to contain the fiscal deficit.
- In that context, and given that the lower growth in 2Q with respect to our forecast will be offset by a higher than previously estimated impact of AFP withdrawals, we maintain our GDP growth projection at 2.9% for this year.
- in 2025, the recovery of private spending continues in a context of improving financial conditions, the start of the construction of some infrastructure projects, and despite the dissipation of the impact of AFP withdrawals. Public spending is losing dynamism, seeking to ensure that the deficit does not exceed the ceiling of the fiscal rule.

On the sectoral side, all activities will register growth in 2024, with agriculture recovering and non-primary sectors consolidating their improvement

2024 GDP PROJECTION BY SECTOR

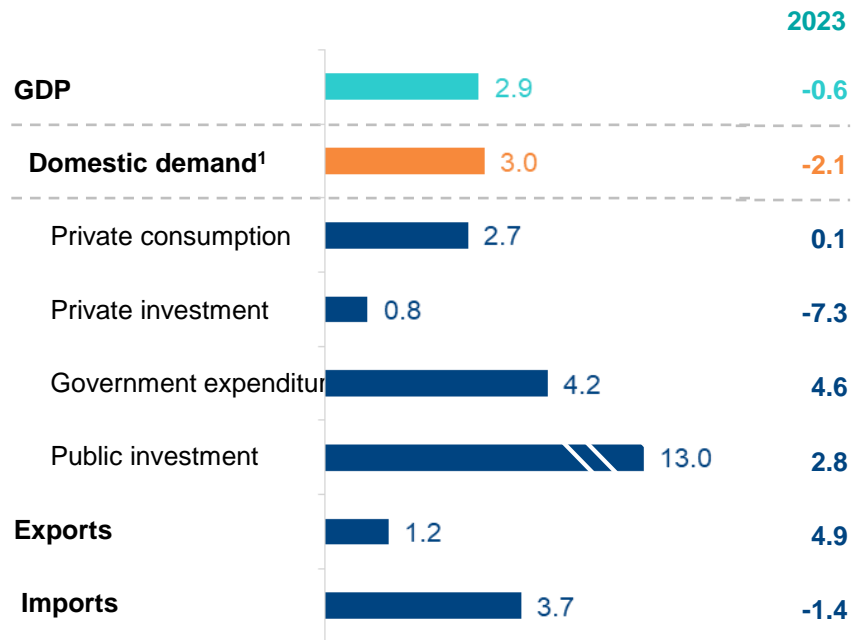
(ANNUAL % CHANGE)



- **Agriculture.** It tends to normalize when weather anomalies dissipate. Improvement in agricultural exports due to base effect.
- **Mining.** Normalization concludes after a positive base effect in the first months of the year (compared to the months of low activity in the context of political and social upheaval at the beginning of 2023).
- **Construction.** Improvement in private construction driven by self-construction (linked to higher disposable income due to AFP withdrawals) and recovery of the real estate market.
- **Trade and services.** Withdrawal of pension funds and better financing conditions favor the demand for services in general.

On the demand side, private spending will continue to gain traction, while public spending will lose strength

PROJECTED GDP BY EXPENDITURE SIDE 2024 (ANNUAL % CHANGE)



1: It does not include changes in inventories.
Source: BBVA Research.

- **Private consumption.** Supported in 2H24 by the withdrawal of private pension funds and gradual improvement in financing conditions. The year would close with a growth of 2.7%.
- **Private investment.** Acceleration in 2H24 linked to the improvement and consolidation of confidence in positive territory and lower financing costs. With this, the year would close with a growth of 0.8%, lower than the previous projection taking into account that the execution of the second quarter came in below expectations.
- **Public investment.** It will moderate its momentum after a very dynamic first half of the year, in line with containing the fiscal deficit. Growth in 2024 would close at 13.0%, higher than the previous baseline scenario, taking into account that the second quarter execution came in higher than expected.
- **Exports.** Recovery of volume in mining, fishery and agricultural exports. Inbound tourism tends to normalize.

In 2025, better performance of primary sectors. Private spending will continue to recover, although it will no longer be supported by AFP withdrawals

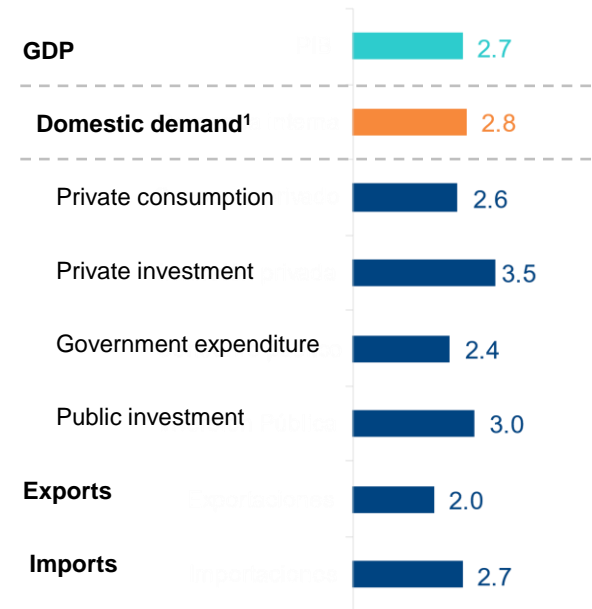
SECTORAL GDP PROJECTION 2025

(% % CHANGE)



PROJECTION OF GDP ON THE EXPENDITURE SIDE 2025

(ANNUAL % CHANGE)



- **AFP and CTS withdrawals.** Positive impact on expenditure growth reverses in 2024.
- **Political context.** Electoral uncertainty is more visible.
- **Investment projects.** Start of construction of major investment projects: Zafranal, Antamina expansion, Chavimochic III.
- **Financial conditions.** Gradual flexibility is assumed.
- **Public expenditure.** Growth is moderated in order to comply with the ceiling established for the fiscal deficit in 2025.

1: Does not include inventory variation.

Source: BBVA Research.

THE MEDIUM TERM

Peru is expected to grow
by approximately

2,7%

in the medium term

(2026-2029)



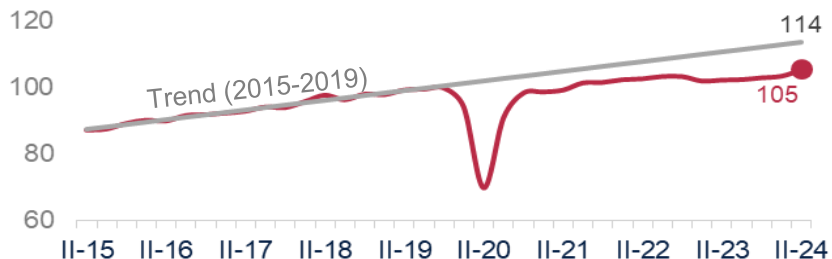
Can this growth accelerate?
Opportunities?

The Peruvian economy has not been able to return to its pre-COVID trend. In addition to the pandemic, political instability has taken its toll

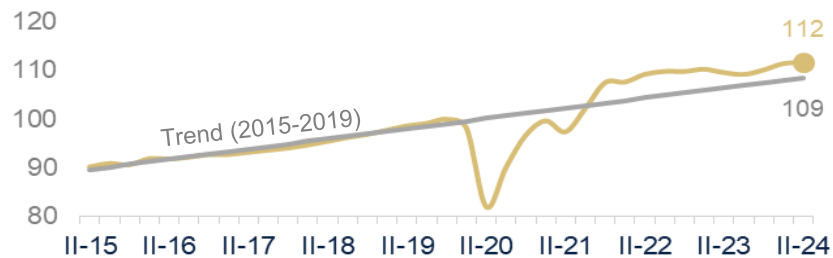
GDP¹

(INDEX, 100 = 4Q19)

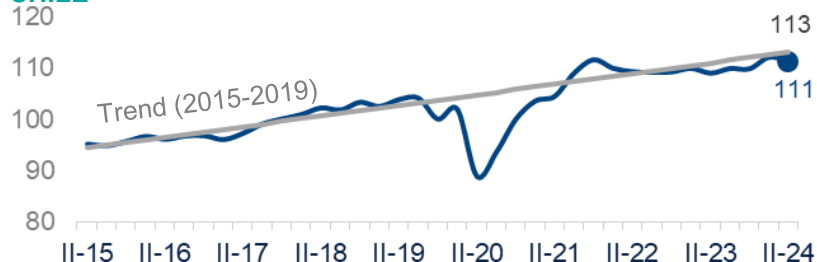
PERU



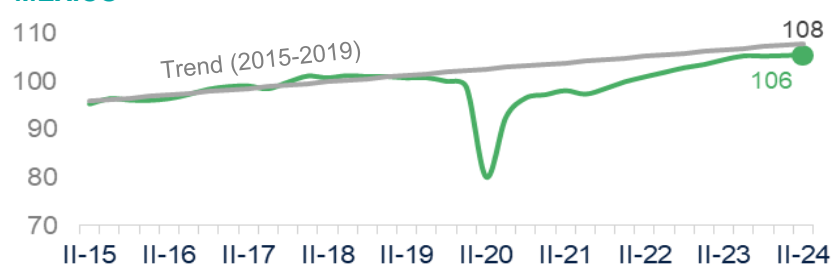
COLOMBIA



CHILE



MEXICO

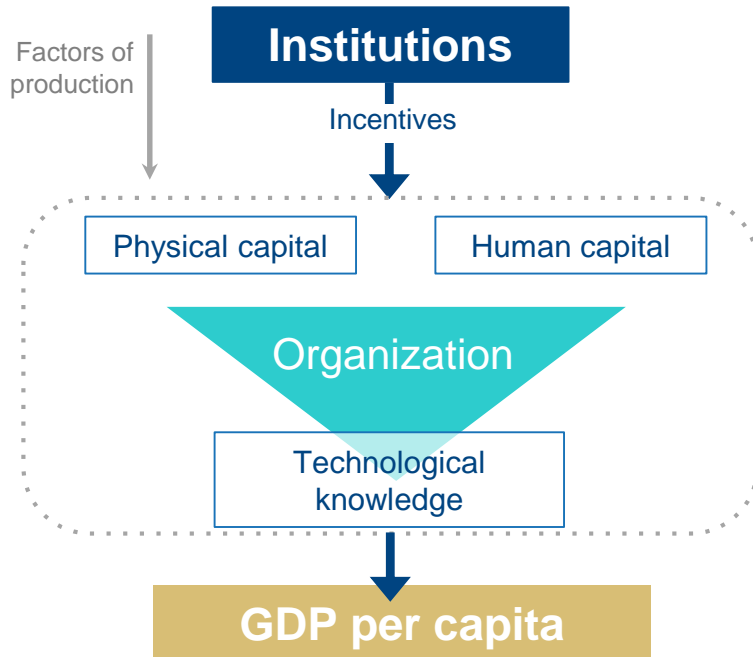


1: Seasonally adjusted series.

Source: BBVA Research based on Central Banks.

Over the long term, the growth trend is affected by institutional weakness

DETERMINANTS OF GDP PER CAPITA



BASIC INSTITUTIONS FOR AN ECONOMY TO FUNCTION AND GENERATE PROSPERITY FOR ALL

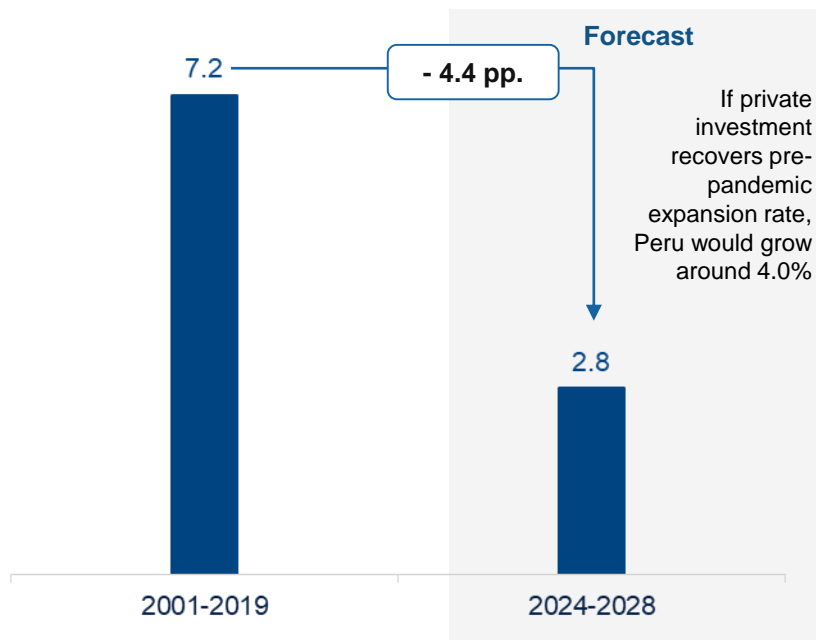
1. Protection of property rights
2. Safety
3. Reliable judicial system
4. Honest government
5. Political stability and ability to govern
6. Competitive and open markets

IF THE ABOVE FAILS...

- Low quality of public policies
- Inhibits investment
- Lower growth

Despite challenges on the institutional side, a better business climate and existing opportunities could boost investment and growth

PRIVATE INVESTMENT (CHG. % ANNUAL AVERAGE)



Source: BCRP and BBVA Research (forecasts).

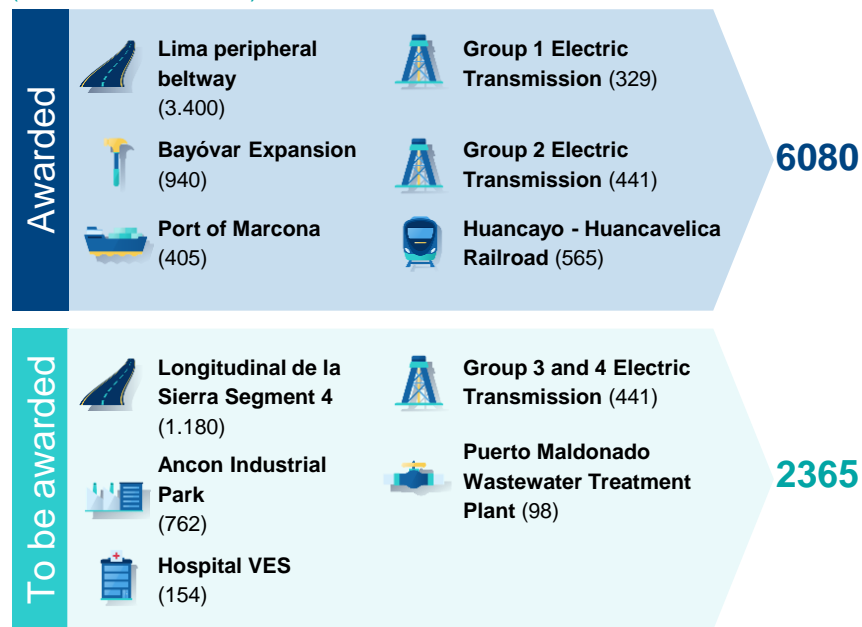
OPPORTUNITIES

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

Opportunities: Upcoming award of infrastructure projects and possible start of mining projects will support investment

PROINVERSIÓN | PROJECTS AWARDED AND TO BE AWARDED 2024

(MILLIONS OF USD)



Source: ProInversión, Gestión and BBVA Research.

MINEM | SOME PROJECTS IN THE PORTFOLIO THAT COULD START CONSTRUCTION SOON

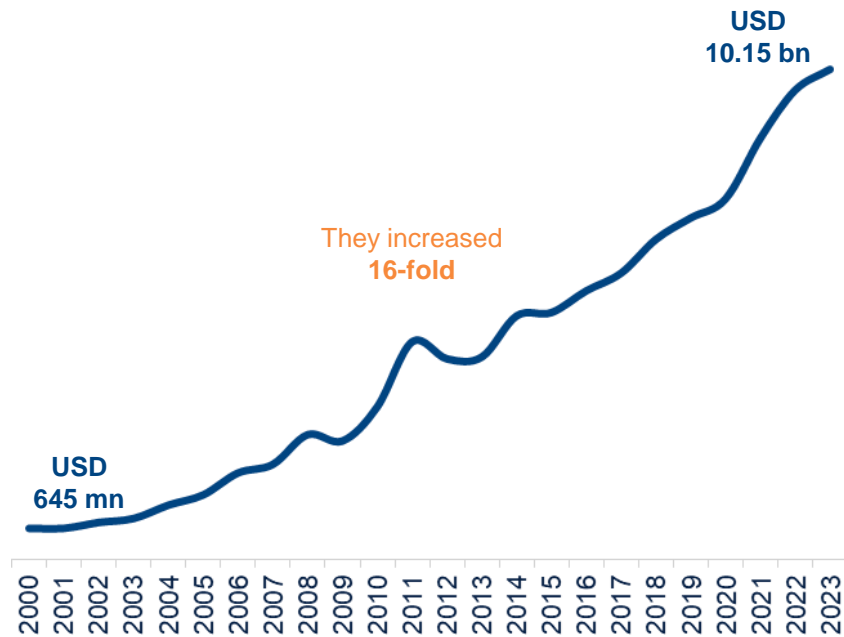
Project/ Mining Company	Investment (USD million)	Main mineral	State ¹	Start of construction ¹	End of construction ¹
Corani (Bear Creek Mining)	579	Silver	Detail engineering	2024	2027
Huancapetí Expansion (Lincuna)	345	Zinc	Feasibility	2024	2029
Pampa de Pongo (Jinzhao)	1 781	Iron	Feasibility	2025	2033
Tía María (Southern Copper)	1 400	Copper	Detail engineering	2025 ²	2028
Trapiche (Buenaventura)	1 038	Copper	Feasibility	2026	2029
Coroccohuayco Integration (Glencore)	1 500	Copper	Pre-feasibility	2027	TBD

1: Status and construction dates indicated by MINEM in August 2024. 2: Start of construction according to the company. The MINEM maintains it as pending definition
Source: Apoyo Consultoría, MINEM and BBVA Research.

Opportunities: agricultural exports have registered explosive growth... and there is room for more

PERU | AGRICULTURAL EXPORTS*

(MILLIONS OF USD)

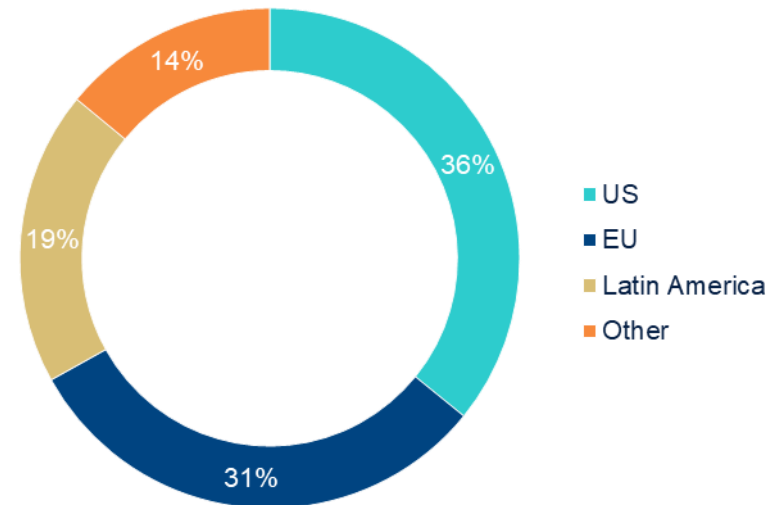


*Includes traditional and non-traditional exports.

Source: BCRP, SUNAT and BBVA Research.

PERU | AGRICULTURAL EXPORTS BY MAIN DESTINATIONS

(% SHARE 2023)

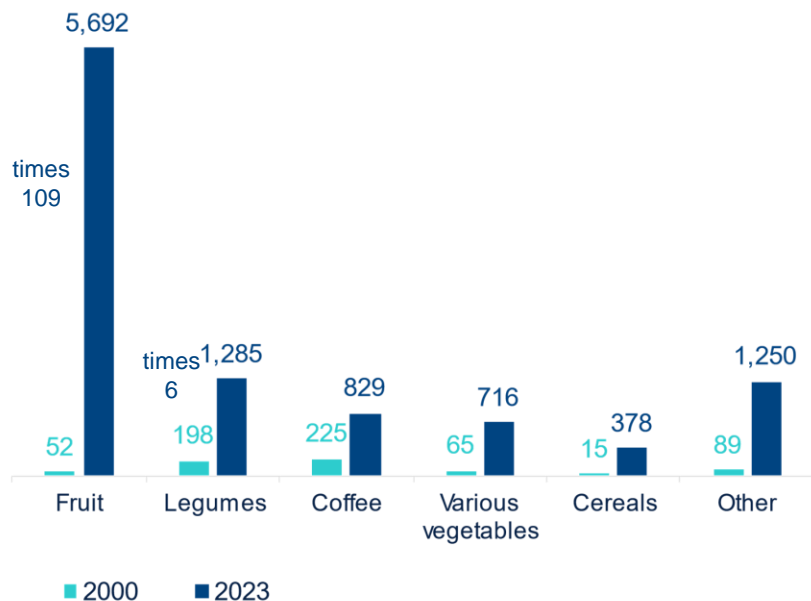


Source: SUNAT and BBVA Research.

Opportunities: agricultural exports have registered explosive growth... and there is room for more

PERU | AGRICULTURAL EXPORTS BY PRODUCT GROUP

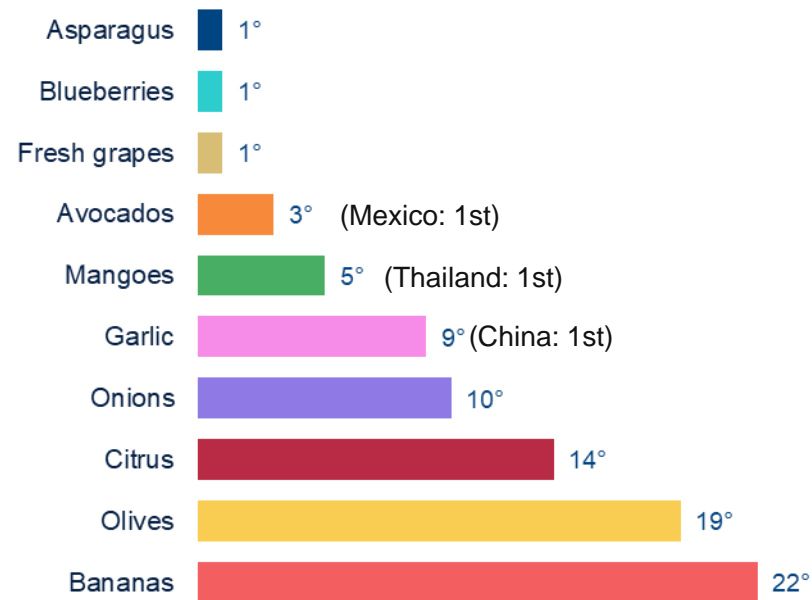
(MILLIONS OF USD)



Source: BCRP, SUNAT and BBVA Research.

PERU | GLOBAL RANKING BY PRODUCT

POSITION 2023, BASED ON THE VALUE OF EXPORTS

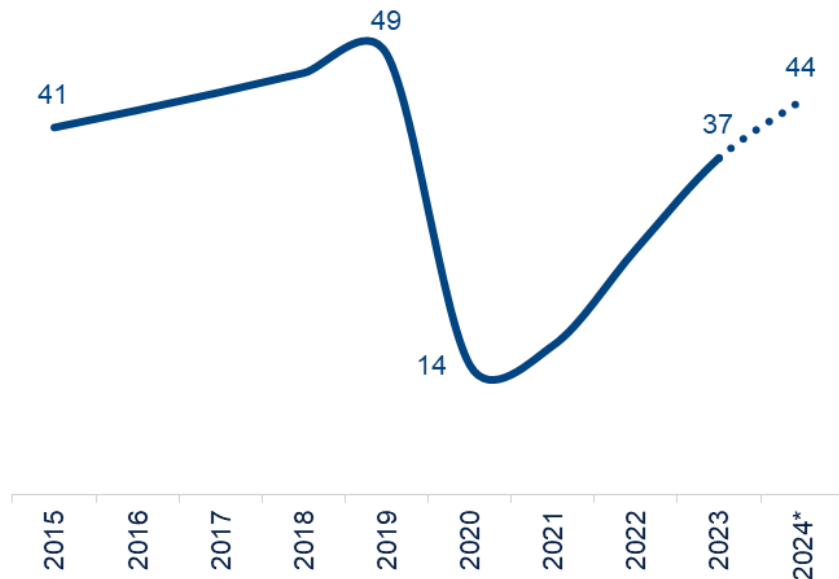


*Products selected at the 6-digit tariff heading level

Source: TradeMap and BBVA Research

Opportunities: tourism has not fully recovered from the impact of the pandemic. Development potential is significant

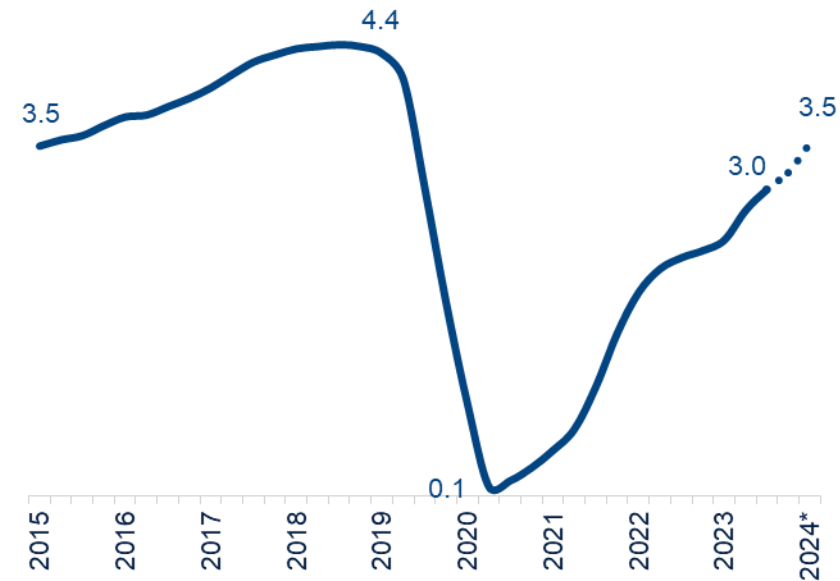
DOMESTIC TOURISM TRIP FLOW (MILLIONS OF TRIPS PER YEAR)



* 2024 estimated by Mincetur.

Source: Ministry of Foreign Trade and Tourism (Mincetur).

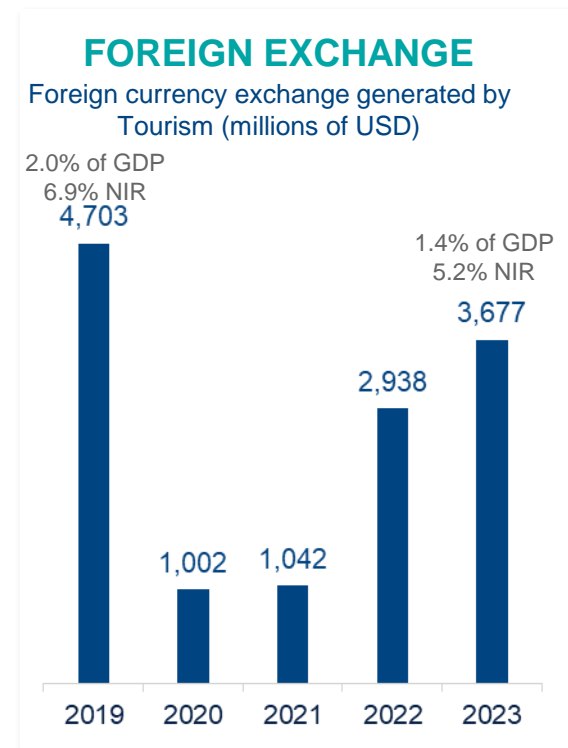
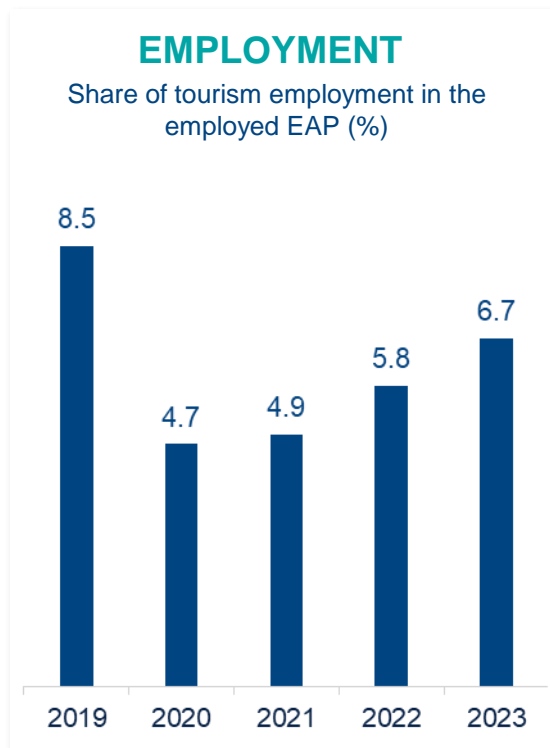
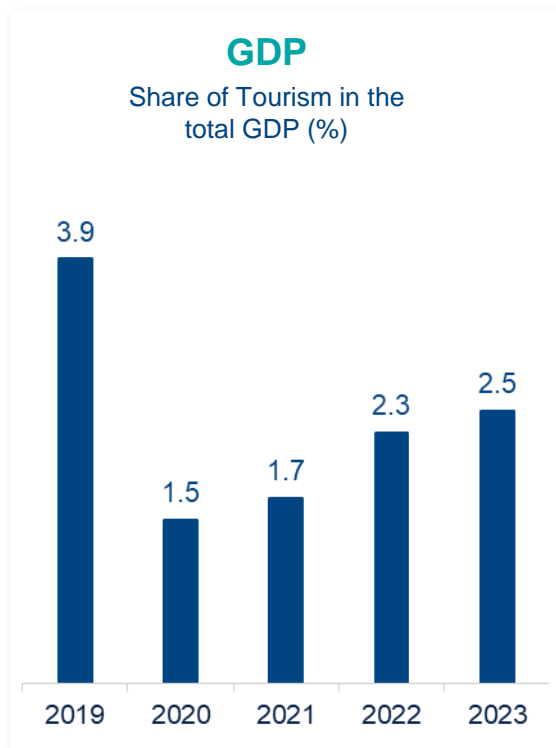
INTERNATIONAL TOURIST ARRIVALS* (THOUSANDS OF PEOPLE PER YEAR)



* Estimation by Mincetur with information up to June 2024.

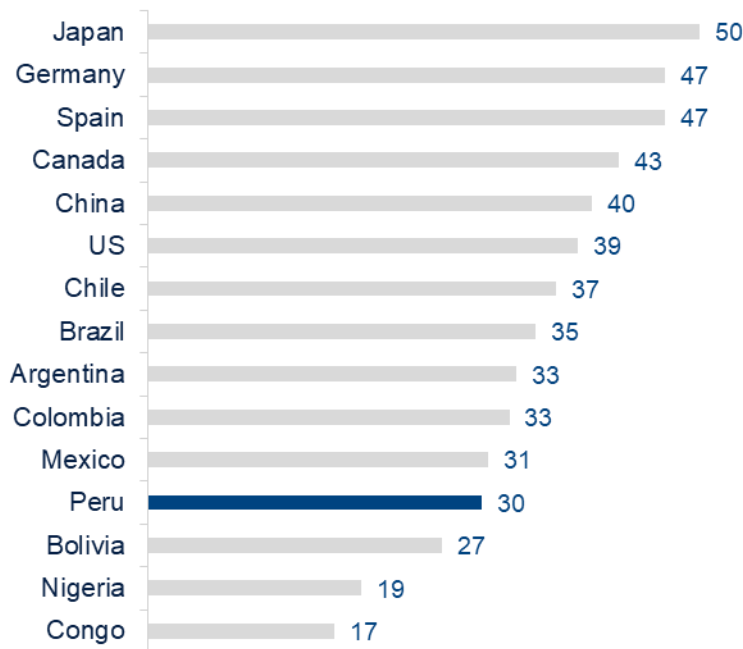
Source: Ministry of Foreign Trade and Tourism (Mincetur).

Opportunities: tourism is still not fully recovered from the impact of the pandemic. Development potential is important

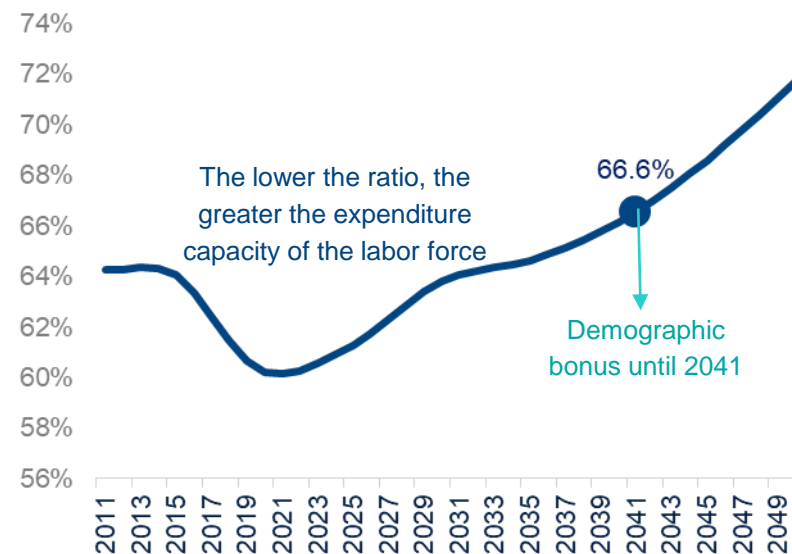


Opportunities: demographic window

AVERAGE AGE OF THE POPULATION FOR SELECTED COUNTRIES (YEARS)



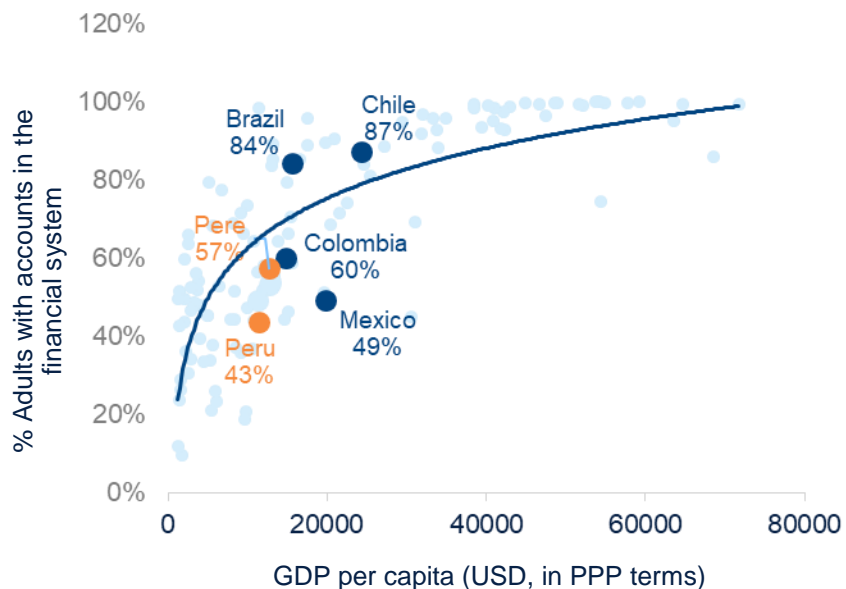
DEMOGRAPHIC DEPENDENCY RATIO ¹ (DEPENDENT POPULATION AS % OF LABOR FORCE)



1: Dependency ratio is calculated as the division of the dependent population (under 15 and 60+ years old) by the potentially active population (15-59 years old). It is considered that there is a "Demographic Bonus" when there are less than two dependents for every three people of working age. INEI (2024) "Situation of the Peruvian Population 2024"

Opportunities: potential for expansion of banking penetration

BANKING ACCESS BY LEVEL OF ECONOMIC DEVELOPMENT¹ (% , PEOPLE OVER 15 YEARS OF AGE)



Peru: financial inclusion gap

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

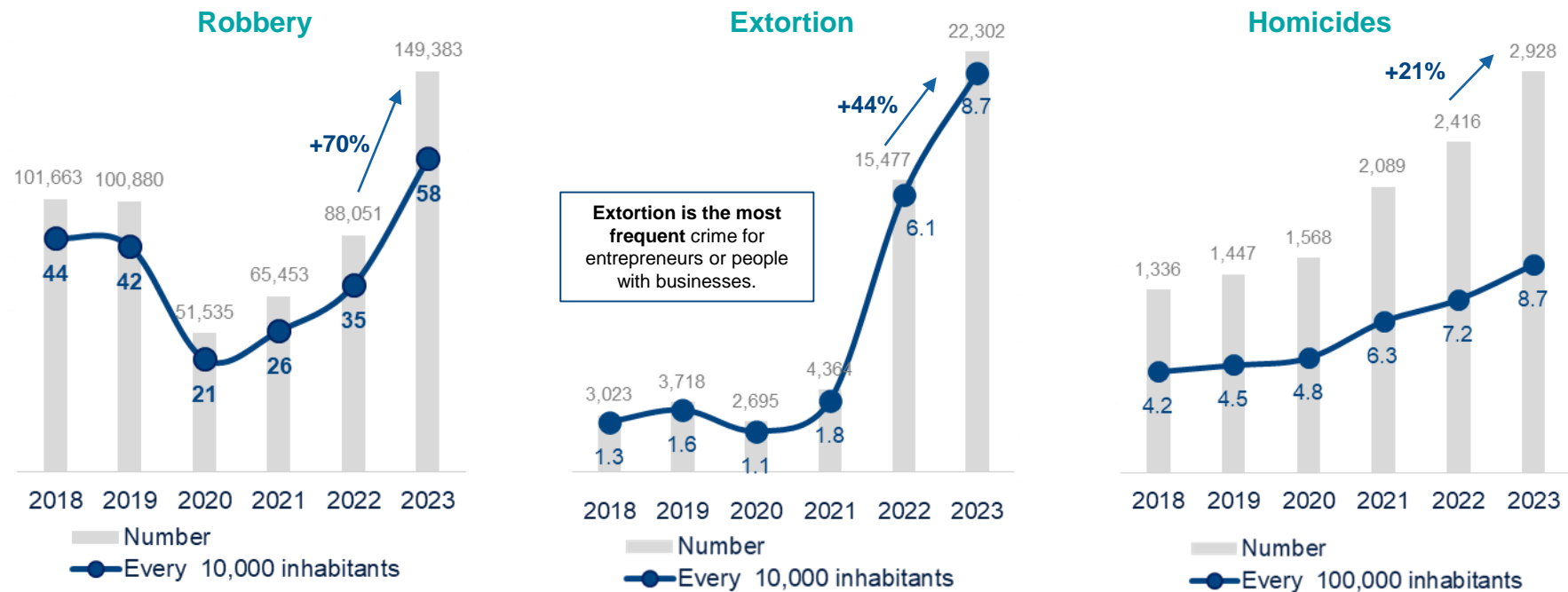
In Peru, with a banking penetration rate of 57%, there is room to include almost 2.5 million adults in the financial system

^{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.

On the negative side, concern among families and the business sector about growing public insecurity...

POLICE REPORTS

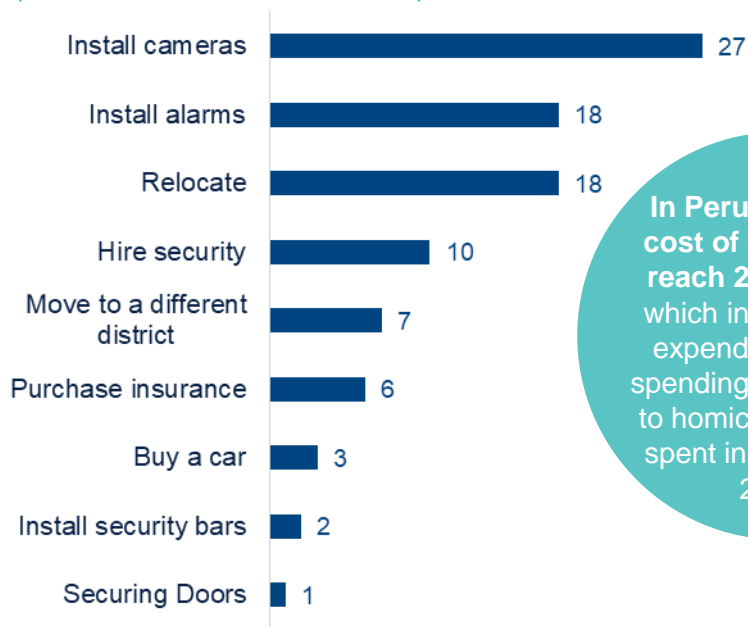
(TOTAL AND AS A RATIO PER 10 THOUSAND INHABITANTS OVER 15 YEARS OLD)



... which generates expenses and distrust in the authorities

HAVE YOU INCURRED ADDITIONAL EXPENSES IN SECURITY?

(% OF SURVEY RESPONDENTS)

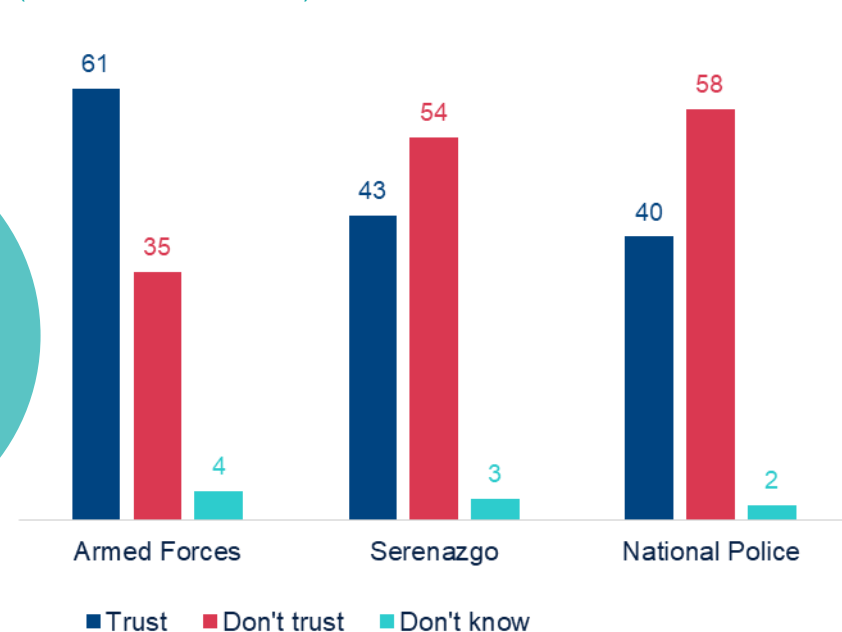


In Peru, the annual cost of crime would reach 2.8% of GDP, which includes public expenditure, private spending, and loss due to homicides and time spent in prison. (IDB, 2017).

Source: Ima go! (November 2023). Preparation: BBVA Research.

TRUST IN THE INSTITUTIONS THAT PROVIDE SECURITY²

(% OF RESPONDENTS)



Source: DATUM (November 2023). Preparation: BBVA Research.

04

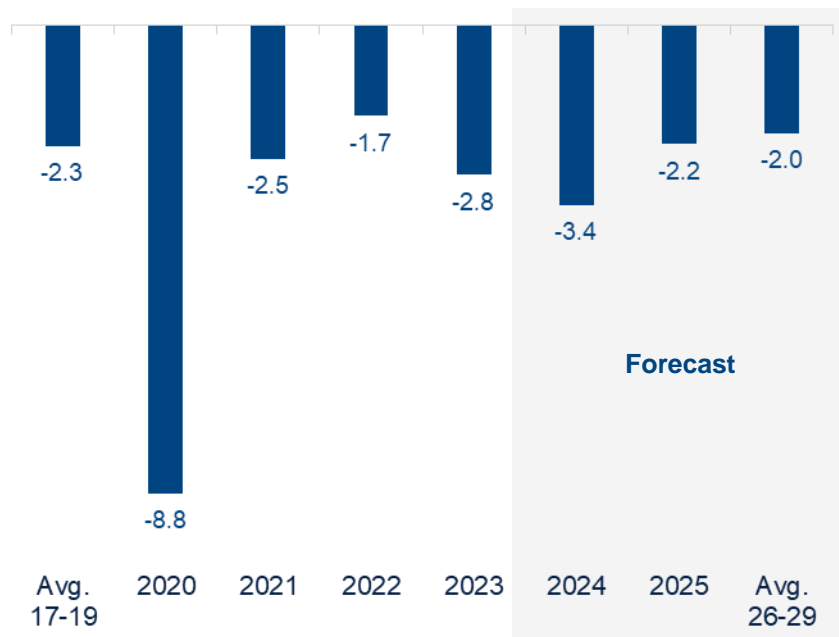
Peru economic forecasts

4.2. Fiscal balance and public debt

Deterioration of fiscal accounts makes it difficult to meet this year's public deficit target. Contingent expenses could induce greater pressures

FISCAL BALANCE

(NON-FINANCIAL PUBLIC SECTOR, % OF GDP)



Source: BCRP and BBVA Research (forecasts).

- In the remainder of the year, the fiscal deficit will moderate as tax collection gradually improves (positive impact of greater activity and high export prices). It will not be enough to meet the official target (2.8% of GDP).
- The fiscal deficit will be reduced next year due to the improvement in revenues: (i) improvement in income tax collection (regularization of the 2024 fiscal year), (ii) extraordinary revenues from the sale of a company in the electricity sector (0.2% of GDP), and (iii) collection of VAT on digital services (0.2% of GDP).
- Going forward, it is assumed that fiscal policy will seek to consolidate public finances. Deficits will tend to a level equivalent to 2.0% of GDP from 2026.
- With this, gross public debt will reach 35.0% of GDP by the end of the projection horizon (2029).

Public deficit will tend toward 2% of GDP in the medium term: Revenues will stabilize somewhat above pre-pandemic levels, but there will be more inflexible expenditure

REVENUE

(NON-FINANCIAL PUBLIC SECTOR, % OF GDP)

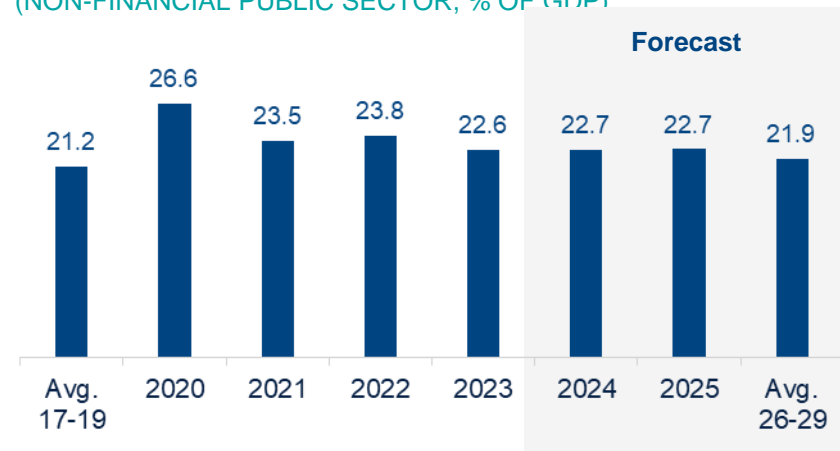


Going forward, it is projected that revenues will stabilize at around 20% of GDP, above pre-pandemic levels, which takes into account a decrease in tax non-compliance.

Source: BCRP and BBVA Research (forecasts).

EXPENDITURE¹

(NON-FINANCIAL PUBLIC SECTOR, % OF GDP)



PUBLIC SPENDING ON WAGES (% OF GDP)

Year	2017-19 Avg.	2020	2021	2022	2023	2024
Value	6.2	7.4	6.2	5.9	6.3	6.5

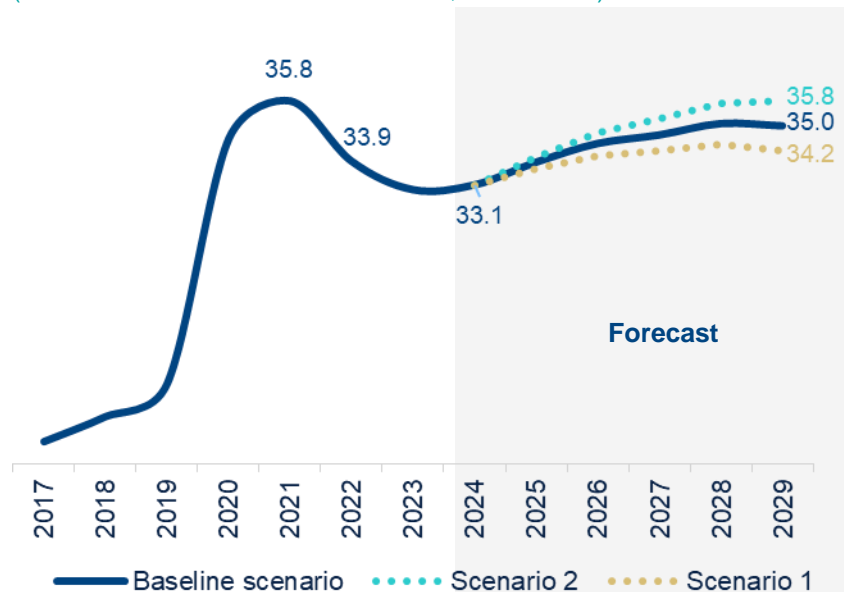
Pressure from spending on wages does not allow for a more pronounced decline in the fiscal deficit.

1: It includes expenditure for payment of interest on the public debt.

In the baseline scenario, gross public debt will reach a level of 35% of GDP by 2029

GROSS PUBLIC DEBT

(NON-FINANCIAL PUBLIC SECTOR, % OF GDP)



Scenario 1: the projection considers 1 pp of higher GDP growth with respect to the base scenario. The elasticity of fiscal revenues with respect to GDP estimated by the MEF is considered (a 1 pp increase in GDP leads fiscal revenues to increase between 0.1 pp and 0.2 pp of GDP). Scenario 2: the projection considers 1 pp of lower GDP growth with respect to the base scenario.
Source: BCRP and BBVA Research (forecasts).

PRIMARY BALANCE REQUIRED TO STABILIZE GROSS PUBLIC DEBT

$$f^* = \frac{(r - g)}{1 + g} d$$

Public debt to stabilize	d	35%
Real GDP growth rate ^{1/}	g	2.7
Real interest rate ^{2/}	r	2.8
Required primary balance		0
Required overall balance		-1.8

^{1/} It considers the average of the GDP projection 2024-2029. ^{2/} It considers the average of the implicit rate discounted by inflation, average 2024-2029.

Given our growth forecasts and real interest rates, the fiscal deficit required to stabilize gross public debt at a level equivalent to 35% of GDP (projection for 2029) is around 1.8% of GDP.

Despite the recent deterioration in the fiscal accounts, Moody's maintained Peru's sovereign rating at Baa1 and upgraded the outlook to "stable"

NON-FINANCIAL PUBLIC SECTOR INDICATORS

	2019	2021	2022	2023	2024 (f)	2025 (f)
Economic balance (% GDP) ^{1/}	-1.6	-2.5	-1.7	-2.8	-3.4	-2.2
Assets (% GDP)	13.6	14.1	12.8	10.4	8.5	8.2
Gross public debt (% of GDP)	26.5	35.8	33.9	32.9	33.1	33.9
Net public debt (% of GDP)	12.9	21.7	21.1	22.5	24.6	25.7
Gross public debt (% fiscal revenues) ^{2/}	136	171	153	166	171	165
Dollarization of public debt (%)	32	54	52	48	45	42
Debt interest (% GDP)	1.4	1.5	1.6	1.7	1.8	1.9
Interest (% fiscal revenues) ^{2/}	7.0	7.2	7.1	8.4	9.3	8.8

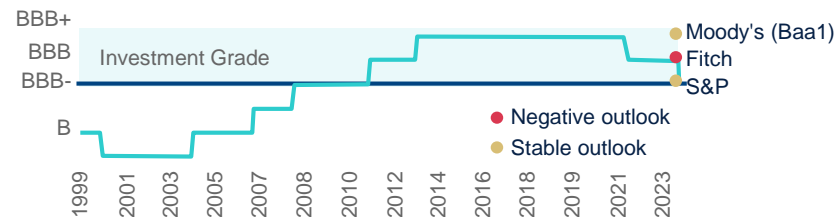
(f) forecasts.

1/ As of August 2024 (cumulative for the last twelve months).

2/ Accumulated in the last four quarters.

Source: BCRP and BBVA Research (forecasts).

SOVEREIGN CREDIT RATING



Source: Datosmacro, Gestión and S&P Global.

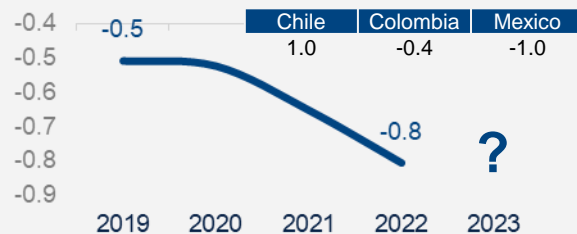
- Moody's Baa1 rating reflects fiscal strength, despite governance challenges. The improvement in the outlook is underpinned by greater institutional stability, especially when compared to that of early 2023.
- In April, Standard and Poor's downgraded the sovereign rating to BBB- (from BBB). This was due to the deterioration of fiscal accounts and sustained political instability.
- Fitch Ratings will soon review the sovereign credit rating, which will incorporate the update of the World Bank's 2023 governance indicators (used in risk assessment models). Possible downgrade?
- If Fitch were to downgrade the rating, the macro impact would be limited because Peru will still maintain investment grade.

In October, the World Bank will update the governance indicators included in most country-risk assessment models

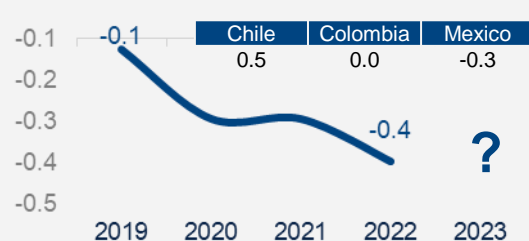
PERU | GOVERNABILITY AND GOVERNANCE INDICATORS

(BETWEEN -2.5 AND +2.5; THE HIGHER THE VALUE, THE BETTER THE GOVERNANCE)

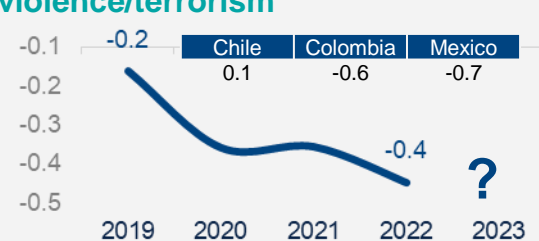
Control of corruption



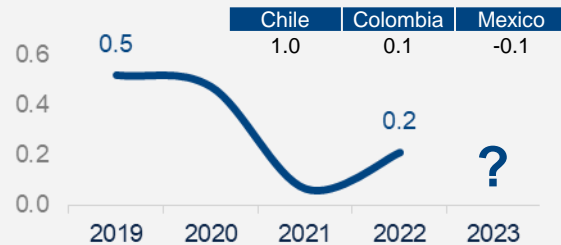
Effectiveness of government



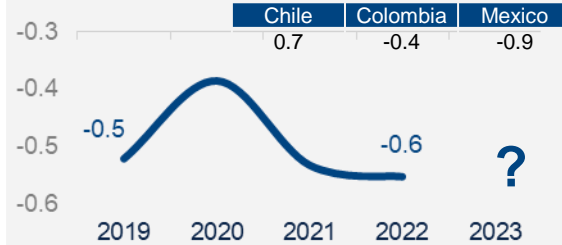
Political stability and absence of violence/terrorism



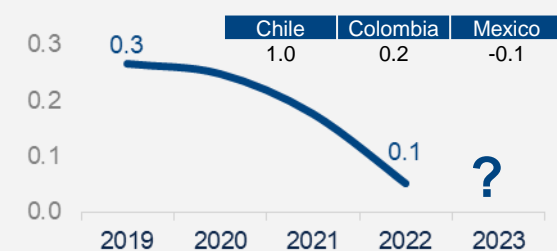
Regulatory quality



Rule of law

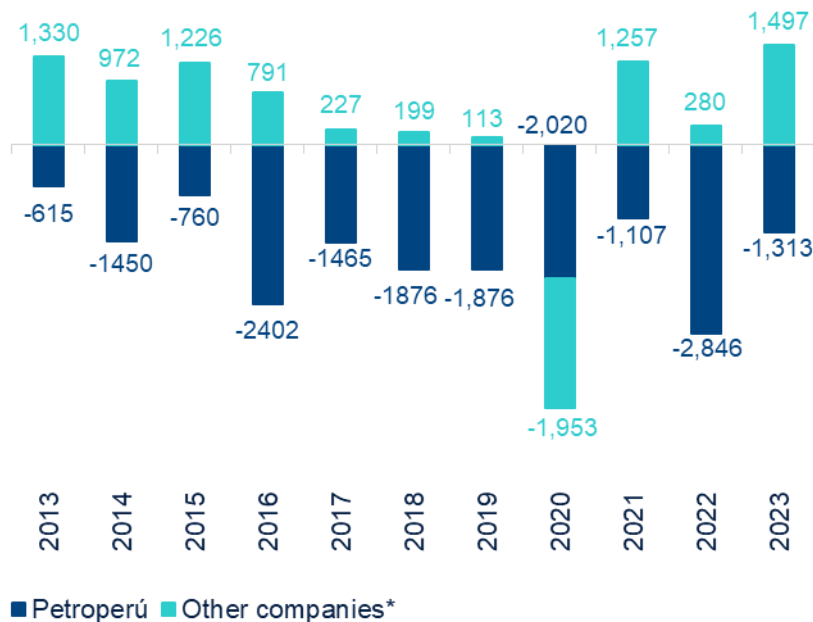


Voice and accountability



Risks on the projections of the fiscal accounts: Petroperu's negative primary balance (I)

PRIMARY BALANCE OF PUBLIC ENTERPRISES (MILLIONS OF PEN)



- Petroperu has been showing a negative primary balance for the last ten years. If this continues, the fiscal deficit of the non-financial public sector will be affected, reducing the probability of compliance with the tax rule in the coming years.
- It is necessary to increase transparency, improve the governance of this public company, and implement a plan that stabilizes it financially. This will prevent a greater drain on public resources that could otherwise be used to improve citizen security, health, education, and housing.

*Includes Electroperú, Sedapal, Regionales de Electricidad and others.
Source: BCRP.

Risks on the projections of the fiscal accounts: Petroperu's negative primary balances (II)



RECENT FINANCIAL SUPPORT TO PETROPERÚ

- On September 12, the National Government approved a new financial support (DU 013-2024) for Petroperu consisting of: (i) extension of maturities of loans due with Banco de la Nación, (ii) debt forgiveness with Banco de la Nación, (iii) payment of financial obligations of (bonds and a commercial loan), (iv) capitalization of a debt with the MEF, and (v) a new loan with Banco de la Nación.
- Additionally, austerity measures are established in the DU (Emergency Decree): Reduction of the expenditure budget for 2024 and 2025
- It provides for Petroperu to contract the services of a specialized company for an “integral transformation”.
- In general, most of the actions considered in this new financial support have no impact on the fiscal deficit. However, they do distract resources that could have been used for public safety, health, education, social programs, etc.

Risks on the projections of the fiscal accounts: Petroperu's negative primary balances (III)



Extension of the 2022 financial aid terms

- The guarantee for USD 1 billion to a Trade Finance credit facility with the Bank for Petroperú is extended until July 2025 (it expired at the end of 2024).
- Extend until July 2025, the term for the repayment of the Public Treasury Tax Payment Documents for S/ 500 million (which began to be issued as of mid-2022).



Capitalization

- The capitalization of USD 750 million of the financial support granted by the Ministry of Economy was approved, the repayment term was extended until the end of 2024



Assume financial obligations and debt forgiveness

- The MEF assumes obligations for the second half of this year corresponding to bonds that were issued in 2017 and 2021, for a total amount of USD 3 billion.
- The MEF assumes the maturities of the loan with the Spanish Export Credit Insurance Company.
- The MEF assumes the obligations corresponding to the loan for working capital granted by Banco de la Nación for USD 800 million. Since the creditor is a public sector entity, in practice it is debt forgiveness.



Loan

- Loan from Banco de la Nación for USD 1000 million guaranteed by the National Government.





Austerity measures and comprehensive transformation

- Reduction in the budget execution of expenditures for the period September - December 2024, by 10% with respect to the same period of the previous year. In 2025, the reduction in expenditure will be equivalent to 30% of the execution of the 2024 budget.
- Contracting the services of a firm in charge of designing and managing the implementation of Petroperu's Integral Transformation Process.

Risks on the projections of the fiscal accounts: recently approved reform of the pension system



Main measures

- Mandatory contribution rate for self-employed workers (2% as of 2028, which will increase by one percentage point every two years up to a maximum of 5%).
- Extraordinary withdrawals are prohibited.
-  Contribution for consumption: 1% of annual expenses (capped up to 8UIT per year).
-  Upon reaching the age of 18 years old, all individuals must join the public or private system.
- Minimum pension for those who meet a minimum number of contributions at their retirement age.
- Expansion of the community support program Pension 65.
- Those currently under 40 years of age will not have the option to withdraw 95.5% of their fund at the time they retire.
- The implementation of the measures will take place once the regulation is published (within a period of no more than 180 working days after the publication of the law).



Costs

- **MEF** (Bill): annual average fiscal cost over the next 10 years around 0.4% of GDP.
- **Macroconsult**: average annual fiscal cost in 2024-2070 is 0.19% of GDP (in an aggressive Pension 65 expansion scenario, the average annual cost would stand at 0.32% of GDP).
- **Fiscal Council**: annual fiscal cost in the long term would amount to 1.1% of GDP.



BBVA RESEARCH

The fiscal cost of the reform has not been considered because there is still a lot of uncertainty about its estimation (it will be somewhat clearer when the regulations are published) and how it will be financed (use of assets, recomposition of expenditure items, higher debt, etc.).

04

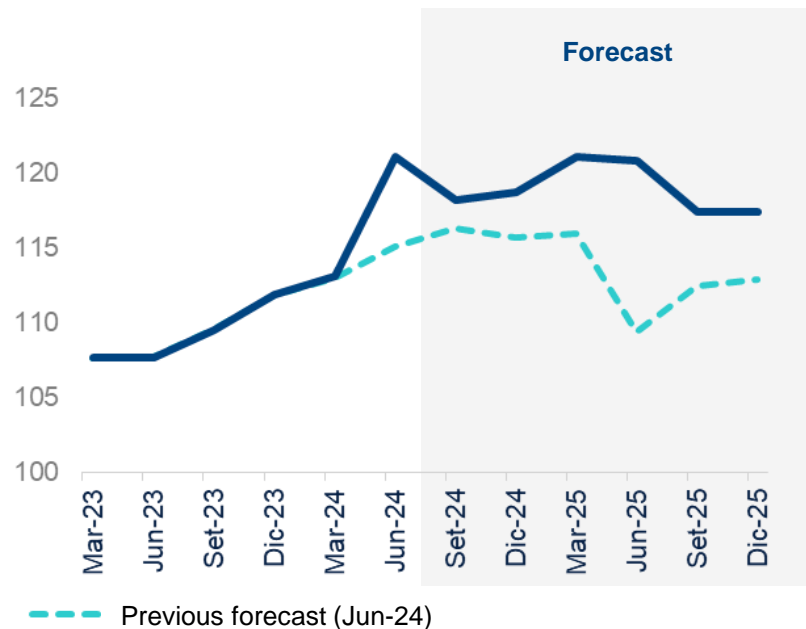
Peru economic forecasts

4.3. External sector

We expect the terms of trade to remain elevated until next year in a context of recovering global activity

TERMS OF TRADE

(INDEX, 2007 = 100)



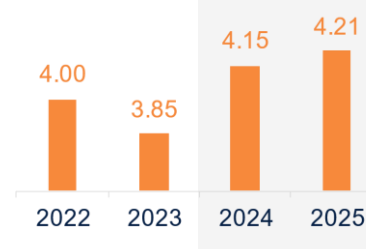
Source: BCRP and BBVA Research (forecasts).

SELECTED EXPORT AND IMPORT PRICES

(ANNUAL AVERAGE)

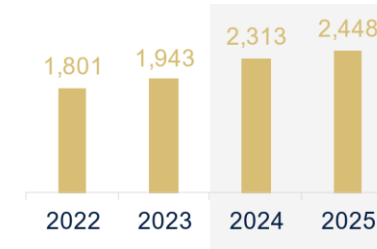
COPPER

(USD PER POUND)



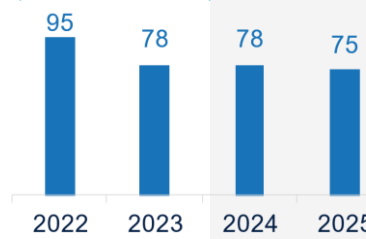
GOLD

(USD PER TROY OUNCE)



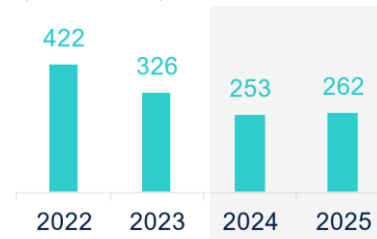
WTI OIL

(USD PER BARREL)



WHEAT

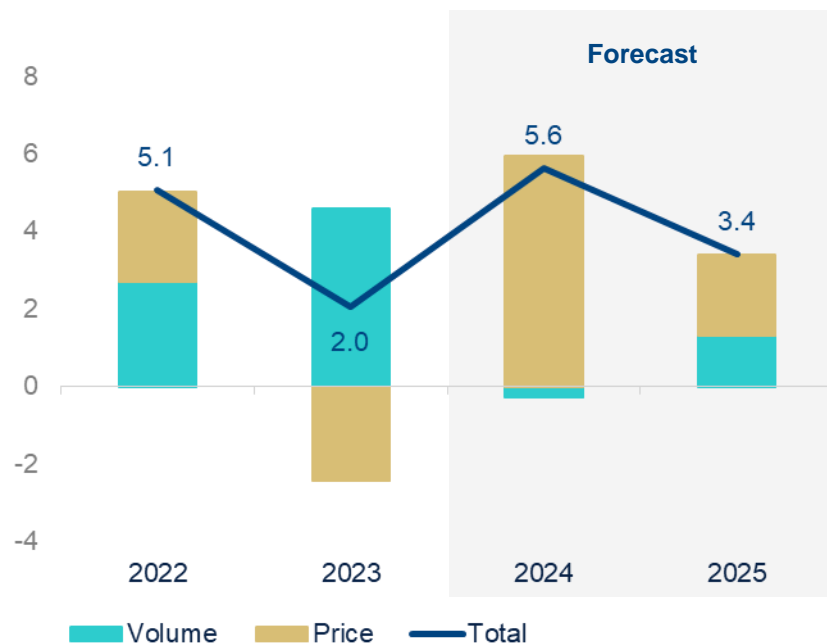
(USD PER MT)



Source: BCRP and BBVA Research (forecasts).

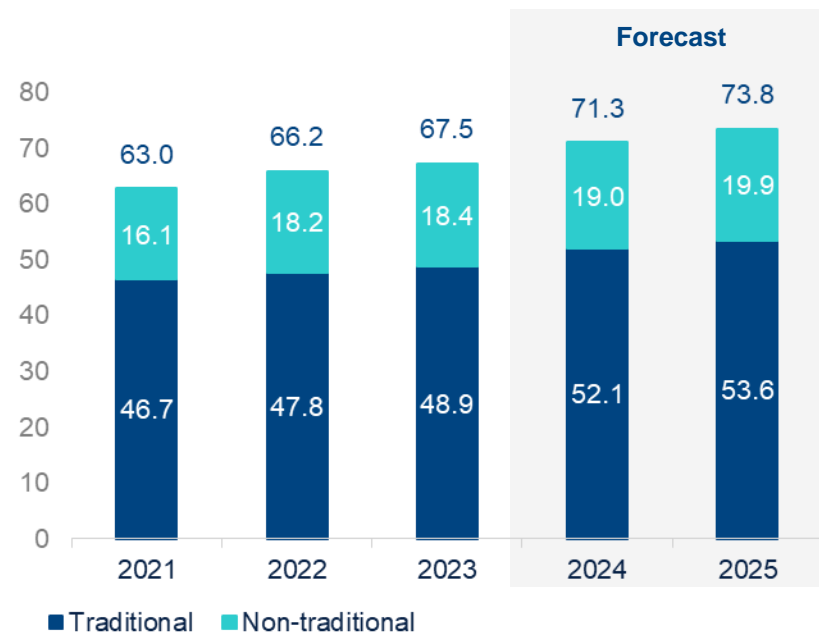
In 2024, exports will be supported by higher metal prices and the normalization of sectors most affected by El Niño

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



Source: BCRP and BBVA Research (forecasts).

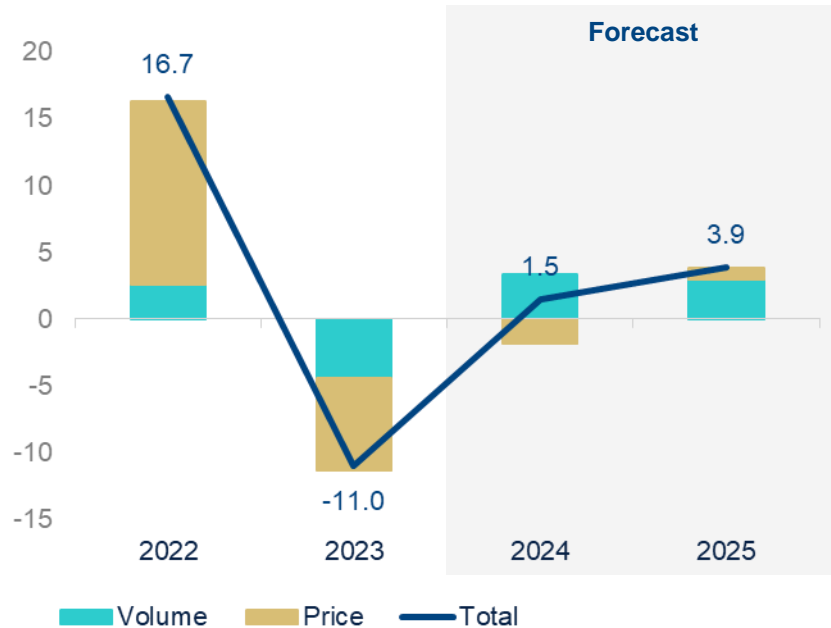
GOODS EXPORTS (USD BILLIONS)



Source: BCRP and BBVA Research (forecasts).

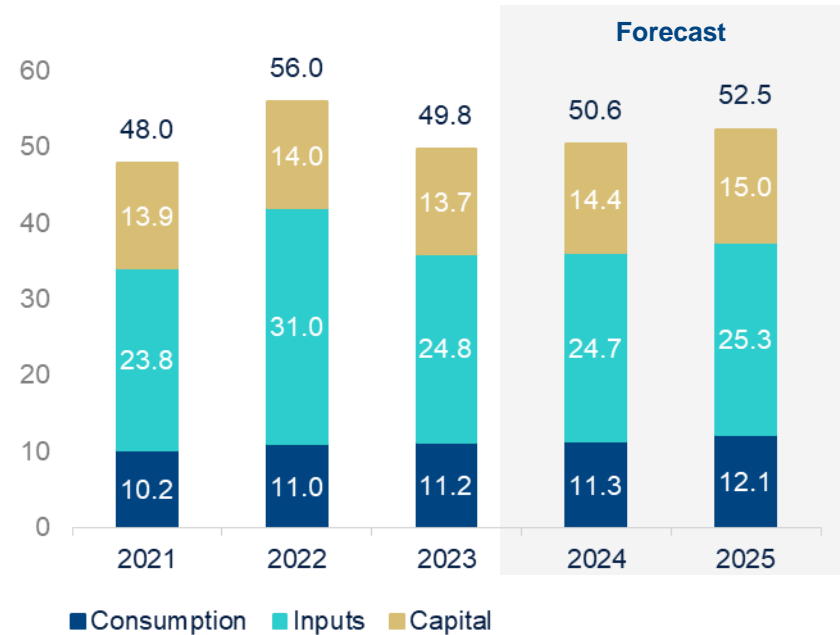
Better performance of imports going forward as activity rebounds following negative shocks in 2023

GOODS IMPORTS (% CHANGE YEAR-ON-YEAR)



Source: BCRP and BBVA Research (forecasts).

GOODS IMPORTS (USD BILLIONS)

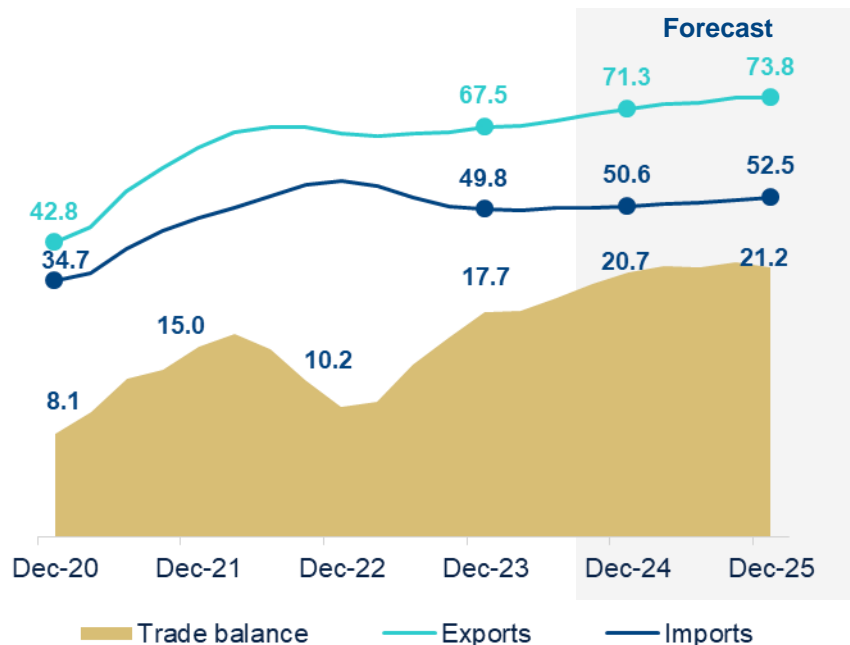


Source: BCRP and BBVA Research (forecasts).

On balance, we expect the trade surplus to rise again this year and the next, reaching its peak, and falling thereafter

TRADE BALANCE

(USD BILLIONS, CUMULATIVE LAST 12 MONTHS)



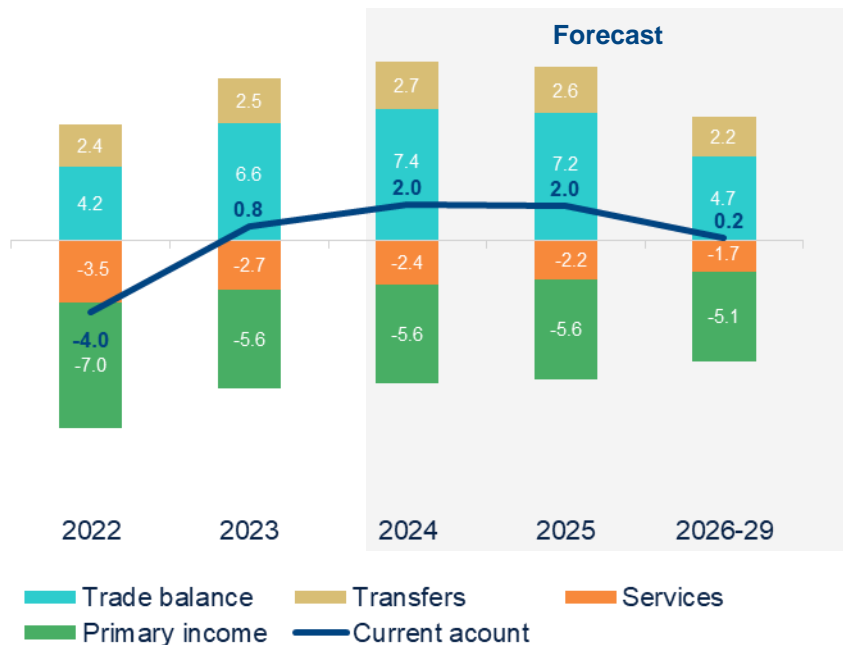
Source: BCRP and BBVA Research (forecasts).

- 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, the trade surplus will expand a bit more in line with further advance in metal prices and a moderation in import prices, particularly oil.
- The improved terms-of-trade forecast favors a higher trade surplus (and current account of the balance of payments) this year and next.

In this context, the current account of the balance of payments will register a surplus this year and the next, helped by the recovery in tourism

BALANCE OF PAYMENTS CURRENT ACCOUNT

(% OF GDP)

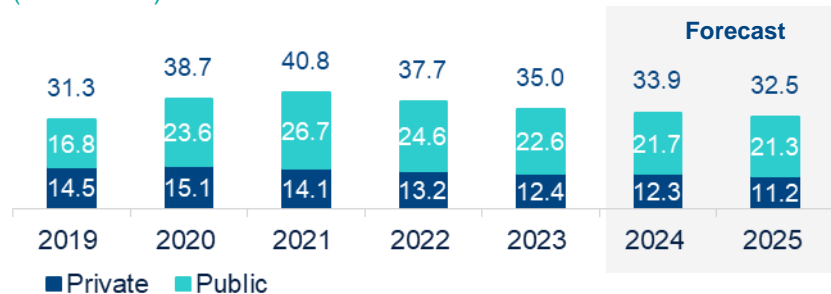


- In 2024, the current account should improve due to (i) a larger trade surplus and (ii) an improvement in the services account (a trend toward normalization of inbound tourism and lower freight costs).
- Later on the projection horizon, moderation of the trade surplus due to the absence of new investment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

The strength of the external accounts and limited financing needs remain among the strengths of the Peruvian economy

MEDIUM-AND LONG-TERM EXTERNAL LIABILITIES

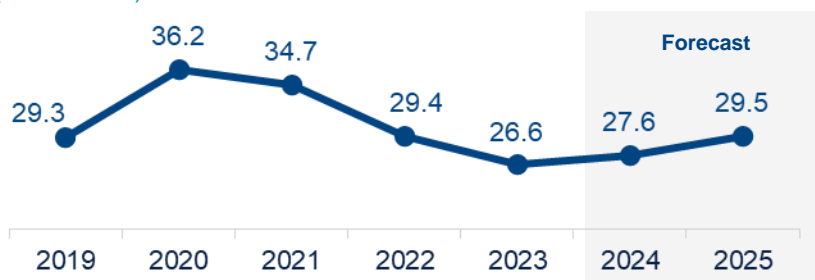
(% OF GDP)



- Improvement in the current account and lower interest rates will mean that external strength will be maintained going forward.
- In this line of solidity of the external accounts, medium- and long-term external liabilities will be gradually reduced as debts are amortized in the absence of significant financing needs for 2024 and 2025.

NET INTERNATIONAL RESERVES

(% OF GDP)



NET INTERNATIONAL RESERVES

	2019	2020	2021	2022	2023	2024
RIN/GDP (%)	29.3	36.2	34.7	29.4	26.6	27.6
Net International Reserves / short-term external debt	8.6	7.5	8.1	7.4	6.0	7.4
NIR / short-term external debt plus current account deficit	7.3	9.2	5.4	3.7	7.4	16.6

We estimate that a current account deficit of 1.8% of GDP is required to stabilize long-term external debt

Based on the intertemporal budgetary constraint of the economy, and ignoring capital gains from valuation changes and other factors such as capital transfers and errors and omissions, we have:

$B_t - B_{t-1} = CA_t$, where CA_t denotes net external assets (NEA). Then, when normalizing by GDP, we have:

$$ca^* \approx \frac{g + \pi}{1 + g + \pi} b^s$$

Current account
stabilizing the NEA

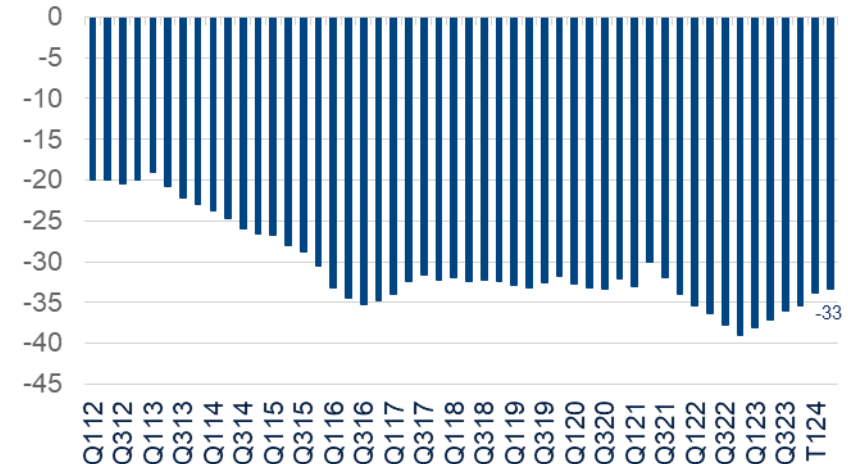
Data

NEA in 2Q 2024 (% of GDP)	-33%
Avg. inflation 2017-2027 (%)	3.3%
Avg. GDP 2017-2027 (real % chg.)	2.2%

CC stabilizes NEA

-1.8%

NET EXTERNAL ASSETS¹ (% OF GDP)



1: They consider the difference between external assets, on the one hand, and medium and long-term liabilities, foreign direct investment, and equity, on the other.

04

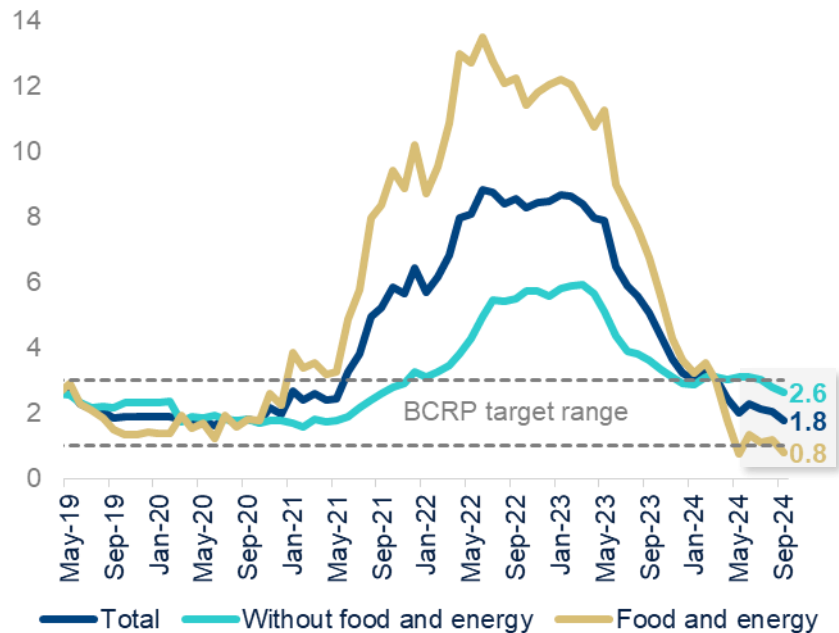
Peru economic forecasts

4.4. Inflation, monetary policy and exchange rate

Inflation is stable and within the target range since April, following the normalization of supply shocks, but core inflation has been more resilient, ...

INFLATION: TOTAL & CORE

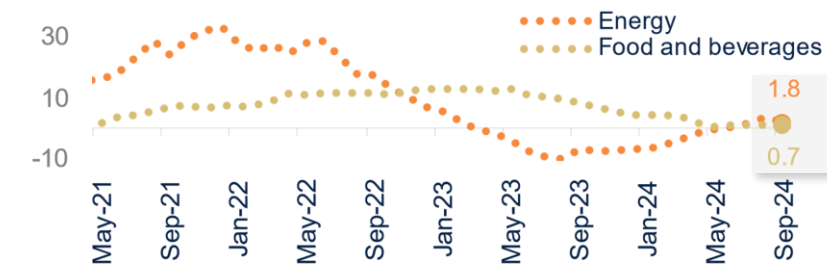
(% CHANGE OF CPI)



Source: INEI.

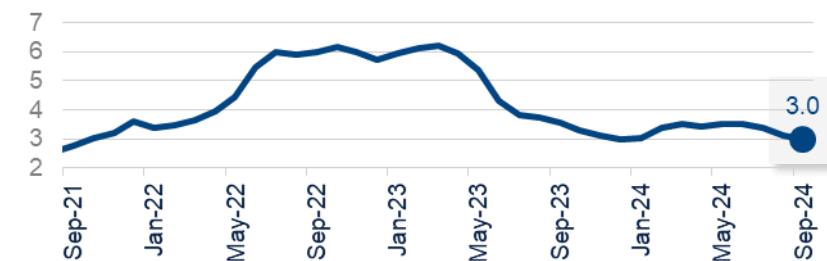
INFLATION: FOOD & ENERGY

(CHG. CHANGE YEAR-ON-YEAR)



CORE INFLATION: SERVICES*

(CHG. % YEAR-ON-YEAR)



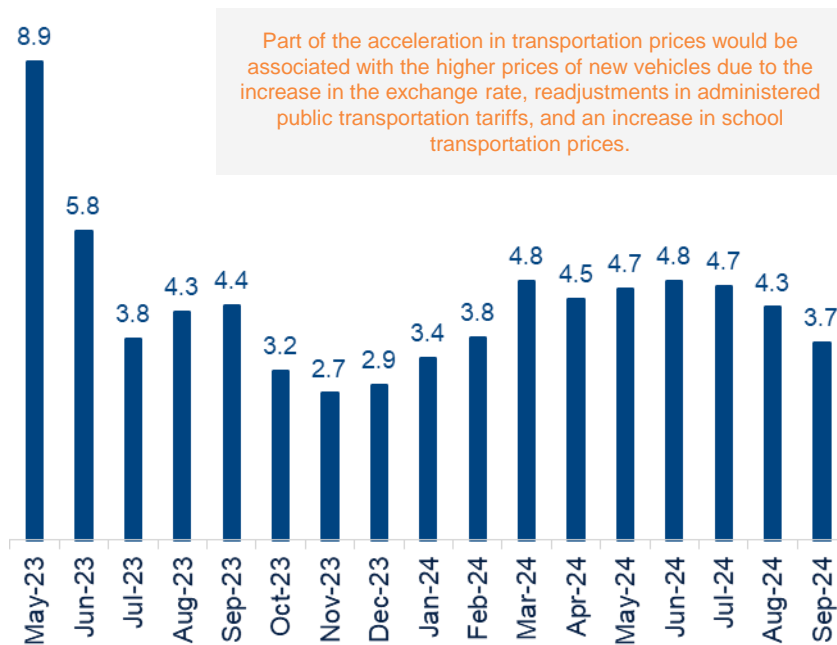
* BBVA estimate for September

Source: INEI.

... associated with an acceleration in transport and water prices, and the still brisk pace of education prices

TRANSPORT PRICES

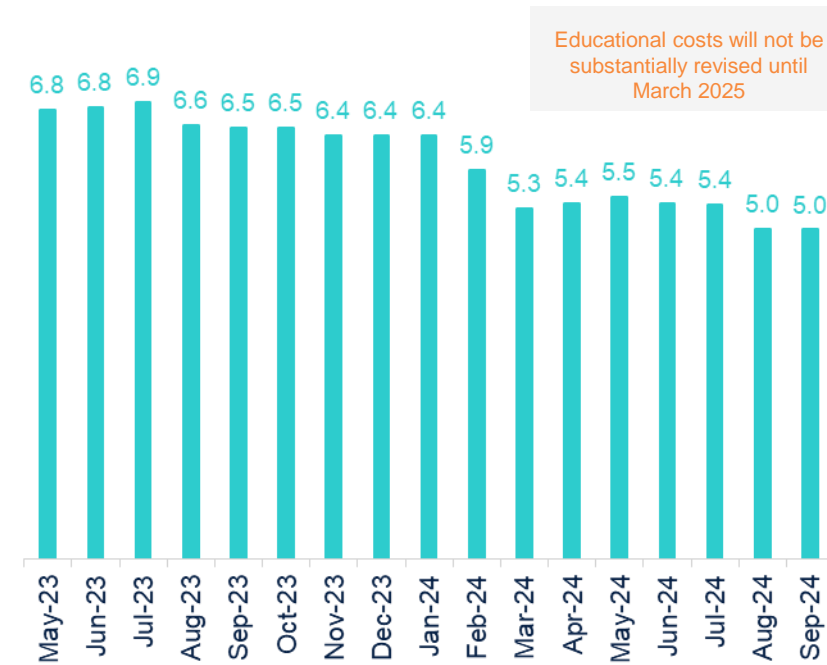
(% CHANGE YEAR-ON-YEAR)



Source: INEI.

EDUCATION PRICES

(% CHANGE YEAR-ON-YEAR)

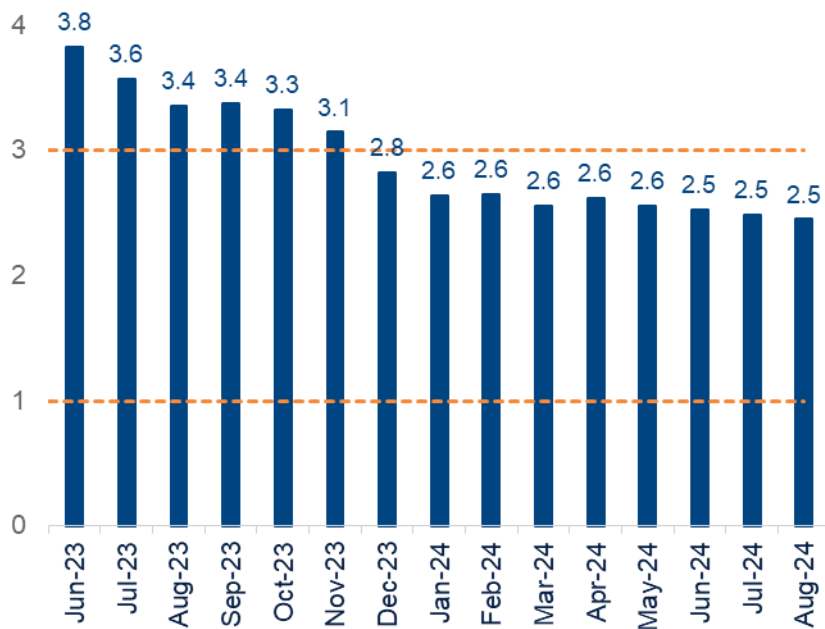


Source: INEI.

Inflation expectations have declined slightly in recent months and remain within the Central Bank's target range

1-YEAR AHEAD INFLATIONARY EXPECTATION

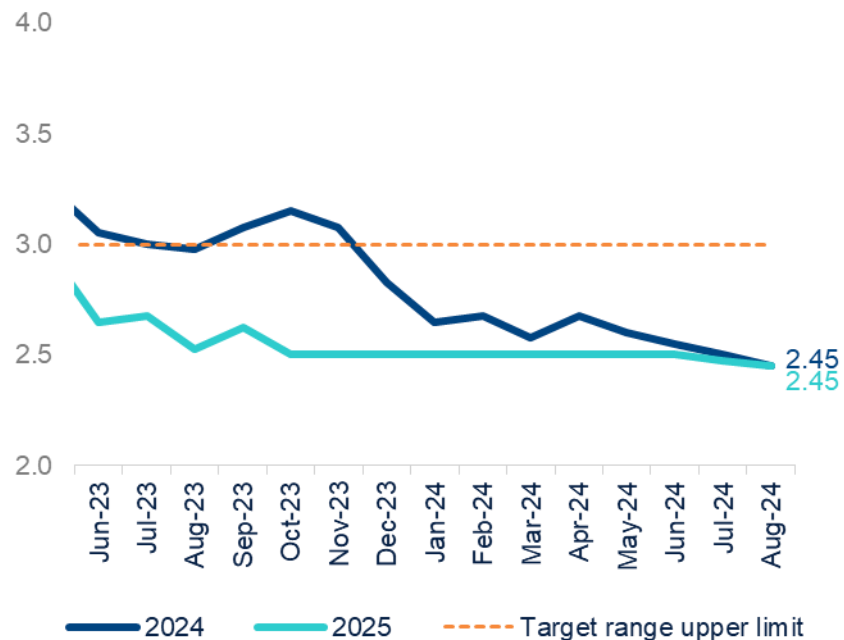
(% Y/Y CHANGE EXPECTED FOR CPI)



Source: BCRP.

INFLATION FORECASTS

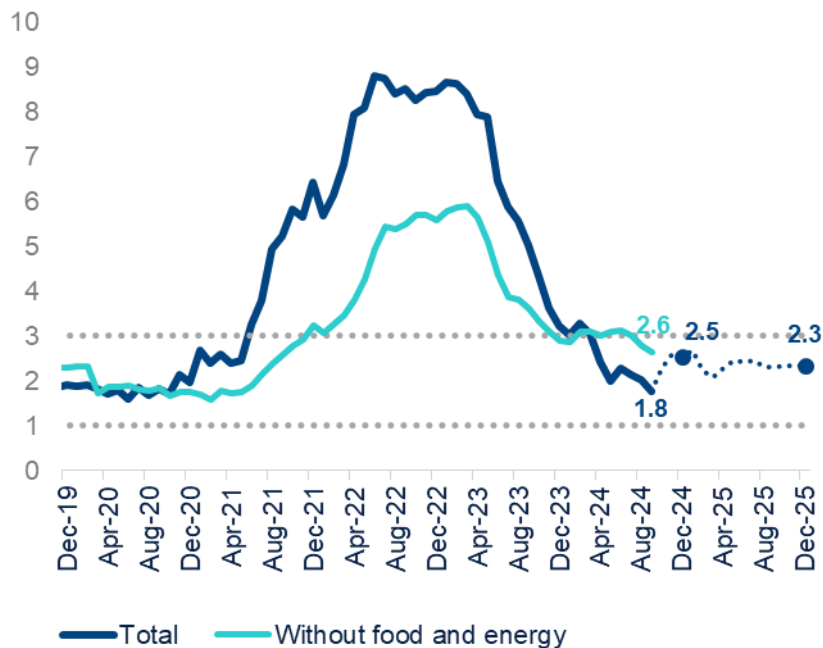
(FOR YEAR-END, %)



Source: BCRP.

In the baseline scenario, no significant inflationary pressures are expected going forward

INFLATION (% CHG. YEAR-ON-YEAR OF CPI)



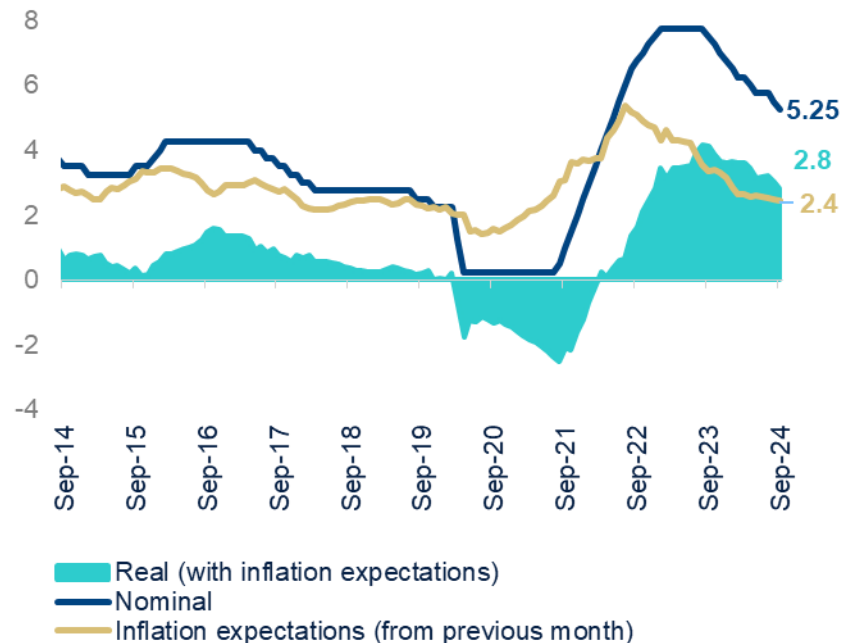
Source: INEI, BCRP, and BBVA Research (projections).

- **The baseline scenario considers that total inflation will rise in 4Q24** because the year-on-year comparison base is unfavorable, **closing the year at 2.5%.**
- **The projection for 2024 (2.5% OEP)** is slightly lower than that of three months ago (2.6%) due to the correction in the expected prices for imported commodities.
- **For 2025, inflation is also expected to be somewhat more contained** (2.3% y/y compared to 2.4% in the previous base scenario), in line with lower prices of oil and food inputs (wheat and corn).

The central bank has been cutting the policy rate since September 2023, albeit cautiously in the face of volatility in the markets associated with the Fed

MONETARY POLICY INTEREST RATE

(%)



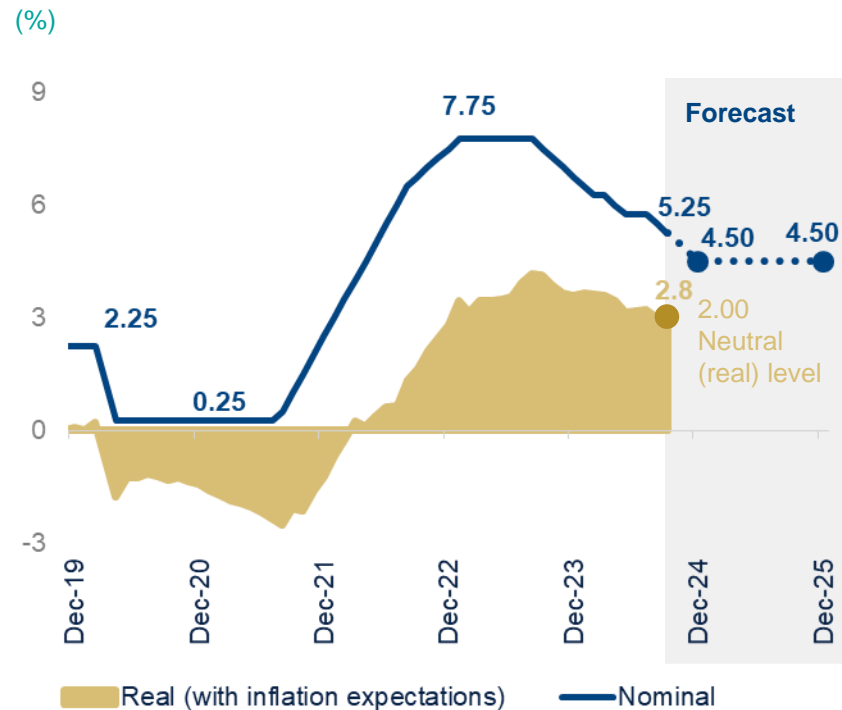
Source: BCRP.

- The BCRP has been normalizing the monetary position since September 2023, albeit gradually: 10 reductions of 25bps each to a level of 5.25% last September (with pauses in March, June and July due to the persistence of inflation or exchange rate volatility). However, the real ex-ante interest rate remains at high levels (2.8%, compared to a neutral level estimated at 2.0%).
- The Central Bank is acting cautiously, conditional on the data that emerges, despite the weak growth in activity. It has shown on repeated occasions that it is attentive to volatility in financial markets. Most recent statement from the BCRP: (i) inflation will remain around 2.0% in the coming months, (ii) core inflation will continue to decline, and (iii) more recent rate cuts do not anticipate successive reductions in the following months.

Monetary policy: we anticipate three cuts in the reference rate for the remainder of the year, reaching its neutral level of 4.50% in December

- Domestic factors suggest that rate cuts will continue: (i) inflation and inflationary expectations in the target range, (ii) still nascent recovery of activity, and (iii) still contractionary monetary stance.
- Changes to the benchmark interest rate will be made cautiously going forward: The BCRP does not seem comfortable with a very sharp depreciation of the PEN. It will then closely observe the behavior of the Fed and the interest rate differential. Given our expectation of 2 additional Fed rate cuts this year, the most likely scenario is that the **BCRP will again cut its interest rate by 25 bp in the remaining 3 meetings of the year, bringing it to 4.50% in December**. With this, the interest rate differential would be zero in 4Q24.
- Going forward, the benchmark rate would remain at this level that we estimate to be neutral (2% real + 2.5% long-term inflation).

MONETARY POLICY RATE



Source: BCRP and BBVA Research (forecasts).

Exchange rate reacts to changes in market expectations regarding the Fed's actions and risks of recession in the U.S.; BCRP intervenes using derivatives

EXCHANGE RATE

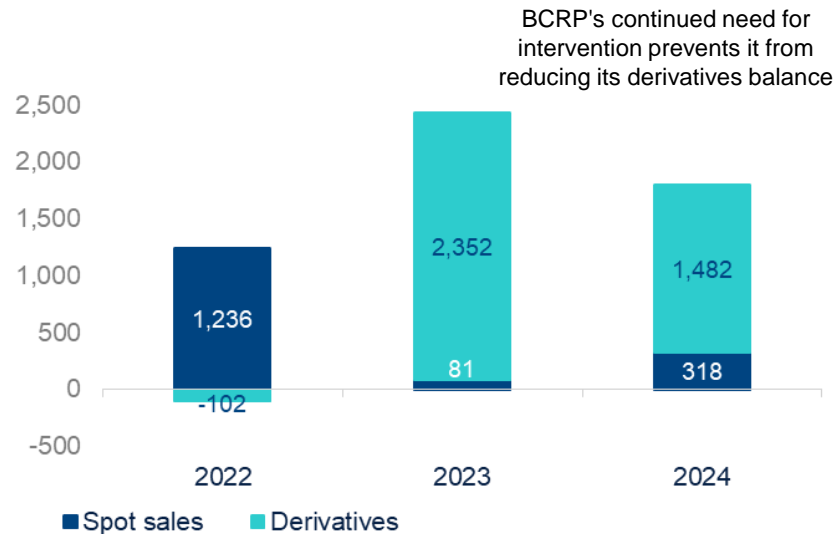
(PEN-USD)



Source: BCRP.

BCRP FOREIGN EXCHANGE INTERVENTION*

(SALE, MILLIONS OF USD)



BCRP foreign exchange swap balance	2022	2023	2024*
billions of USD	9,8	12,0	13,6

* 2024 to September 30

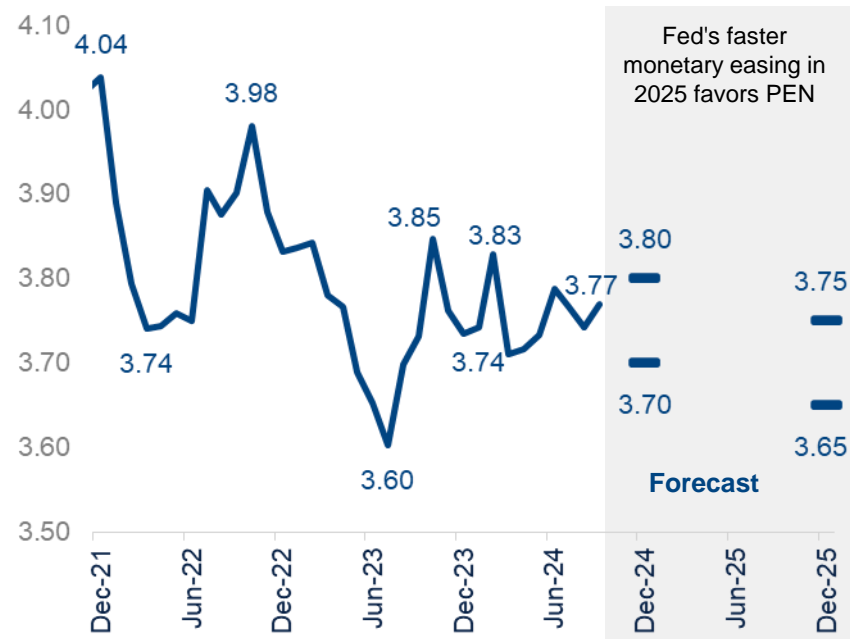
Source: BCRP.

We expect volatility in the coming months due to concerns of recession in the U.S., changes in Fed expectations and elections in North America.

DETERMINANTS OF THE EXCHANGE RATE PROJECTION

- **Fears of recession in the U.S., changes in expectations about the Fed, elections in North America and geopolitical tensions** could induce defensive positions, generating episodes of transitory strength in the dollar.
- **Null PEN-USD interest rate differential** in 4Q24, which is already priced in by the market.
- The **higher trade balance surplus** (dollar inflows) will favor PEN in both 2024 and 2025.
- **In 2025, the normalization of the PEN-USD interest rate differential will favor sol-denominated assets.** The Fed will advance faster in its monetary easing, so the appreciation of the PEN in 2025 is now more accentuated.

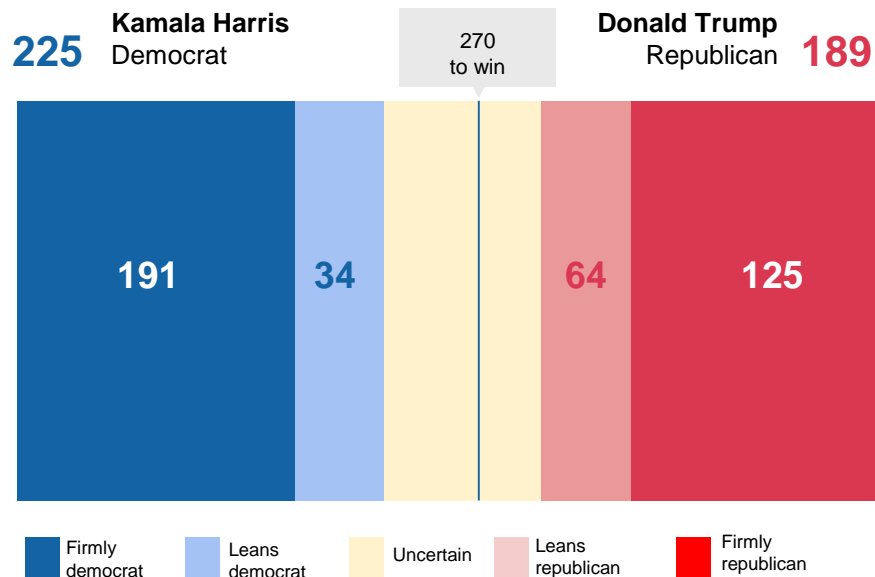
EXCHANGE RATE (SOLES PER USD, MONTH AVERAGE)



Source: BCRP and BBVA Research (forecasts).

Prospects for the U.S. presidential election have changed following Biden's departure: the polls are close, the outcome is uncertain

ELECTORAL COLLEGE: PROJECTED VOTES BY PARTY¹ (TOTAL: 538 VOTES)



VOTING INTENTION¹ (SELECTED KEY STATES)

State	EC votes	Average poll margin (%)
Nevada		D+0.8
Pennsylvania		D+0.8
Georgia		R+1.1
Arizona		R+1.3
Wisconsin		D+1.4
North Carolina		R+1.4
Michigan		D+1.8

1: As of 25 September.

Source: Financial Times: (Trump or Harris: Who's ahead in the polls?: <https://ig.ft.com/us-elections/2024/polls/>).

An eventual Trump victory could induce tensions in the region's foreign exchange and financial markets

DONALD TRUMP'S MAIN PROPOSALS

Main proposals:

- Increased trade protectionism
- Expansionary fiscal policy
- Pressures on the Fed for monetary easing
- Tougher anti-immigration policies



Expected impacts:

- **Higher inflationary pressures** due to trade, tax and immigration policies.
- **Higher interest rates** that will favor the strength of the dollar, as well as global financial and exchange rate tensions.
- **Negative impact on long-term growth** due to trade and migration policies.
- **Greater uncertainty** with a Republican Congress and pressures on the Fed's autonomy.

KAMALA HARRIS' MAIN PROPOSALS

Main proposals:

- Increase in corporate income tax, from 21% to 28%
- Controls on some price increases
- Tax incentives for housing construction and acquisition
- Child tax credit

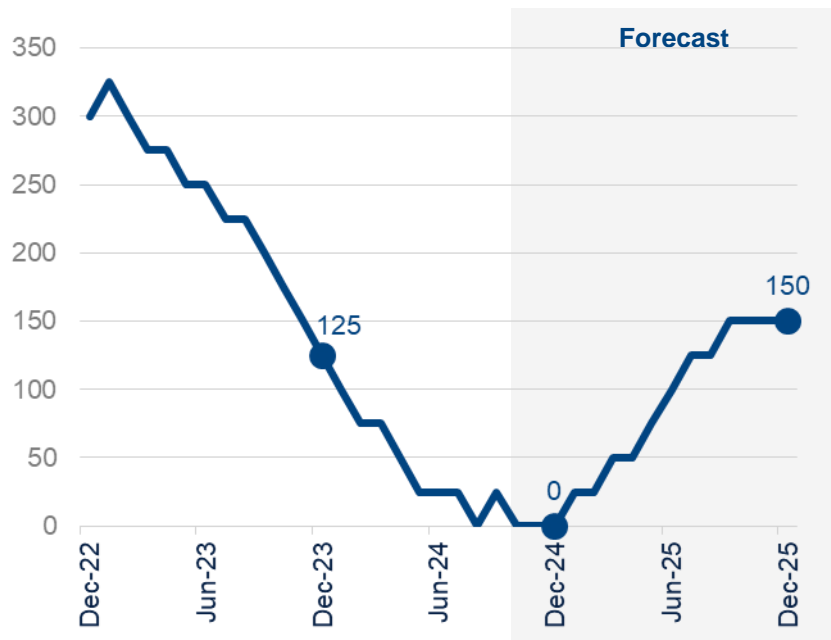


In the face of the controversial measures announced by Harris, different reactions have been observed:

- **Defense by Democrats.** Several Democratic governors such as Beshear (Kentucky), Pritzker (Illinois) and Whitmer (Michigan) defended their policies arguing that they are being interpreted in an exaggerated way and that they are within reasonable limits.
- **Criticism from the opposition.** Trump has harshly criticized policies to control price increases, arguing that they could lead to shortages and more inflation.
- **Criticism from economic experts.** Some experts, such as Furman and Rogoff, have criticized price hike control policies, arguing that they could negatively affect the supply of goods. On the other hand, Krugman defended Harris by arguing that her policies do not refer to price controls but rather to "legal restrictions."

The Fed's 50 bps rate cut temporarily raised the PEN-USD rate differential slightly in favor of the PEN. Next year it will normalize

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



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

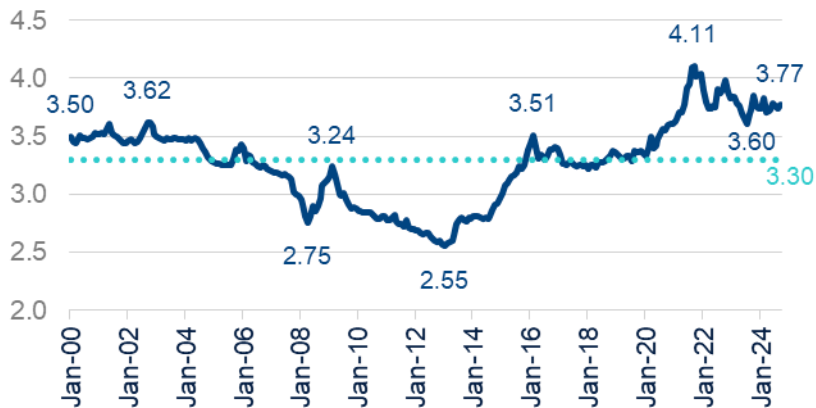
- 50 bp Fed rate cut in September raised the PEN-USD rate differential to 25 bp, but the cut in the domestic reference rate we expect in October would reduce it to zero again.
- With the BCRP rate already at its neutral level at the end of this year, the normalization of monetary policy in Peru would have concluded, but the Fed will continue to cut rates in 2025 to 3.0% in September.
- **Thus, in 2025, the normalization of the PEN-USD interest rate differential will favor sol-denominated assets.** In our new scenario, the Fed will move faster in its monetary easing.

Regardless, macro fundamentals (inflation, external and fiscal balances) remain solid and will help dampen exchange rate volatility

EXCHANGE RATE

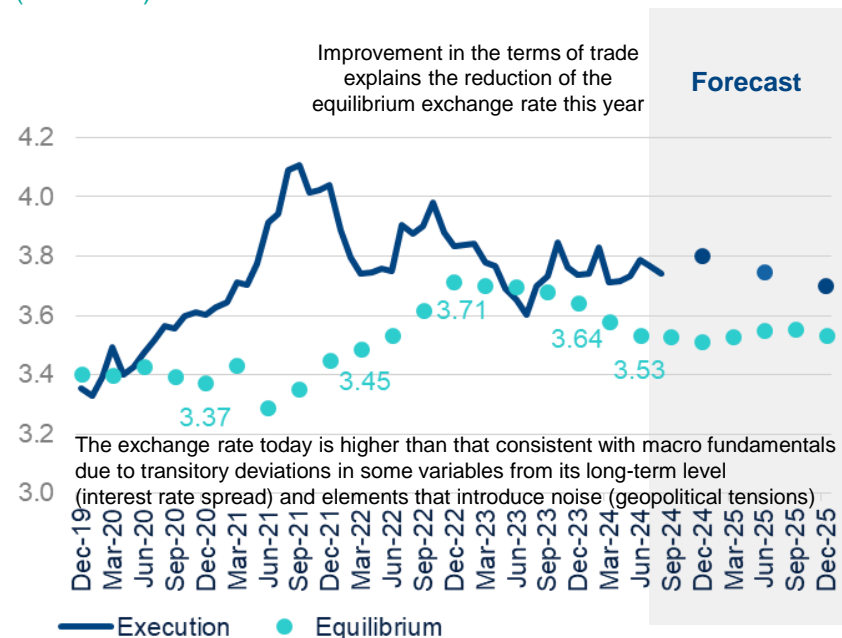
(PEN-USD)

	Cumulative % chg. 2024* vs. 2000	Sep.-24* - Dec.-23 (%)
Peru	5.6	0.0
Chile	69.8	1.5
Mexico	107.2	16.0
Colombia	124.7	9.1
Brazil	202.9	3.2



EXCHANGE RATE: ACTUAL AND EQUILIBRIUM

(PEN-USD)



* As of September 30

Source: BCRP and BBVA Research, based on a model whose determinants include the interest rate spread, net foreign asset position and terms of trade.

05

The main risks to Peru's economic outlook

Main local risks to the baseline scenario for Peru

ON THE EXTERNAL SIDE



Higher demand than expected due to monetary policy cuts and fiscal stimuli



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



Renewed political and social tensions



Greater uncertainty in 2025 related to the 2026 electoral process



Heightened insecurity due to increased crime and the spread of illegal economies



Weakening of public finances (higher spending) that compromises the sovereign credit rating

06

Summary of macroeconomic forecasts

Summary of macroeconomic forecasts

	2022	2023	2024 (f)	2025(f)	2026(f)
GDP (% %)	2.7	-0.6	2.9	2.7	2.7
Domestic demand (excluding inventories, % %)	2.4	-0.6	3.0	2.8	2.8
Private spending (% %)	2.6	-1.6	2.2	2.8	2.8
Private consumption (% %)	3.6	0.1	2.7	2.6	2.8
Private investment (% %)	-0.5	-7.3	0.8	3.5	3.0
Public expenditure (% %)	1.4	4.1	6.4	2.6	2.6
Public consumption (% %)	-0.2	4.6	4.2	2.4	2.2
Public investment (% %)	6.0	2.8	13.0	3.0	3.5
Exports (% %)	5.2	4.9	1.2	2.0	1.9
Imports (% %)	3.9	-1.4	3.7	2.7	2.8
Current account balance of payments (% of GDP)	-4.0	0.8	2.0	2.0	1.3
Exports (billions of USD)	66.2	67.5	71.3	73.8	73.5
Imports (billions of USD)	56.0	49.8	50.6	52.5	54.4
Exchange rate (vs. USD, EOP)	3.38	3.74	3.70-3.80	3.65-3.75	3.65-3.75
Inflation (% y/y, EOP)	8.5	3.2	2.5	2.3	2.6
Monetary policy interest rate (% , EOP)	7.50	6.75	4.50	4.50	4.50
Fiscal balance (% of GDP)	-1.7	-2.8	-3.4	-2.2	-2.2

(f) Forecast. Forecast closing date: September 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	2.8	3.9
Agricultural	4.5	-2.4	3.3	3.0
Fishing	-11.4	-19.7	29.2	4.3
Metal mining	0.0	9.2	1.2	3.7
Hydrocarbons	4.0	0.7	0.2	6.4
Primary manufacturing	-2.5	-2.4	7.1	5.3
Non-primary GDP (chg. %)	3.2	-1.4	3.0	2.6
Construction	3.1	-7.9	3.3	3.4
Trade	3.3	2.4	3.2	2.2
Non-primary manufacturing	2.2	-7.9	2.2	2.2
Services	3.2	0.0	3.1	2.6

(f) Forecast. Forecast closing date: September 17, 2024
Source: BBVA Research.

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Peru Economic Outlook

October 2024