BBVA Research

Peru Economic Outlook

December 2024

Creating Opportunities

BBVA Research

Índice

Key points

External economic situation

Headline inflation has continued to retreat, partly due to lower oil prices and oversupply in China, even though economic growth and core inflation remain resilient. This situation, coupled with expectations that Trump's policies will boost inflation and fiscal risk, has shored up US sovereign yields and the US dollar.

Domestic economic situation

The economy continued its cyclical recovery process during the third quarter of the year (+3.8% year-on-year), supported by pension funds withdrawals, lower inflation, the recovery of the formal labor market, improved business confidence, and strong public investment. The sectoral restructuring has been particularly notable, with the non-primary component playing a more prominent role, in line with the improved performance of domestic demand.

On the external side, the Peruvian economy continues to fare well, with terms of trade at historical highs and surpluses in the trade and current account of the balance of payments. That said, the nation's fiscal accounts are a cause of concern, with a relatively high and persistent deficit (4.0% of GDP) due to revenues that are not yet improving and public investment that remains buoyant. Despite this, gross public debt remains low (33% of GDP) and rating agencies such as Moody's and Fitch have in recent months upgraded the sovereign rating outlook to "stable."

Key points

Global macro outlook: economic activity

Assuming that the new US administration does ultimately raise tariffs, especially on China, economic growth in the United States is expected to fall from 2.7% (+0.2 pp higher than previously forecast) in 2024 to 2.1% (-0.1 pp) in 2025, and in China from 4.8% (+0.2 pp) to 4.1% (-0.1 pp), where recent stimulus measures will provide some respite. In the Eurozone, protectionism will keep economic growth low at around 0.8% (+0.1pp) in 2024 and 1.0% (-0.4pp) in 2025.

Global macro outlook: rates and inflation

Inflation will rise in the United States, but will remain subdued in the Eurozone and China amid weaker demand and lower oil prices. There will be less room for monetary easing in the US (where rates will reach 4% in 2025 and 3% in 2026), whereas the Eurozone and China will have more leeway for further policy rate cuts.

Global risks

The balance of risks has taken a turn for the worse. Uncertainty is high, and the trade and immigration policies of the new Trump administration, coupled with rising geopolitical tensions, could impact global supply. Expansionary fiscal policies cannot be ruled out, which would exert further upward pressures on inflation and interest rates.

Key points

Domestic macro outlook: economic activity

The baseline scenario assumes that the international environment will remain challenging due to the policies to be implemented by the incoming US administration and rising geopolitical tensions. Domestically, it considers relatively normal weather conditions over the forecasting horizon, mirroring what specialized agencies anticipate, as well as a relatively stable political and social context, albeit fragile and with latent risks on the regulatory side due to initiatives that could emanate from Congress. Private spending will be supported by positive business confidence, coupled with gradually softer financial conditions. Lastly, the baseline scenario considers that next year will see the start of construction of several major investment projects such as Antamina (copper mine life extension), Tía María, Zafranal, Chavimochic III, and the Vía Expresa Sur in Lima.

For 2024 we estimate economic growth of 3.1%, 0.2pp above our previous forecast. This reflects the positive surprise that we saw in the third quarter and a higher-than-expected quota allocated for the second fishing season. For 2025, our forecast remains at 2.7%. In that year, the policies of the new Trump administration will begin to unfold and the positive impact of pension funds withdrawals will dissipate, but private spending will find support from other factors and the construction of mining and infrastructure projects will begin. In 2026, uncertainty related to the electoral process will surely increase, but this is expected to be offset by higher investment flows, so that economic growth should be similar to that of 2025.

Key points

Domestic macro outlook: fiscal accounts

The fiscal deficit remains at around 4.0% of GDP. Revenues have not been improving, despite increased economic activity and high export prices. This should change in the coming months. In 2025 fiscal revenues will be supported by the clearing of the previous year's income tax, the introduction of the digital services tax, and by extraordinary revenues (related to the private sale of an electric utility). We also expect public investment growth to moderate. In that context, the fiscal deficit is estimated to reach 3.9% of GDP in 2024 and 2.7% in 2025, trending downward moving forward, but nevertheless remaining above the ceilings established in the fiscal rule. This implies gross public debt, currently at 33%, will reach a level close to 36.0% of GDP by the end of the forecasting horizon (2029).

Domestic macro outlook: external accounts

The current account surplus of the balance of payments will tend to decrease over the next couple of years. Against the backdrop of a more challenging international environment, terms of trade are expected to turn down and, in line with the considerations set out in the baseline scenario, some goods exports will be affected by the protectionist measures to be implemented by the incoming US administration. Meanwhile, imports will increase as private spending recovers. As a result, after exceeding 2.0% of GDP in 2024, the current account of the balance of payments surplus will be closer to 1.0% in 2026. This scenario is consistent with a normalization of private savings (after peaking in 2024), coupled with a gradual improvement in private investment.

Key points

Domestic macro outlook: foreign exchange

The foreign exchange has been volatile. Uncertainty about the policies to be implemented by the incoming US administration, the course that the Fed will take, and the economic growth outlook for China explain it. We believe the USDPEN will end the year in a range between 3.75 and 3.85 soles per dollar. In 2025, with an interest rate differential very similar to the current one, a comfortable external surplus, but also surely with investors taking defensive positions in the FX market due to the proximity of the electoral process, the foreign exchange will likely close at a similar level to the one we expect to see this year. By mid-2026, when the Fed resumes its process of monetary normalization, the interest rate differential will widen and favor the Peruvian sol, leading it to appreciate. We expect to see the foreign exchange ending 2026 between 3.65 and 3.75 soles per dollar.

Domestic macro outlook: inflation

Inflation, core inflation, and inflation expectations are already comfortably within the central bank's target range (2%, +/- one percentage point). The baseline scenario, in which weather conditions remain relatively normal going forward, slack in the economy gradually dissipates, and inflation expectations remain anchored, is consistent with inflation staying under control over the coming months. In this context, we expect inflation to be 2.2% in 2024, 2.5% in 2025, and 2.6% in 2026, a level we consider as the steady-state.

Key points

Domestic macro outlook: monetary policy

The central bank continues to suggest that it will continue to ease its monetary policy stance, although it is in no hurry to do so and financial volatility is a factor to take into account. The policy interest rate, currently at 5.00%, is already close to the level we estimate to be neutral. In this context, and considering the absence of inflationary pressures and the fact that there is still slack in the economy, we still expect monetary policy to reach a neutral stance in early 2025. In that sense, we should see two rate cuts (each of 25 bp) before the end of 2Q25. The timing will mainly depend on what happens in the financial markets, affected by uncertainty related to Trump 2.0. This will bring the policy rate to a level of 4.50%.

Main domestic risks

(i) Escalation of political and social unrest; (ii) the government being ousted before 2026, generating instability and bringing forward general elections; (iii) an adverse electoral result for the market-oriented economy; (iv) credit conditions that do not improve as expected; (v) heightened insecurity amid increased criminal activity and the spread of illegal economies; and (vi) a more positive economic impact from the new port of Chancay.

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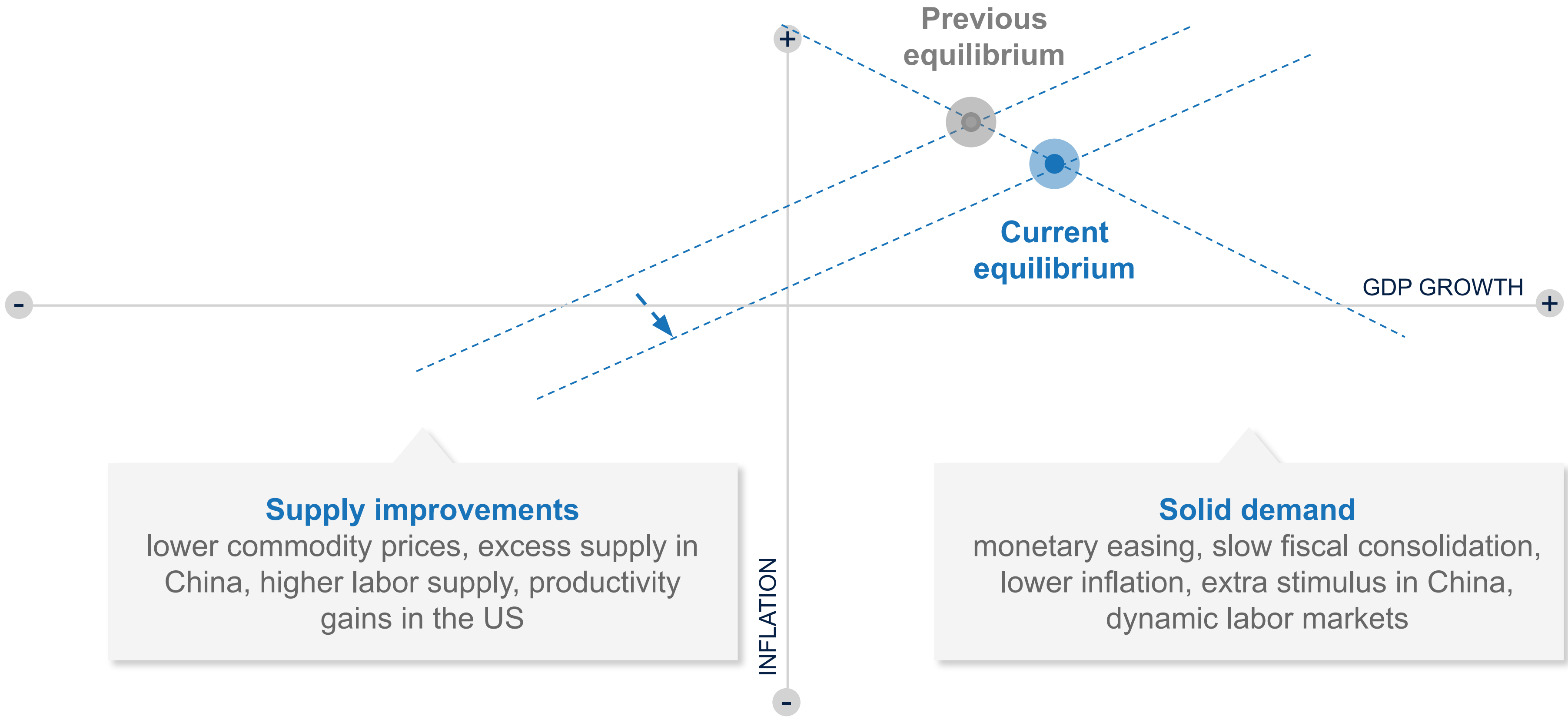
01

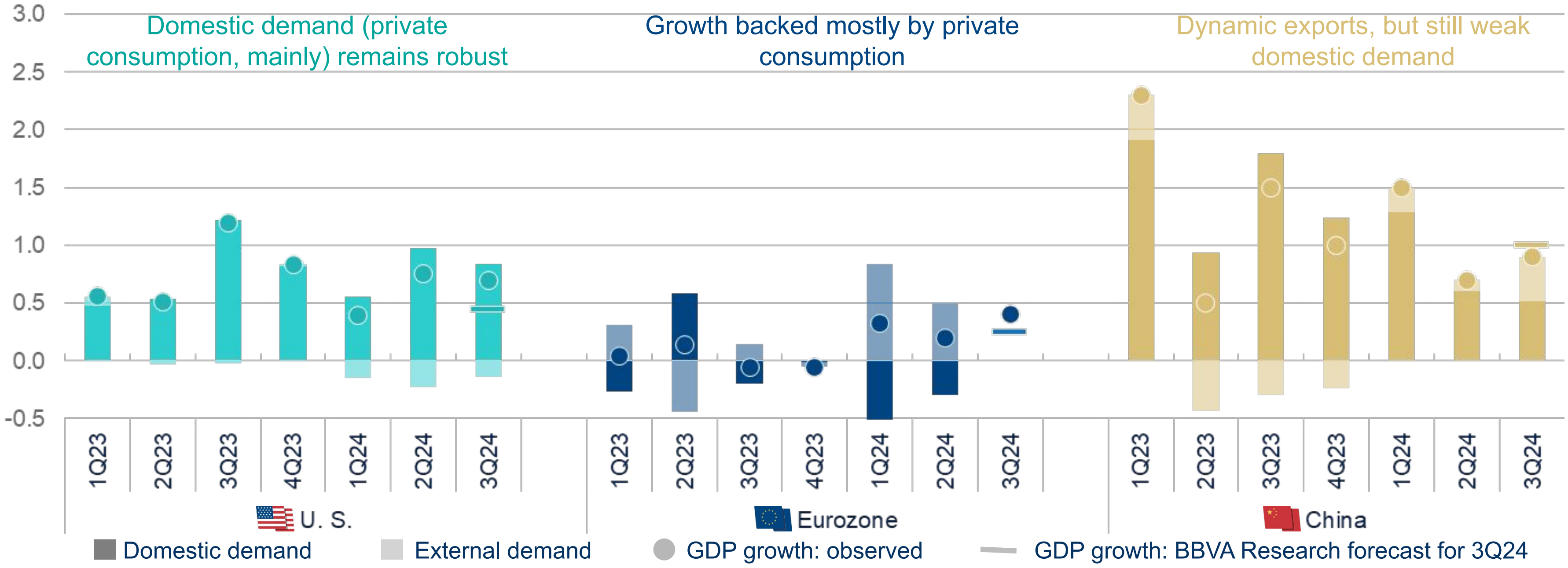
International context: activity and financial markets

Recent supply improvements have allowed further declines in headline inflation and supported growth ahead of a new Trump government in the US



Growth has surprised upwards in 3Q24, mainly in the US but also in the EZ; in China it has recovered somewhat amid increasing counter-cyclical policies

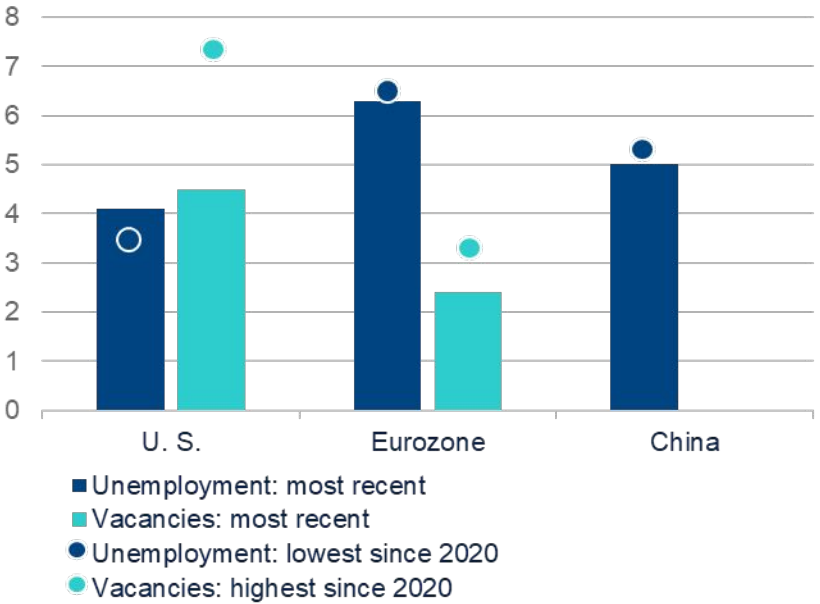
GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)



Source: BBVA Research based on data from Haver and China's NBS.

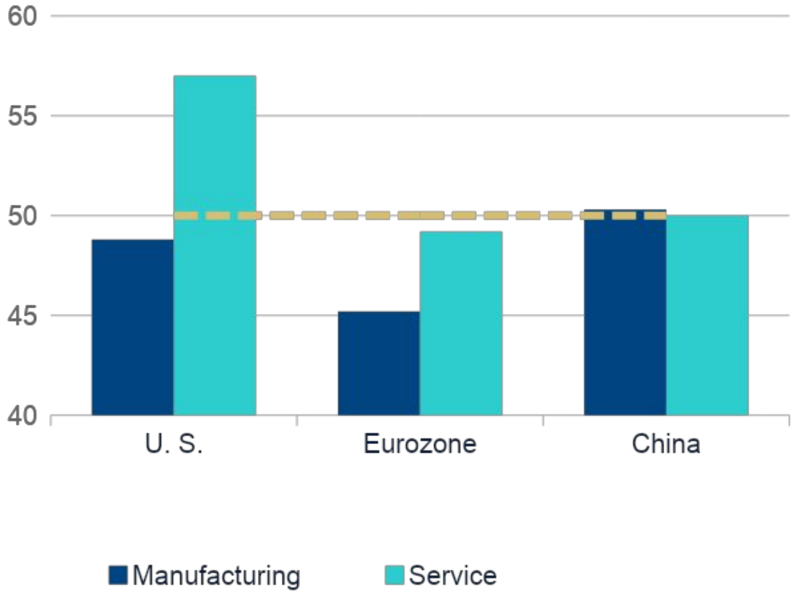
Solid labor markets, despite recent softening; persistent contrast between strength in services and weakness in manufacturing

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)

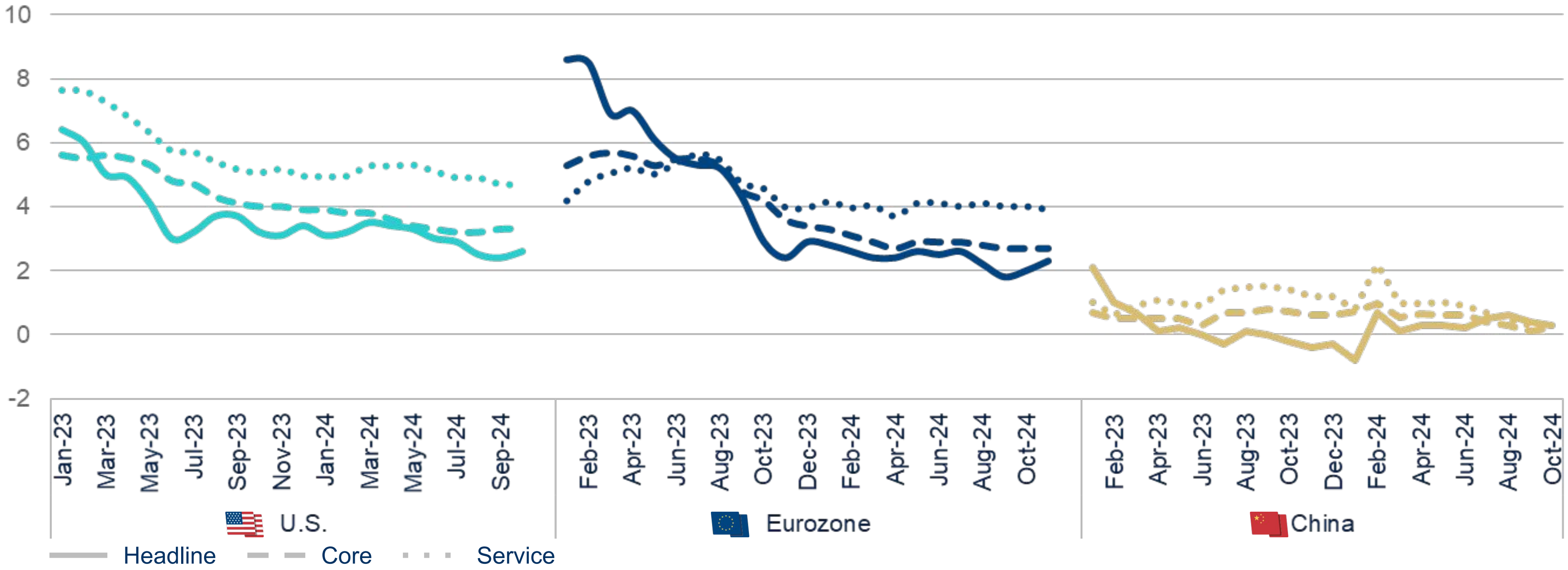


(*) November 2024.
Source: BBVA Research based on data from Haver.

Inflation continues to ease and is now close to the targets, but service and core measures remain stickier, amid resilient demand and still pressured wages

CPI INFLATION: HEADLINE, CORE AND SERVICE

(Y/Y %)

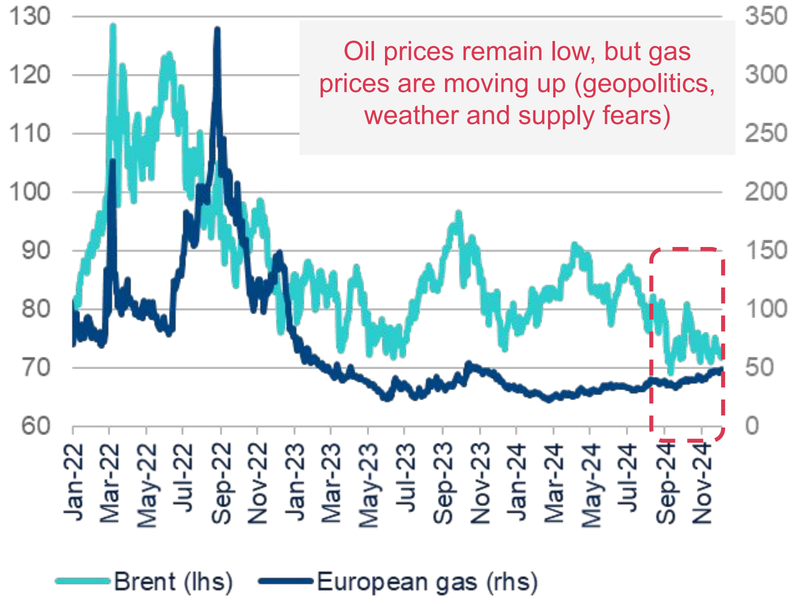


Source: BBVA Research based on data from Haver.

Low oil prices and abundant Chinese supply, particularly of manufactured goods, have helped to lower inflation and keep growth relatively robust

BRENT OIL AND GAS PRICES (*)

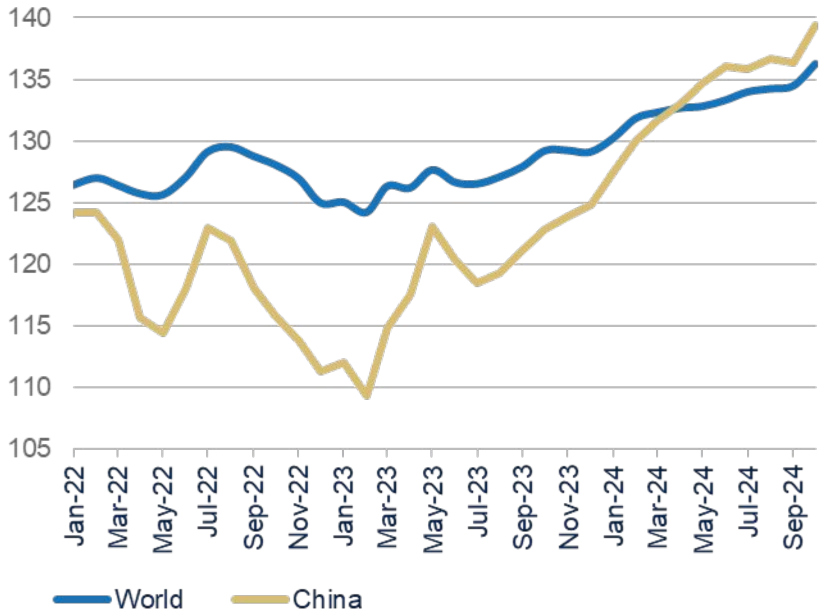
(OIL: USD PER BRENT BARREL; GAS: EURO /MWH)



(*) Last available data: December 3rd, 2024.
Source: BBVA Research based on data from Haver.

BBVA RESEARCH TRADE INDICATOR (*)

(INDEX: 2019 AVERAGE =100; IN REAL TERMS)

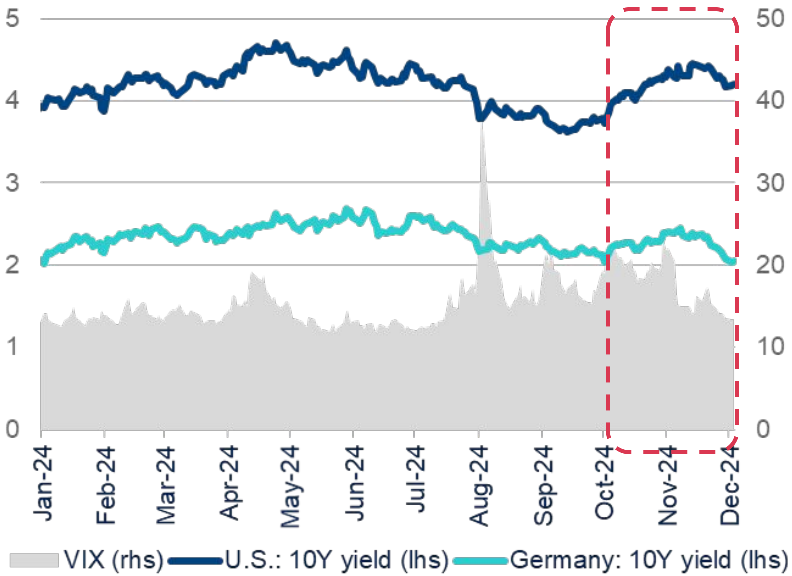


(*) The indicator is a three-month moving average of goods exports, from a sample of 25 countries (in the case of the World indicator). It is deflated using export price indexes.
Source: BBVA Research based on Haver data

US sovereign yields have increased, reflecting the view of larger fiscal risks and inflationary pressures under Trump, and strengthening the dollar

SOVEREIGN YIELDS AND VOLATILITY (VIX) (*)

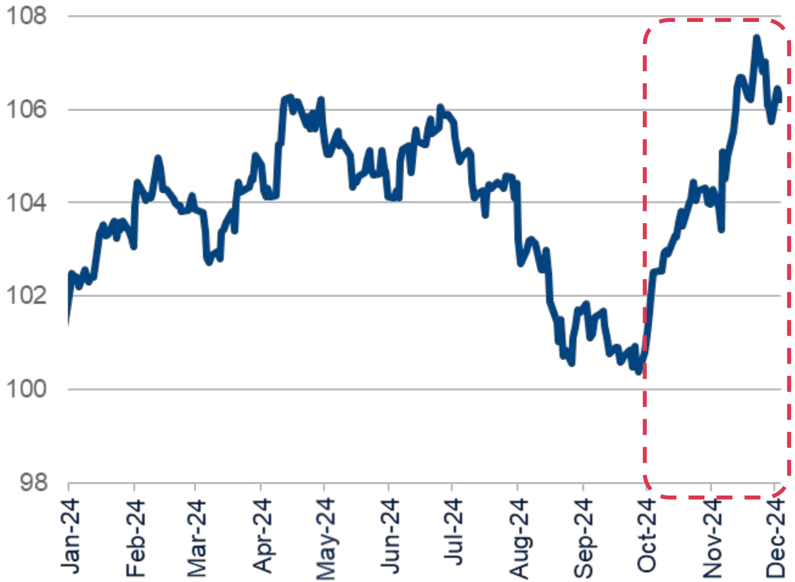
(%)



(*) Last available data: December 3rd, 2024.
Source: BBVA Research based on data from Haver.

US DOLLAR: DXY (*)

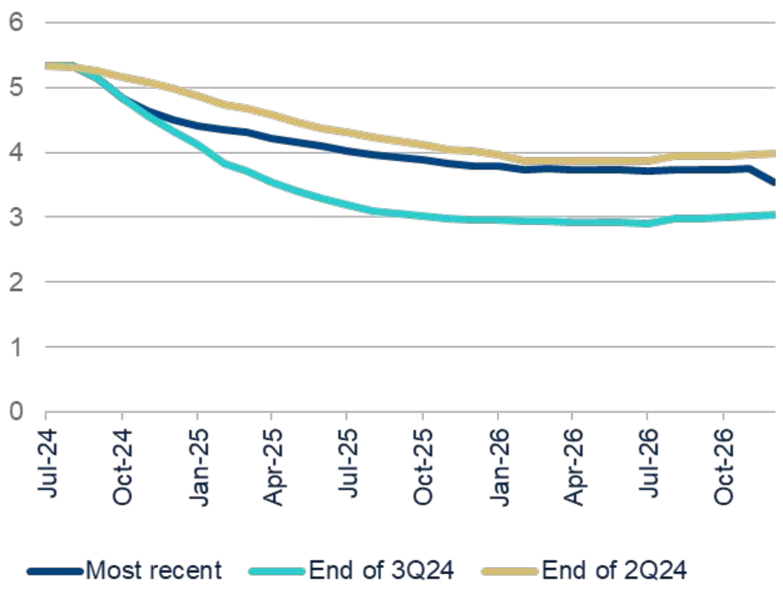
(INDEX)



(*) A lower DXY index represents a weaker US dollar. December 3rd, 2024.
Source: BBVA Research based on data from Haver

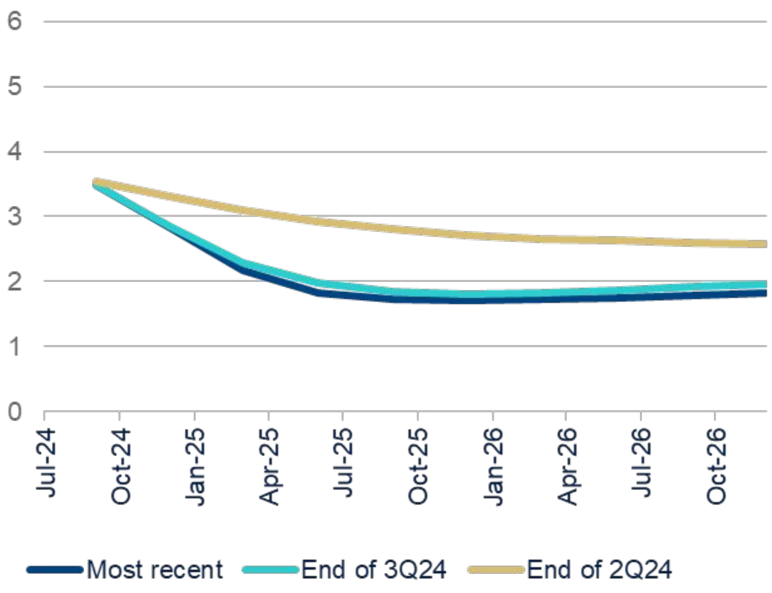
Markets see less room for further monetary easing, and higher terminal rates, in the U.S. than in the Eurozone, due to likely impact of Trump's policies

US: IMPLICIT RATE IN FED FUND FUTURES (*) (%)



(*) Last available data: December 3rd, 2024.
Source: BBVA Research based on data from Haver.

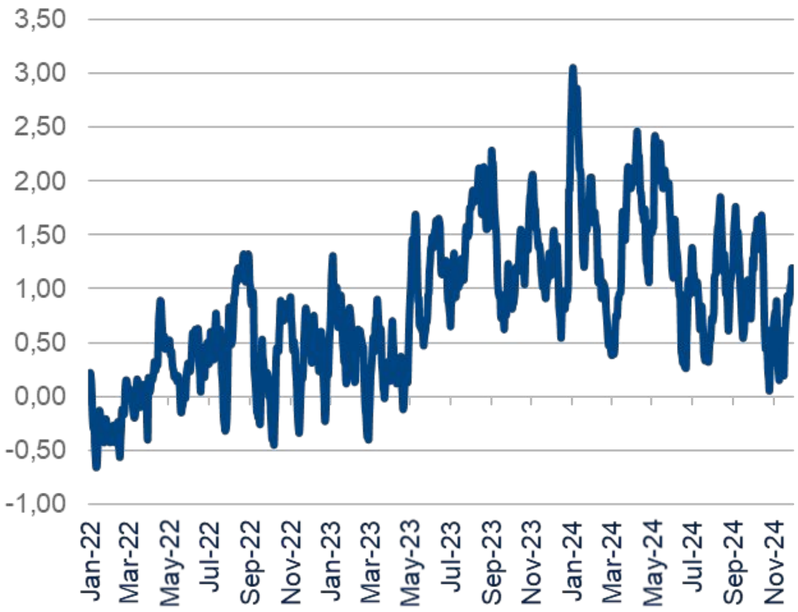
EZ: IMPLICIT RATE IN 3-MONTH EURIBOR FUTURES (*) (%)



(*) Depo interest rates. Last available data: December 3rd, 2024.
Source: BBVA Research based on data from Haver.

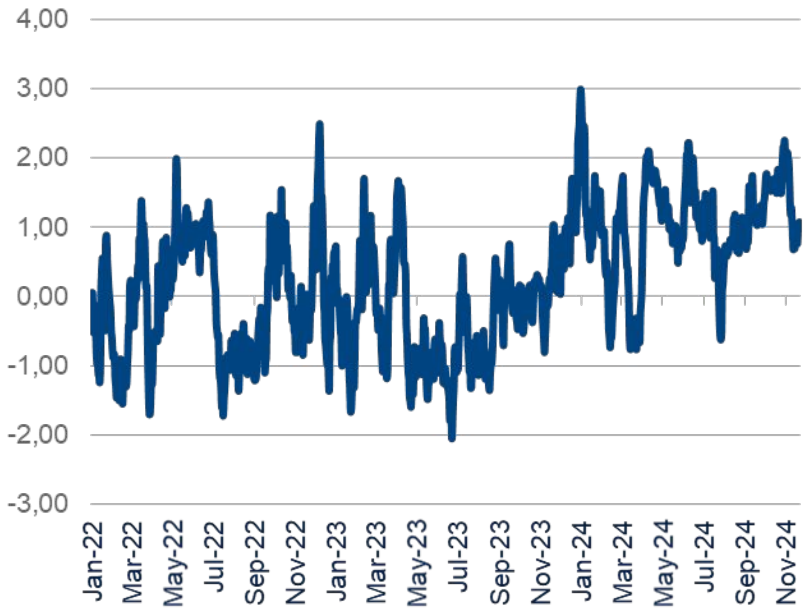
Conflicts in the Middle-East and in Ukraine continue to have a relatively limited impact on financial markets and macro data

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



(*) Last available data: December 1st, 2024.
Source: BBVA Research Geopolitics Monitor.

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

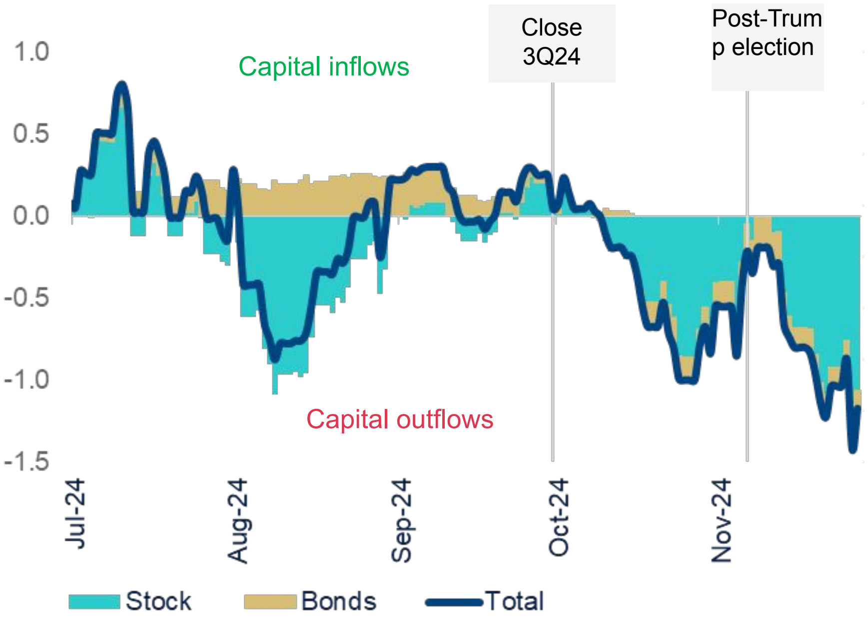


(*) Last available data: December 1st, 2024.
Source: BBVA Research Geopolitics Monitor.

Following the US election results, EM capital outflows intensified, although the impact on country risk has been limited...

CAPITAL FLOWS TOWARD EMERGING MARKETS[1]

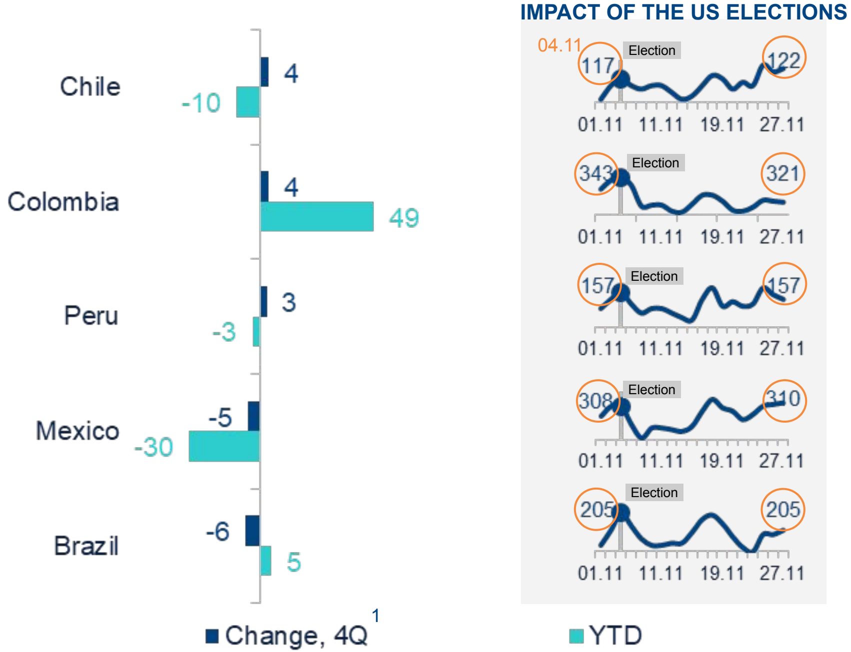
(USD BILLIONS, 28-DAY ROLLING AVERAGE)



1: Includes China.
Source: IIF (information as at November 27).

LATAM: COUNTRY RISK

(MEASURED WITH THE EMBI, IN BASIS POINTS)

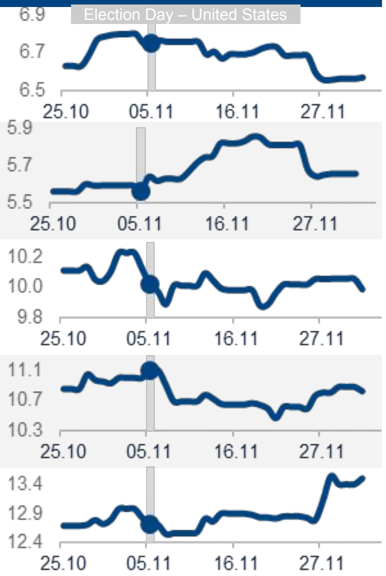


1: Change in the latest available data with respect to the end of the third quarter.
Source: BBVA Research, with BCRP data (information as of November 27).

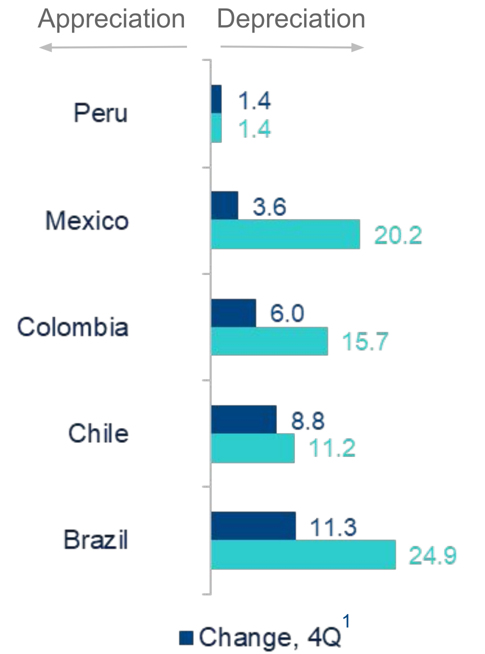
… government bond yields and exchange rates in LatAm

LATAM: SOVEREIGN BOND YIELDS 10 YEARS

	Chg. compared to Close 3Q24 (bp)	YTD (bp)
Peru	34	-11
Chile	51	18
Mexico	62	103
Colombia	75	87
Brazil	108	315



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



IMPACT OF THE US ELECTIONS

(Day before elections = 100)

Source: BBVA Research, with data from Investing (information as of December 2).

1: Change in the latest available data with respect to the end of the third quarter.

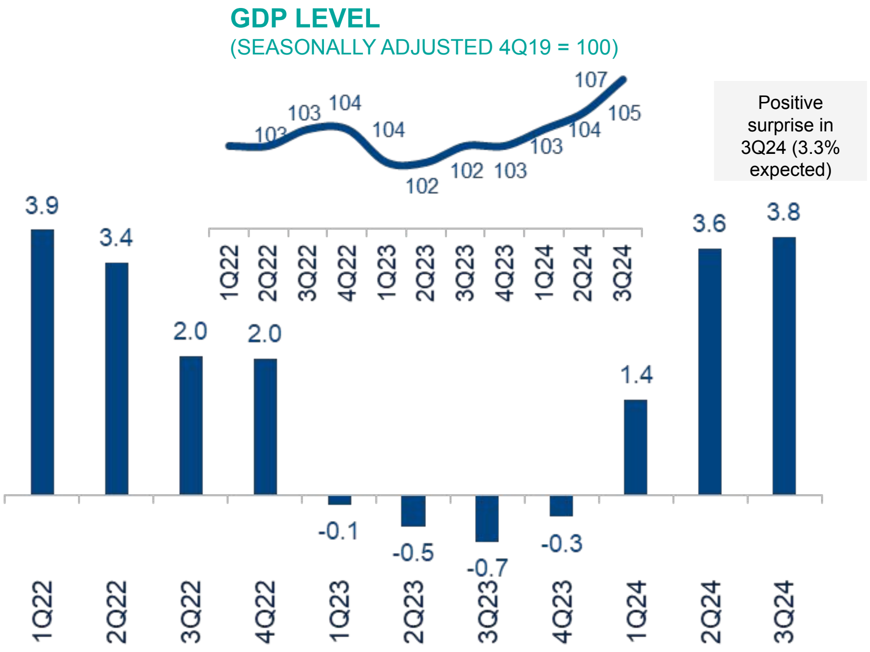
Research

02

Local context: activity, employment, external and fiscal accounts

The economy continued its cyclical recovery process during the third quarter, with a sectoral reshuffling of the growth drivers

GDP
(YoY % CHG.)



Source: INEI and BCRP

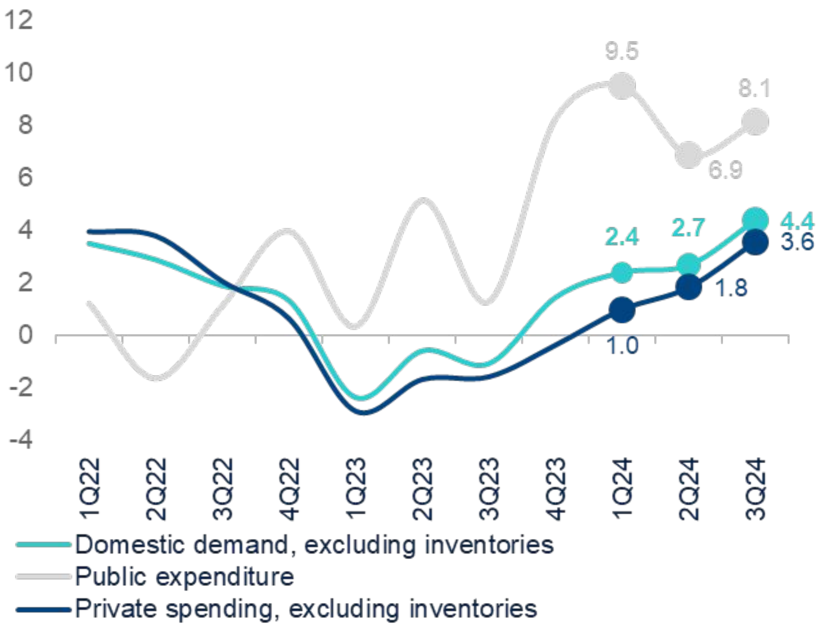
GDP SECTORS
(YoY % CHG.)

	2023	1T24	2T24	3T24
GDP	**-0.4**	**1.4**	**3.6**	**3.8**
Primary GDP	**2.9**	**1.5**	**6.4**	**2.4**
Agriculture	-2.4	-0.5	8.5	-1.5
Fishing	-21.2	-29.8	184.2	-11.1
Mining	9.3	9.4	-3.1	3.8
Hydrocarbons	0.7	0.9	-2.9	8.3
Prim. mfg.	-2.3	-18.3	38.8	2.6
Non-primary GDP	**-1.2**	**1.6**	**2.7**	**4.2**
Non-prim. mfg.	-8.0	-2.1	12	6.1
Construction	-7.8	4.7	3.1	4.7
Trade	2.4	2.4	2.5	3.2
Electricity	3.7	3.7	1.4	2.1
Services	0.3	1.7	3.2	4.0
Financial services	-7.8	-4.5	-1.3	-0.2
Telecom.	-3.9	0.0	2.5	2.1
Accommodation[1]	2.7	3.6	0.4	5.8
Transport	-1.6	4.2	6.7	7.2
Other services[2]	3.7	2.7	4.1	4.9

1: Includes restaurants.
2: Includes education, health services, real estate activities and other professional services activities.

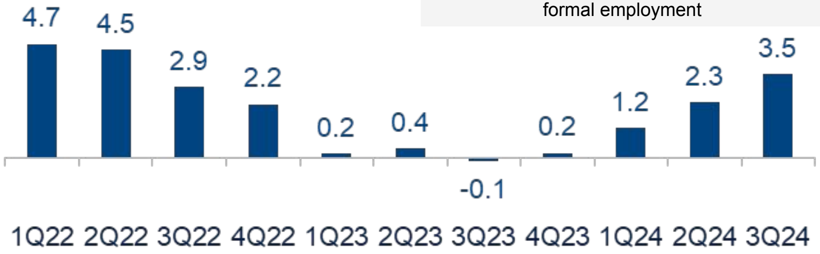
On the expenditure side, domestic demand picked up: fiscal momentum was maintained and private consumption and investment continued to recover

DOMESTIC DEMAND
(YoY % CHG.)



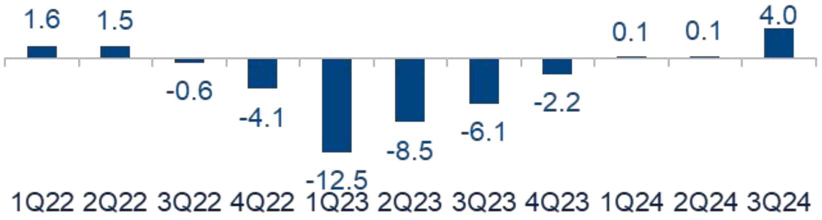
PRIVATE CONSUMPTION
(YoY % CHG.)

Positive impact of the release of pension funds, drop in inflation and recovery of formal employment



PRIVATE INVESTMENT
(YoY % CHG.)

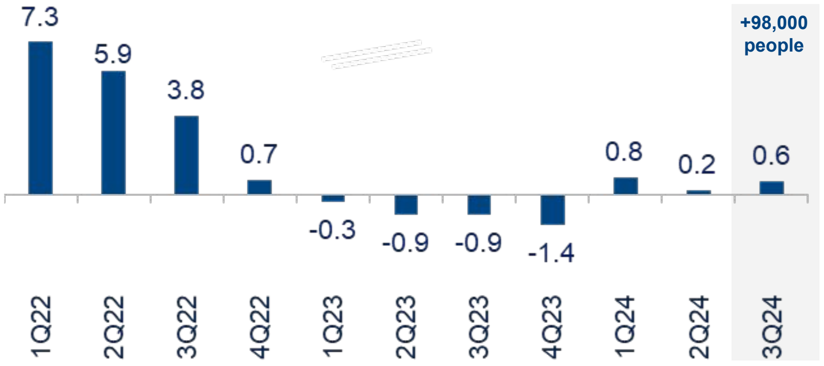
Improved performance by non-residential non-mining investment as business confidence steadily recovers



Source: BCRP.

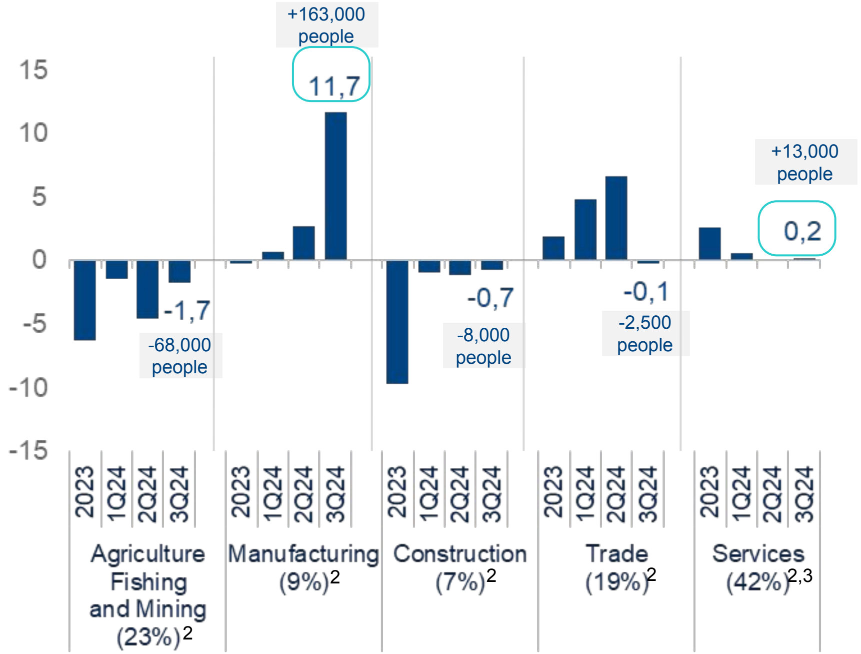
At the national level, employment has been recovering throughout the year, especially in the manufacturing sector

EMPLOYMENT AT NATIONAL LEVEL [1]
(YoY % CHG)



	3Q-22	3Q-23	3Q-24
Employed EAP (thousands)	17.632	17.207	**17.305**
Unemployment rate (%)	4.3	5.1	**5.3**

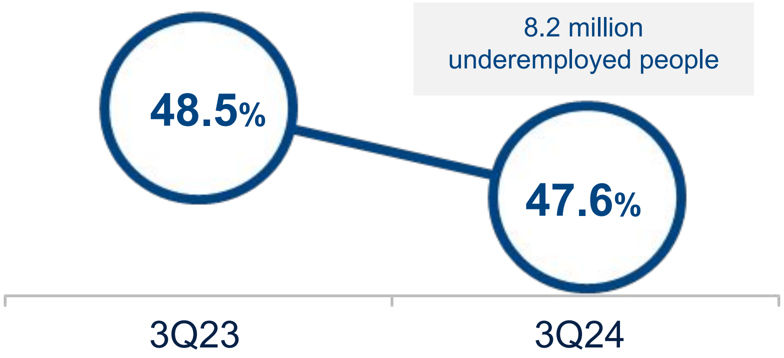
EMPLOYMENT AT THE NATIONAL LEVEL BY SECTOR
(YoY % CHG.)



1: Until December 2022, ENAHO information is used; for 2023 and 2024 the EPEN is used.
2: The parentheses on the horizontal axis indicate the sector's share of the EAP (economically active population).
3: The services sector includes transport and communications. Financial intermediation, real estate, business and renting activities, education, health and social work activities.
Source: INEI (ENAHO, EPEN). Prepared by: BBVA Research

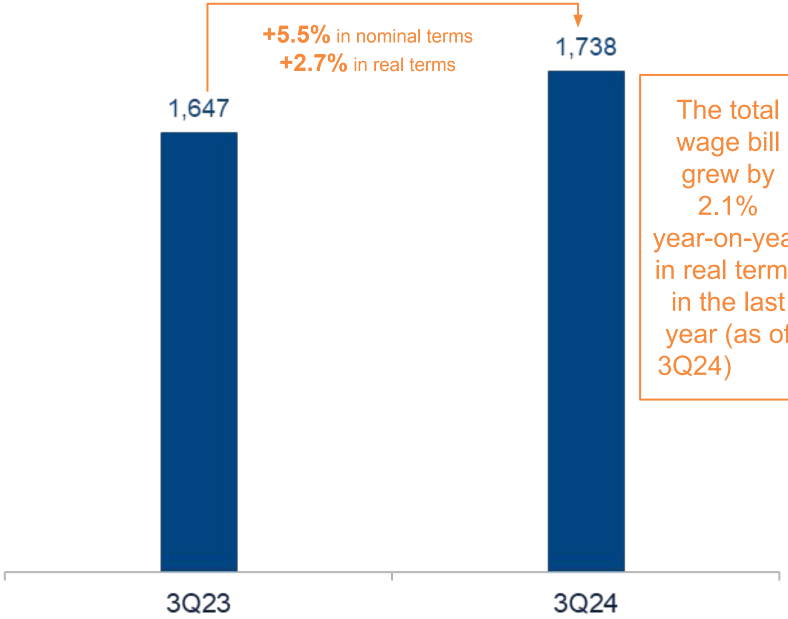
The quality of employment is also improving, thus pushing up wages

RATE OF SUB-EMPLOYMENT [1]
(AVERAGE LAST FOUR QUARTERS)



The **increase in quality jobs** (107 thousand people) **was equivalent to 82% of the people who joined the labor market** in the last year (as of 3Q24).

WAGE INCOME OF THE AVERAGE WORKER
(MONTHLY, SOLES IN NOMINAL TERMS)

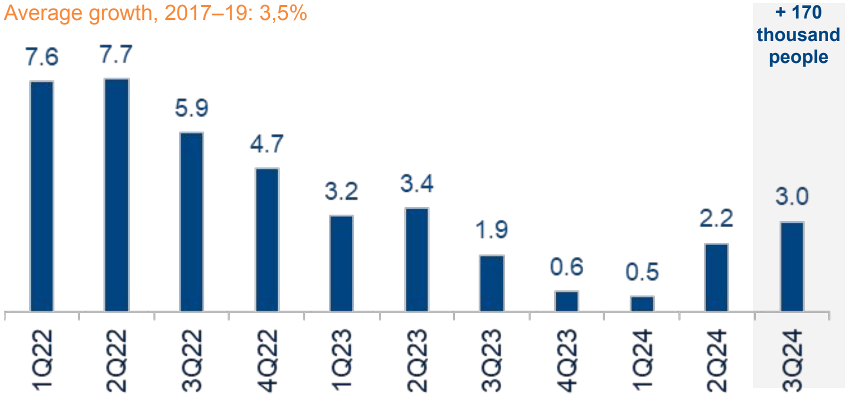


The total wage bill grew by 2.1% year-on-year in real terms in the last year (as of 3Q24)

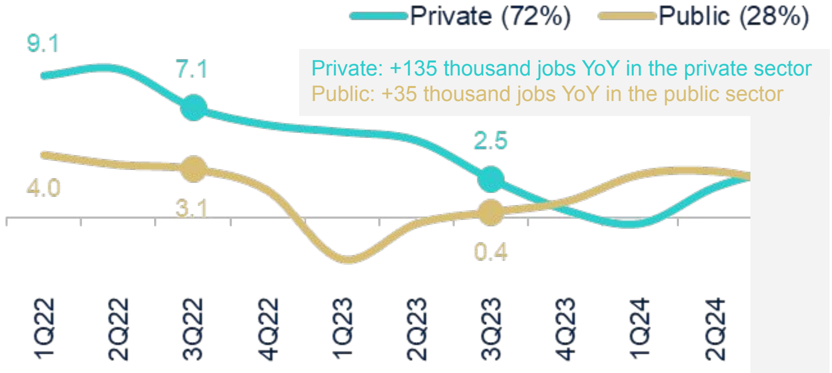
1: A worker is considered to be employed in adequate conditions if they work 35 or more hours per week and earn income equal to or greater than the Minimum Reference Income. It is also anyone who voluntarily works less than 35 hours.
Source: INEI (EPEN)

Formal employment (according to electronic payrolls) has picked up, especially in the private sector

NATIONAL FORMAL EMPLOYMENT
(YoY % CHG.)



NATIONAL PRIVATE AND PUBLIC FORMAL EMPLOYMENT[1]
(YoY % CHG.)



(THOUSANDS OF FORMAL JOBS, END OF PERIOD)

	3Q19	3Q20	3Q21	3Q22	3Q23	3Q24
Total	5.354	5.076	5.453	5.745	5.804	6.036
Private	3.859	3.524	3.872	4.118	4.169	4.365
Public	1.495	1.552	1.581	1.627	1.635	1.671

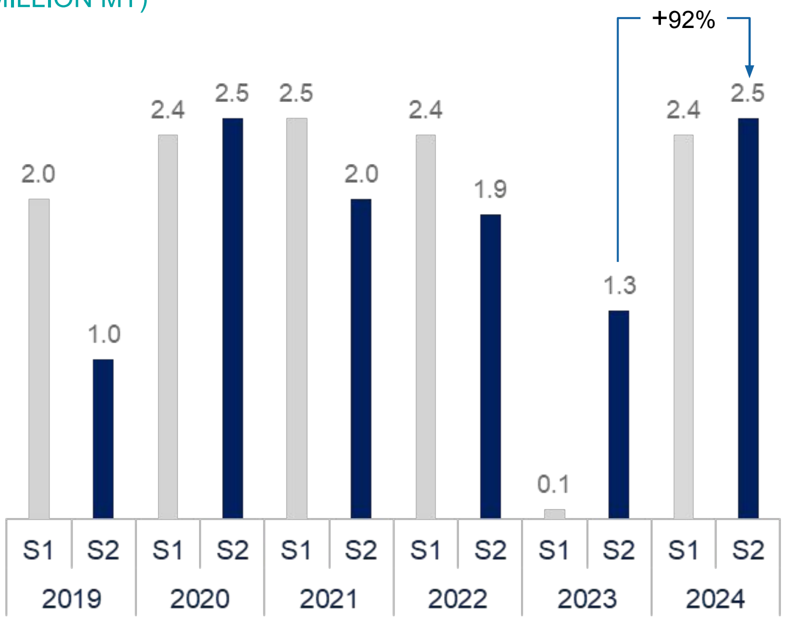
At the end of the third quarter, there was noteworthy generation of formal employment in agriculture[2], partly due to a low year-on-year comparison base (meteorological anomalies in 2023), followed by construction and mining.

Source: SUNAT (electronic records) and BCRP. Prepared by: BBVA Research.

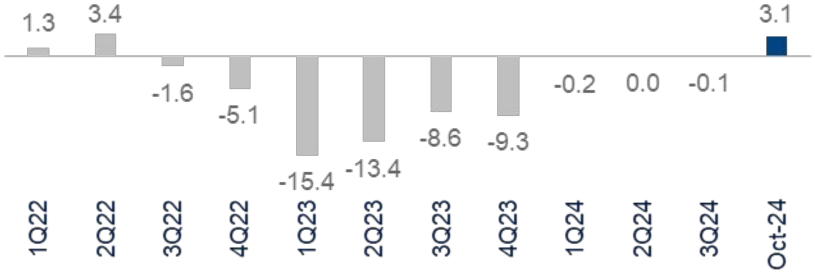
1: Parentheses in the legend indicate participation within total formal employment.
2: Includes agriculture, livestock, and processing and preservation of fruits and vegetables.

Available indicators suggest that economic activity growth will remain relatively strong throughout 4Q24

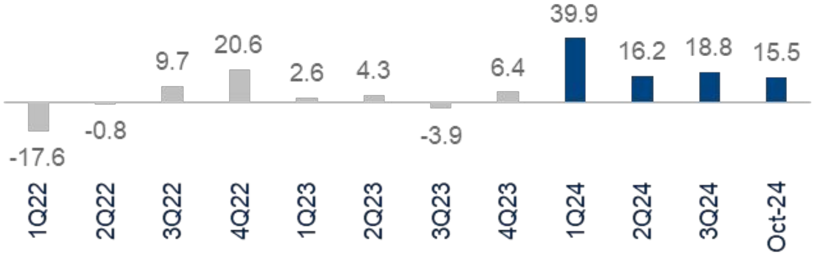
FISHING | ANCHOVY LANDINGS IN THE NORTH-CENTRAL AREA BY SEASON[1] (MILLION MT)



DOMESTIC CEMENT CONSUMPTION (YoY % CHG.)



PUBLIC INVESTMENT[2] (YoY % CHG.)



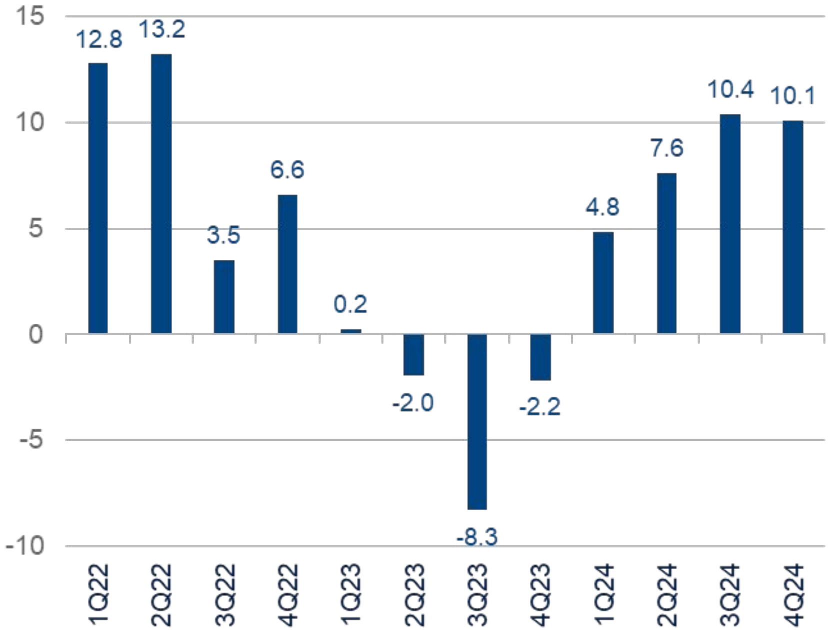
S1 = First season of the year. S2 = Second season of the year

1/ Data for the second season of 2024 correspond to the quota assigned. 2/ The figure for October 2024 is estimated on the basis of general government gross capital formation.

Source: Produce, BCRP and ASOCEM

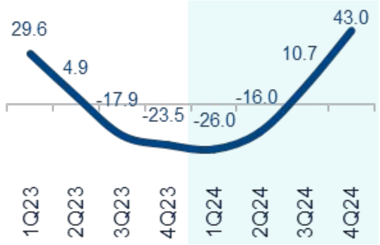
Available indicators suggest that economic activity growth will remain relatively strong throughout 4Q24

CONSUMER BIG DATA INDEX [1]
(YoY % CHG.)

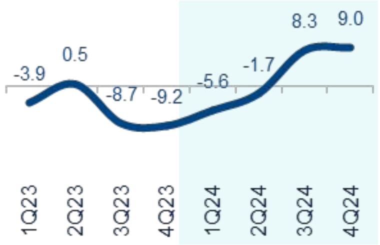


CARD PURCHASES[1]
(YoY % CHG., IN REAL TERMS, SELECTED CATEGORIES)

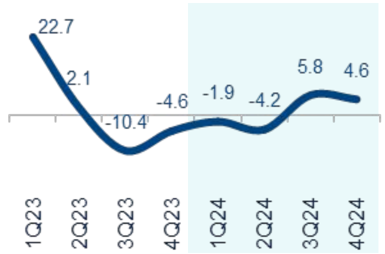
ENTERTAINMENT



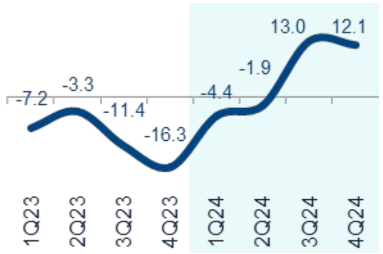
HEALTH



AIRFARES



SERVICES FOR THE HOME
(TELEPHONY, INTERNET, CABLE)



1: Information for 4Q24 is as of November 29. Relies on information on the amount of credit and debit card purchases made by households and cash withdrawals through ATMs and teller windows.
Source: BBVA Research.

On the external side, terms of trade continued to increase in the third quarter, reaching all-time highs

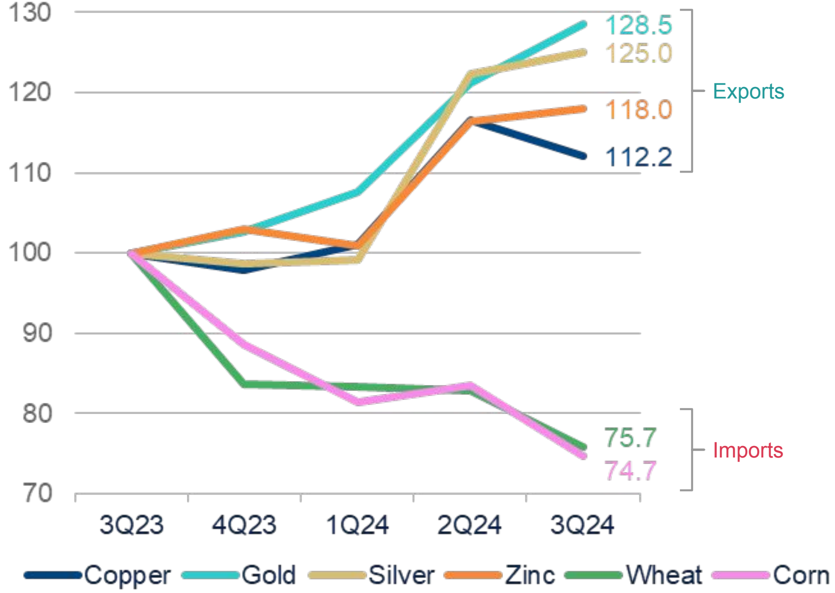
TERMS OF TRADE

(INDEX, 2007 = 100)

Source: BCRP.

SELECTED EXPORT AND IMPORT PRICES

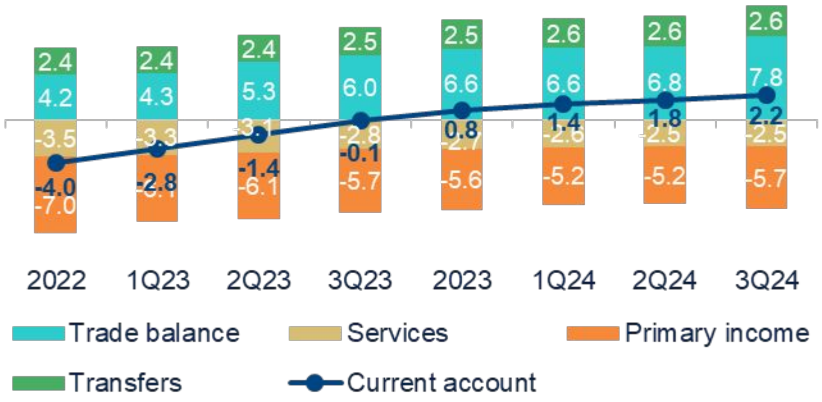
(INDEX, 3Q23 = 100)



Source: BCRP.

As a result, the current account surplus of the balance of payments continued to rise

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



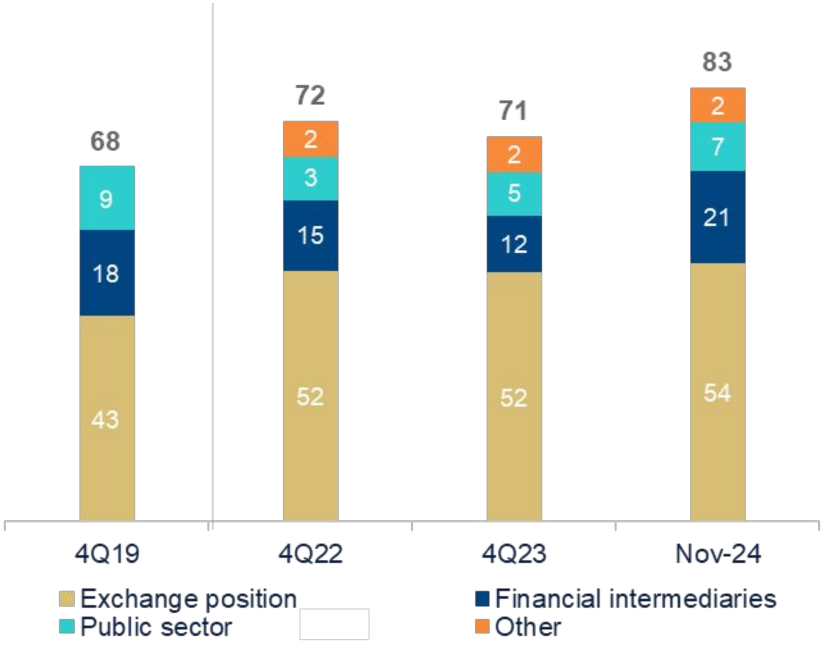
% of GDP (cum. 4Q)	4Q22	4Q23	3Q24
National savings	16.8	18.4	19.9
Public sector	4.4	2.2	1.4
Private sector	12.5	16.2	18.5
External savings	4.0	-0.8	-2.2
Investment[1]	20.8	17.6	17.7

1: Includes inventory accumulation.
Source: BCRP.

- The trade balance surplus remains high, at around USD 22.0 billion in 3Q24.
- Main support factors: higher prices of exported metals and higher volume of exports of both traditional (fishmeal, gold, silver, molybdenum) and non-traditional goods.
- The profits of foreign companies have also benefited from these factors, leading to an expansion in primary income, thus curbing the positive impact of the trade balance on the current account surplus of the balance of payments, which nevertheless continued to increase.
- The increase in private savings is the main factor explaining the lower external savings needs (savings-investment gap) so far this year, more than offsetting the decline in public savings.

The Peruvian economy has a relatively low external vulnerability, which helps to cushion eventual episodes of international volatility

NIR [1]
(BILLIONS OF USD)



1: As of November 27.
Source: BCRP.

INTERNATIONAL LIQUIDITY INDICATORS[1]

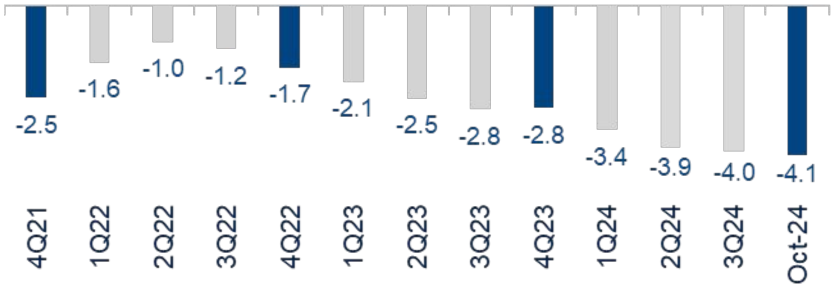
	4Q19	4Q22	4Q23	Nov-24
Net international reserves (NIR)[1] (% of GDP)	29.3	29.4	26.5	29.5
NIR[1] / Monthly imports[3] (times)	16	12	14	15
NIR[1] / Short-term external debt[2] (times)	8.6	7.4	6.0	8.3
Medium- and long-term liabilities[2] (% of GDP)	31.3	37.7	34.9	36.4
Private[2] (% GDP)	14.5	13.1	12.3	13.2
Public[2] (% GDP)	16.8	24.6	22.6	23.2
Short-term liabilities[2] (% of GDP)	3.4	4.0	4.4	3.5

1: NIR as of November 27. 2: Information as of the third quarter of 2024.
Source: BCRP.

The fiscal accounts are a cause for concern: relatively high and persistent deficit as revenues are not growing (coupled with heavy public investment)

FISCAL BALANCE

(NON-FINANCIAL PUBLIC SECTOR, CUMULATIVE OVER THE PAST 12 MONTHS, % OF GDP)

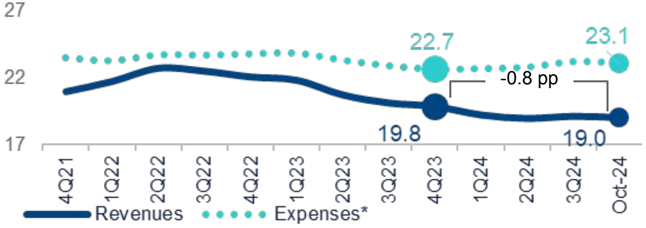


- It is highly unlikely that the fiscal target (ceiling of 2.8% of GDP) will be met this year. It will be the second year running that Peru has fallen short of the target.
- Fitch's recent assessment of the sovereign credit rating is therefore somewhat surprising, as it held it steady at "BBB", but upgraded the outlook to "stable".
- The reason is likely that, in spite of everything else, the level of public debt remains relatively low and because the country has been keeping the cushions firmly in place to absorb shocks and is able to formulate policies to guarantee macro stability; something that the sustained political instability appeared to threaten.

Source: BCRP.

FISCAL REVENUE AND EXPENDITURE

(NON-FINANCIAL PUBLIC SECTOR, CUMULATIVE OVER THE PAST 12 MONTHS, % OF GDP)



Decline in income tax revenue (0.2pp of GDP), VAT (0.2pp), and non-tax revenues (0,2pp)

* Includes interest expense on public debt and earnings of public enterprises.

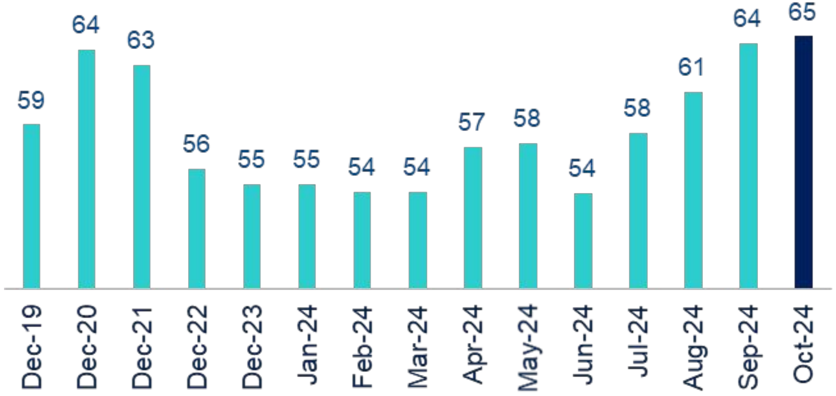
FISCAL INDICATORS

	2019	2021	2022	2023	Sep.24
Economic balance (% of GDP)[1/]	-1.6	-2.5	-1.7	-2.8	-4.1
Assets (% of GDP)	13.6	14.1	12.8	10.4	9.7
Gross public debt (% of GDP)	26.5	35,8	33.9	32.9	32.6
Net public debt (% of GDP)	12.9	21.7	21.1	22.5	22.9
Gross public debt (% of fiscal revenues[2/])	136	171	153	166	171
Dollarization of public debt (%)	32	54	52	48	48
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
Interest expense on debt (% of GDP[2/])	1.4	1.5	1.6	1.7	1.7
Interest expenditure (% of fiscal revenue)[2/]	7.0	7.2	7.1	8.4	9.0
Fiscal Stabilization Fund (% GDP[2/])	2.3	0.0	0.6	1.2	1.1

1/ Rolling figure, last 12 months through October. 2/ Rolling, last four quarters. 3/ Most recent data is for March 2024.

Despite this, foreign appetite for Peruvian sovereign bonds continued to rise at the start of the fourth quarter

HOLDING OF SOVEREIGN BONDS BY NON-RESIDENTS
(BILLIONS OF SOLES)

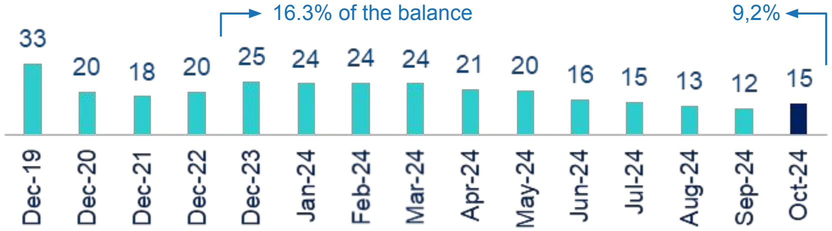


HOLDING OF SOVEREIGN BONDS IN THE HANDS OF NON-RESIDENTS (% OF TOTAL BALANCE)

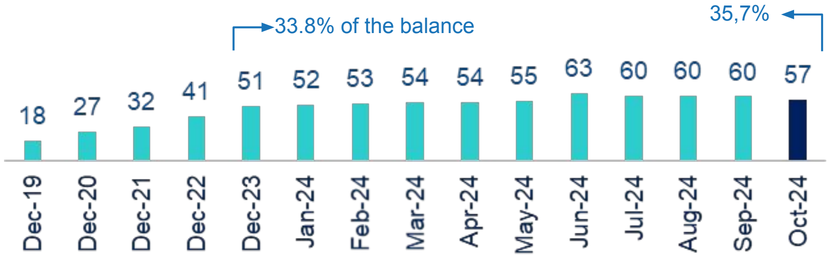
Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Jan.24	Mar.	Jun.	Jul.	Aug.	Sep
49	52	49	41	36	36	36	35	37	39	40

Source: MEF.

SOVEREIGN BOND HOLDINGS IN THE HANDS OF PRIVATE PENSION FUND MANAGERS
(BILLIONS OF SOLES)



HOLDING OF SOVEREIGN BONDS IN THE HANDS OF BANKS (BILLIONS OF SOLES)



Source: MEF.

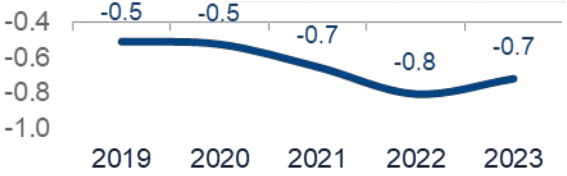
World Bank governance indicators, considered in the rating agencies' risk assessment models, show a slight improvement

PERU | GOVERNABILITY AND GOVERNANCE INDICATORS

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

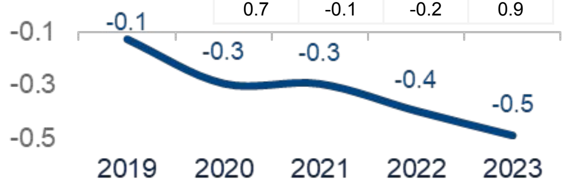
Control of corruption

Chile	Colombia	Mexico	Uruguay
1.0	-0.3	-1.0	1.6



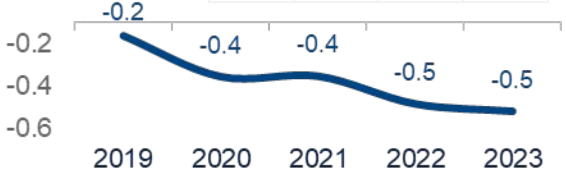
Effectiveness of government

Chile	Colombia	Mexico	Uruguay
0.7	-0.1	-0.2	0.9



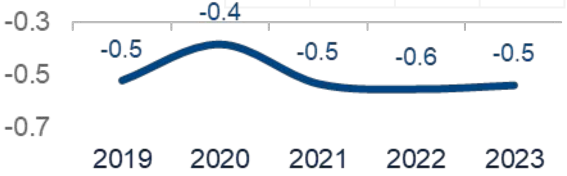
Political stability and absence of violence/terrorism

Chile	Colombia	Mexico	Uruguay
0.1	-0.7	-0.6	1.0



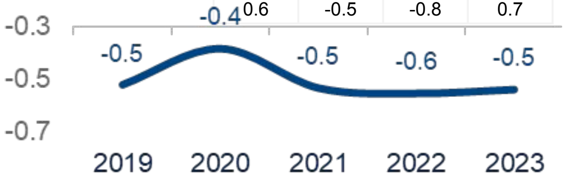
Regulatory quality

Chile	Colombia	Mexico	Uruguay
0.9	0.1	-0.2	0.7



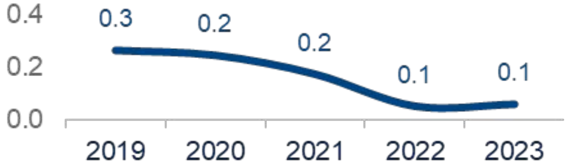
Rule of law

Chile	Colombia	Mexico	Uruguay
0.6	-0.5	-0.8	0.7



Voice and accountability

Chile	Colombia	Mexico	Uruguay
1.0	0.2	-0.1	1.3



Source: World Bank Governance Indicator (information as of 2023). Prepared by: BBVA Research.

BBVA Research

03

Global economic forecasts

Creating Opportunities

What to expect from a new Trump government in the US?

BBVA Research base scenario

Higher import tariffs:
60% US tariffs on China, 10% US tariffs on all other countries; retaliation by China (60% tariffs on targeted US goods), but not by others

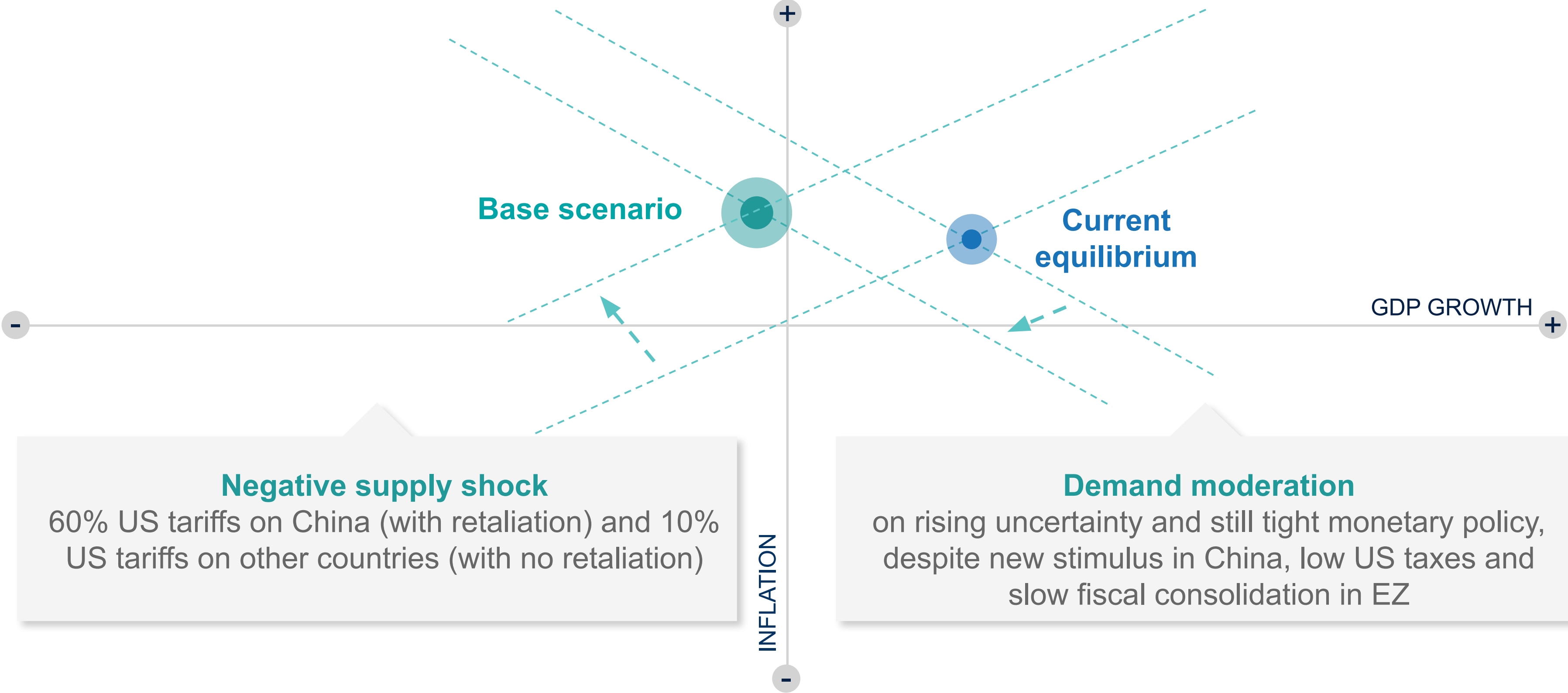
Tax reduction:
tax cuts remain in place (i.e the 2017 Tax Cut and Job Act is renewed).

Uncertainty:
other shocks (migration, Fed independence, deregulation, energy and foreign policy) are possible.

Overall impact will depend on cyclical position (better in the US) and margin for response (higher in China and in the US)

	US	CHINA	EUROZONE
GDP	Slightly lower	Slightly lower	Much lower (no recession)
INFLATION	Higher (one-off impact)	Much lower	Lower
RATES	Higher	Lower	Lower
CURRENCY	USD: stronger	RMB: weaker	EUR: weaker

Base scenario: protectionism will fuel uncertainty, pressure global growth downwards and inflation upwards, with important differences across countries



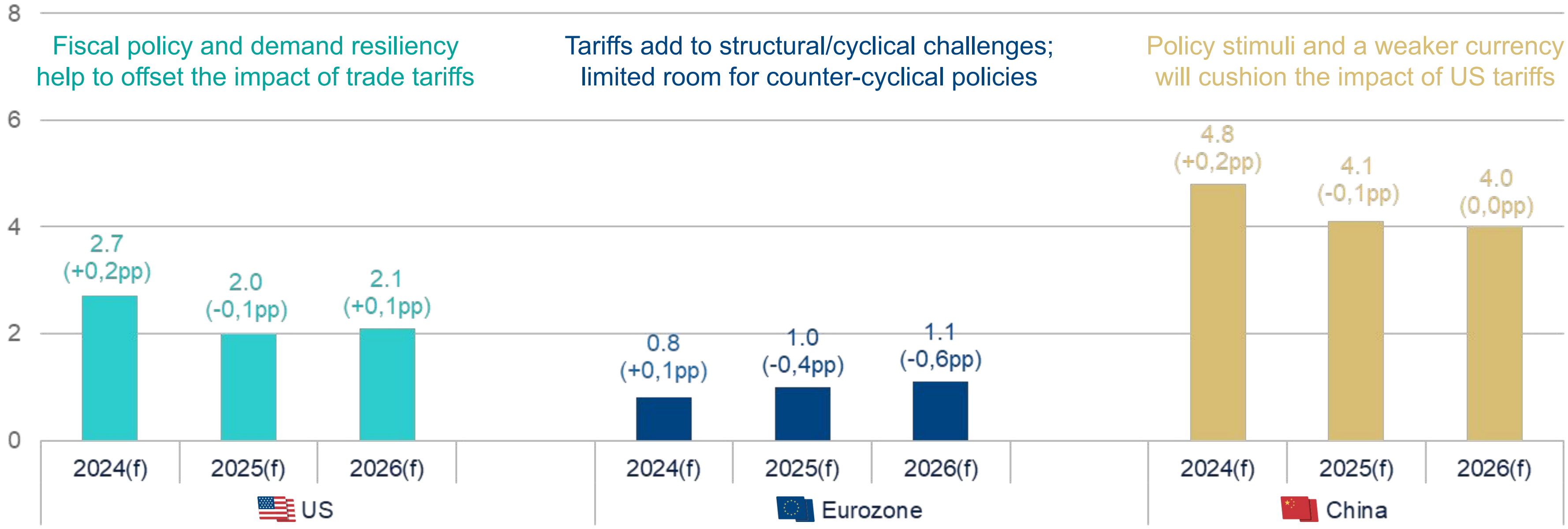
Negative supply shock
60% US tariffs on China (with retaliation) and 10% US tariffs on other countries (with no retaliation)

Demand moderation
on rising uncertainty and still tight monetary policy, despite new stimulus in China, low US taxes and slow fiscal consolidation in EZ

Slower growth ahead, despite both stronger GDP expansion in 2024 and likely measures to mitigate the impact of higher trade tariffs (mainly in China)

GDP GROWTH (*)

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



(*) Global GDP growth: 3.2% (+0.1pp) in 2024, 3.1% (-0.2pp) in 2025 and 3.3% (+0.1pp) in 2026.

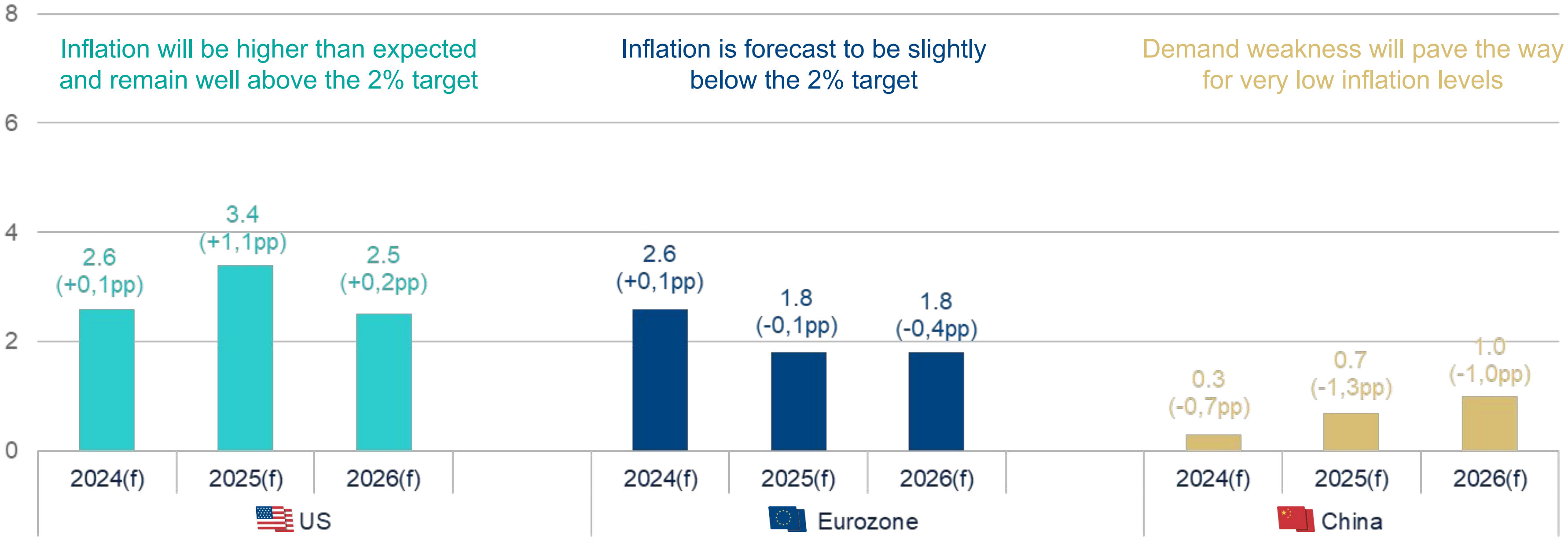
(f): forecast.

Source: BBVA Research.

Inflation will rise in the U.S., but will decrease in other regions due to slower growth, low oil prices, and ample supply in China

HEADLINE CPI INFLATION

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

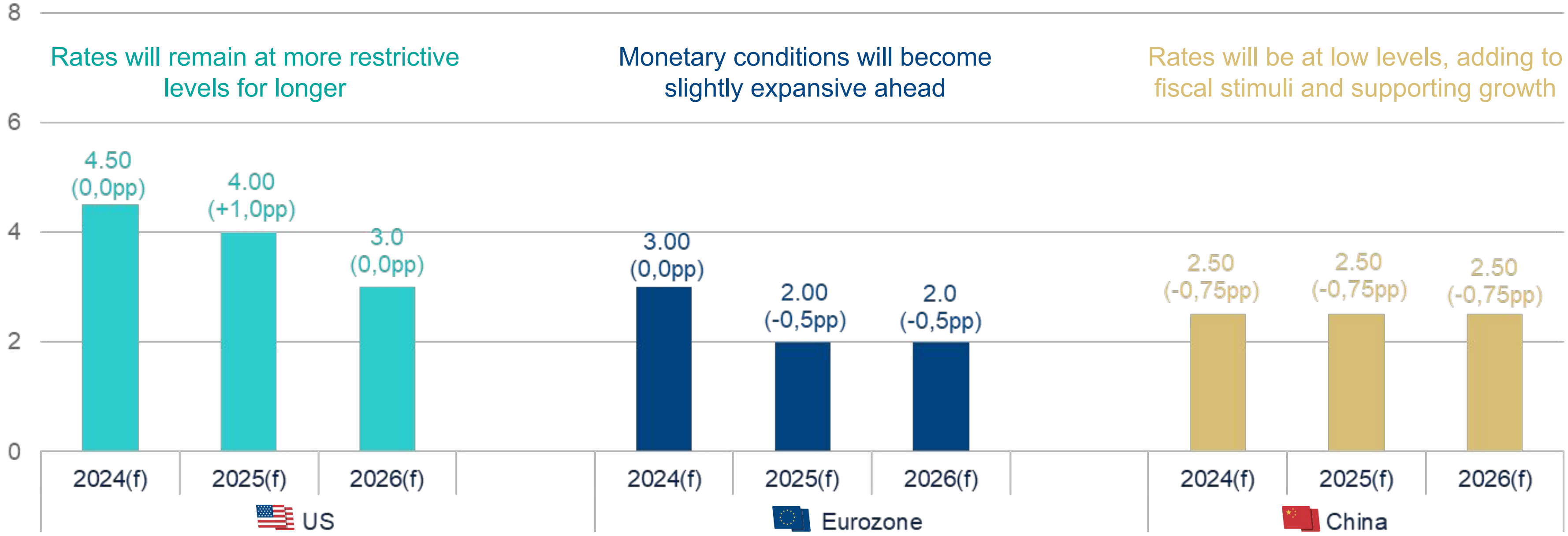


(f): forecast.
Source: BBVA Research.

The Fed will have less room to ease monetary conditions, while more rate cuts than previously forecast are likely in the EZ and in China

POLICY INTEREST RATES (*)

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



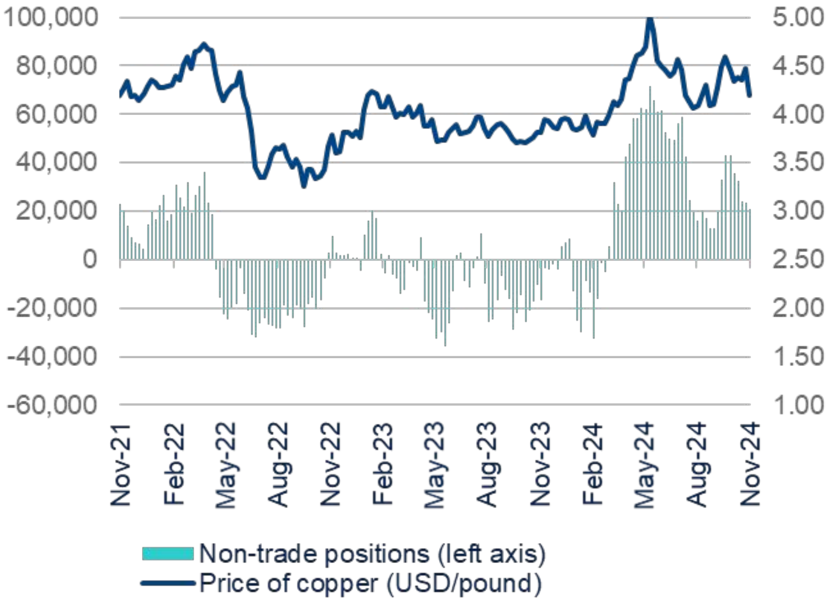
(f): forecast.

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

Source: BBVA Research.

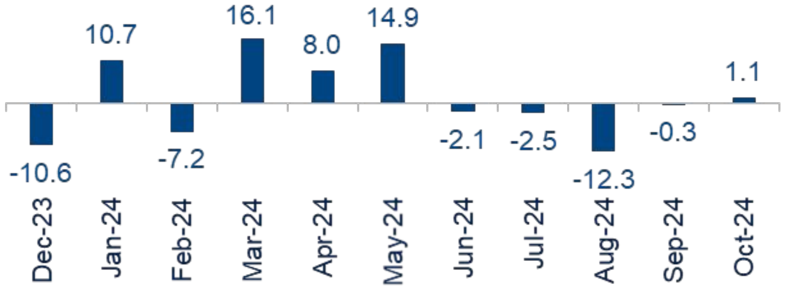
Commodity prices, especially copper: volatility over expectations regarding China's performance and elections in the United States

COPPER PRICE AND NON-COMMERCIAL POSITIONS
(USD PER POUND)



Source: BCRP.

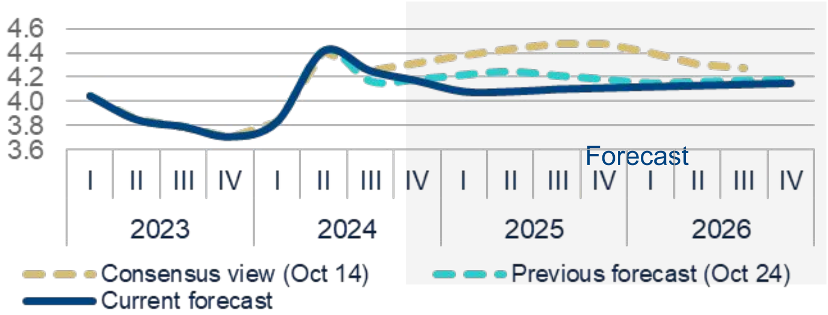
CHINA: COPPER IMPORTS
(YoY % CHG.)

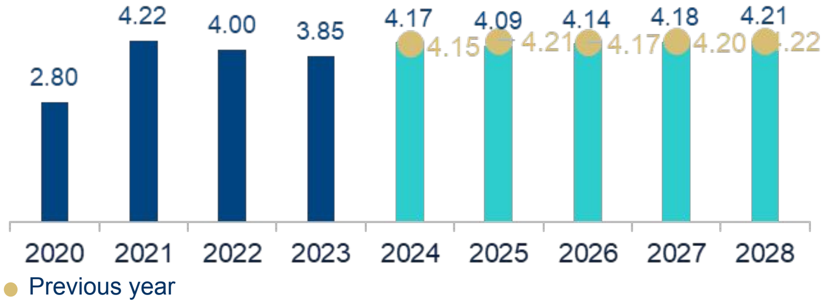


Copper price remain volatile following: (i) report of copper imports from China; (ii) announcement of stimulus measures by the Chinese government (less vigorous than expected) and; last but not least; (iii) Donald Trump's victory in the US elections (plus the signals he has been giving regarding the implementation of his electoral promises).

The outlook for copper prices has weakened due to the impact of the new Trump administration's policies

COPPER PRICE
(QUARTERLY AVERAGE, USD/POUND)





Source: BCRP and BBVA Research.

- The copper price looks set to close out 2024 with a higher annual average than expected under the previous baseline scenario, because the downward adjustment in 3Q24 was lower than expected (and the impact of the US election result does not offset it).
- For the following years, the new projected path is less optimistic (especially in 2025), due to the likely impact of the policies to be unfurled by the incoming U.S. administration.
- Along the projected path, we continue to incorporate the positive impact of energy conversion (green infrastructure and electric vehicles). Demand from AI centers and greater spending on defense should provide further support. On the supply side, only a few large projects are expected to come on stream during the projection horizon: (i) Malmyzh in Russia (300 thousand MT) and (ii) Kamoa-Kakula Phase 3 in Congo (250 thousand MT).

Despite this, we still believe that the reshuffling of the energy make-up will provide medium- and long-term structural support to copper demand

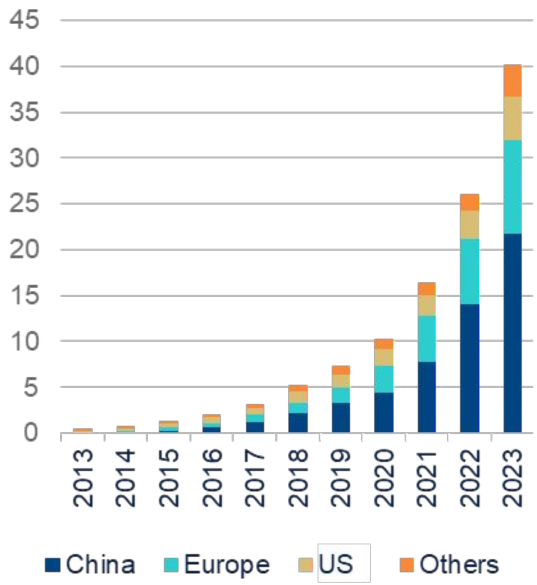
- As a presidential candidate, Trump promised oil entrepreneurs that he would do deregulate the hydrocarbon sector and withdraw subsidies for electric vehicles, making the United States a dominant energy producer.
- As a dead cert to triumph, he also signaled his intentions to cut off the Inflation Reduction Act (IRA) funding yet to be paid out (this law envisions funds until 2030).
- The scenario for the price of copper is therefore more challenging, although the major global trends in energy reconversion will surely continue to support copper demand moving forward.

COPPER USAGE BY VEHICLE TYPE (KG)

BY VEHICLE TYPE	COPPER USAGE
Conventional vehicle	23
Hybrid electric vehicle	40
Battery electric vehicle	83
Hybrid electric bus	89
Battery electric bus	224-369

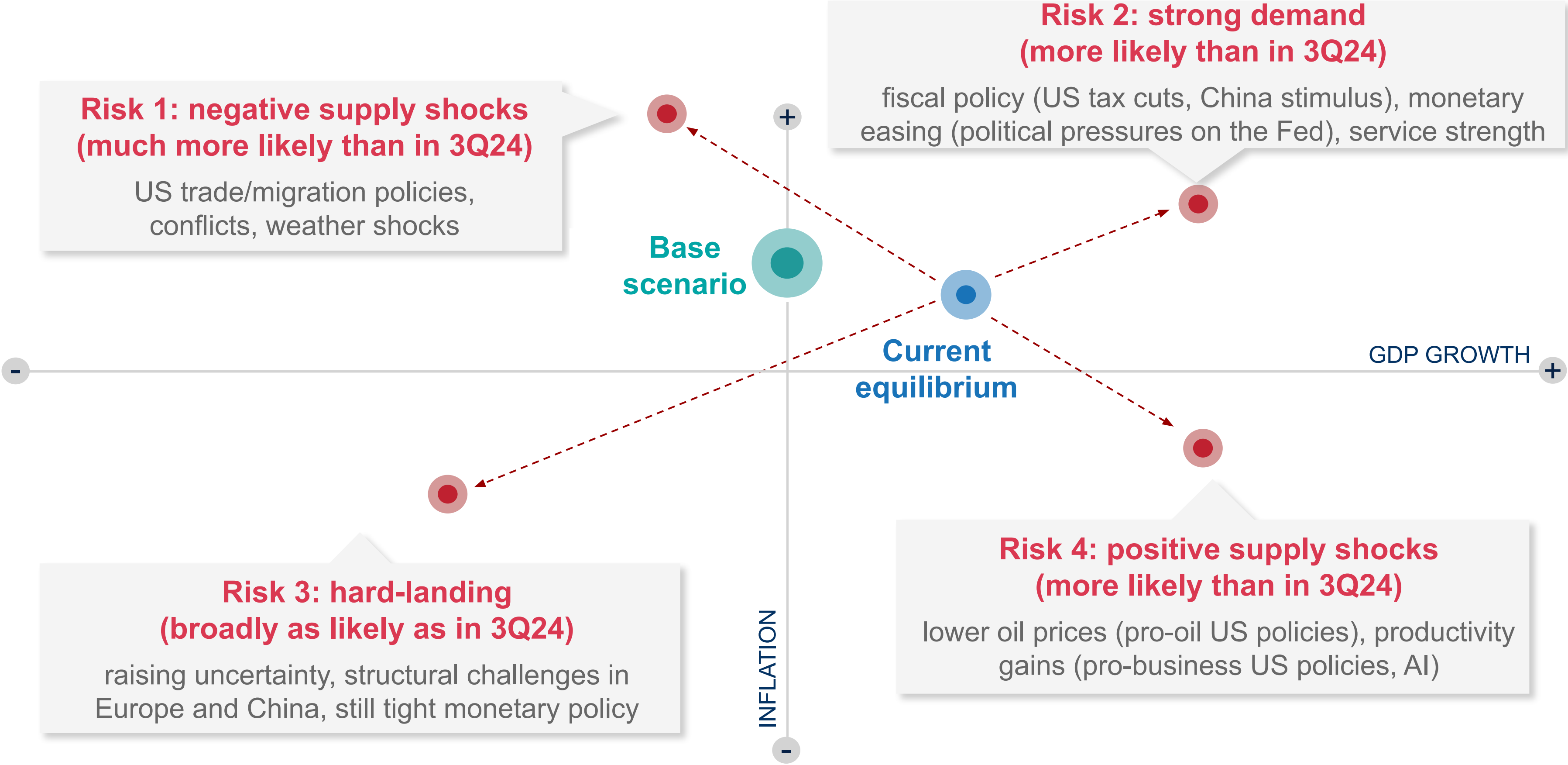
Source: International Copper Association.

NUMBER OF ELECTRIC CARS IN THE WORLD (MILLIONS)



Source: International Energy Agency (IEA).

Risks: policies by the new US administration, and geopolitical events, may lead to more negative global macro scenarios



BBVA Research

04

Peru economic forecasts

4.1 Economic activity: short and medium term

Our updated baseline macro scenario envisions a more challenging external environment, though also higher investment flows in large projects

International environment	**More challenging** international environment due to policies to be implemented by the new US administration. Heightened uncertainty in general
Weather conditions	Relatively normal conditions over the projection horizon
Political and social context	Things are expected to remain relatively calm (although risks have recently risen). On the side of Congress, we have regulatory risk. The uncertainty will become more visible as the 2026 elections approach
Release of pension funds	Positive impact on growth dissipates in 2025
Business confidence	Remains in bullish territory, supporting private sector spending
Financial conditions	The monetary easing process will draw to a close in the coming months. It is assumed that credit conditions, which are currently tight, will steadily ease
Mining and infrastructure projects	Construction is due to start on the Zafranal, Antamina Reposition and Chavimochic projects in 2025. **Tía María (mining) and Vía Expresa Sur (transportation) also join the roster.** Chancay port and Toromocho expansion begin operations

Impacts of Trump 2.0 in Peru: higher interest rates, negative impact on external and fiscal accounts (metal prices), weaker PEN

MAINSTAYS OF THE POLICIES PROMISED BY TRUMP 2.0

- Protectionism (higher tariffs) → Increase in prices and expected inflation
- Fiscal expansion (tax cut?) → Higher deficit/debt and demand pressures on prices
- Immigration policy (deportations/tougher restrictions) → Higher wage costs
- Climate change policies (looser policies) → Weaker demand for copper

IMPACTS IN THE UNITED STATES AND ON METAL PRICES

- Higher inflation
- Higher interest rates
- Stronger dollar
- Lower growth in the mid run

- Lower copper prices
- Lower growth in the mid run

IMPACTS IN PERU

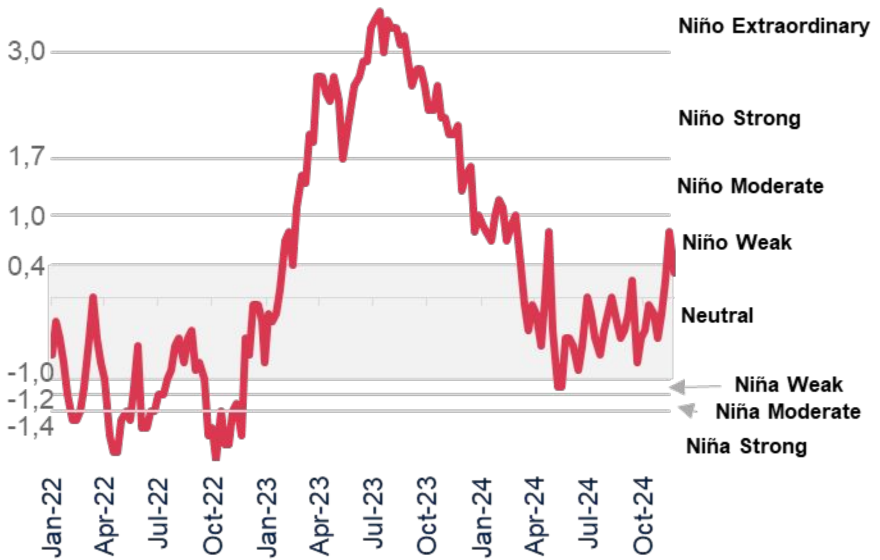
- Higher interest rates (both external and local)
- Depreciation pressures on the local currency
- Negative impact of lower copper prices on external accounts
- Heightened uncertainty over the measures to be implemented by Trump 2.0 and the expected impacts
- Lower growth in the mid run

Mitigating factors: sturdy macroeconomic fundamentals in Peru

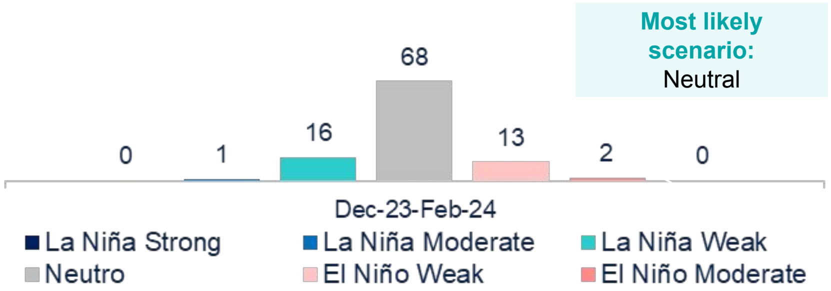
- Current account surplus
- High net international reserves
- Price stability
- Gross public debt remains relatively low (despite a worsening fiscal deficit)
- Ability to formulate policies to ensure macro stability

Weather conditions: forecasts by specialized entities suggest that these conditions should remain relatively normal

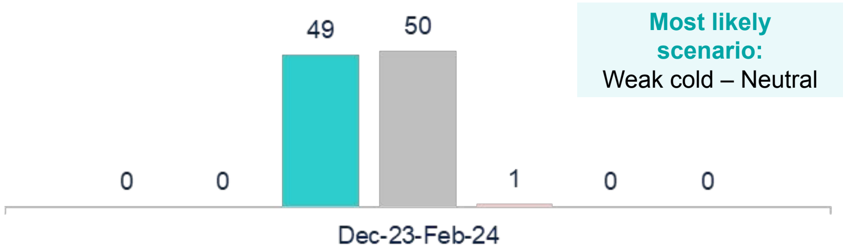
SEA SURFACE TEMPERATURE ANOMALY ON THE NORTHERN PERUVIAN COAST
(DEGREES CELSIUS, WEEKLY MOVING AVERAGE)



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



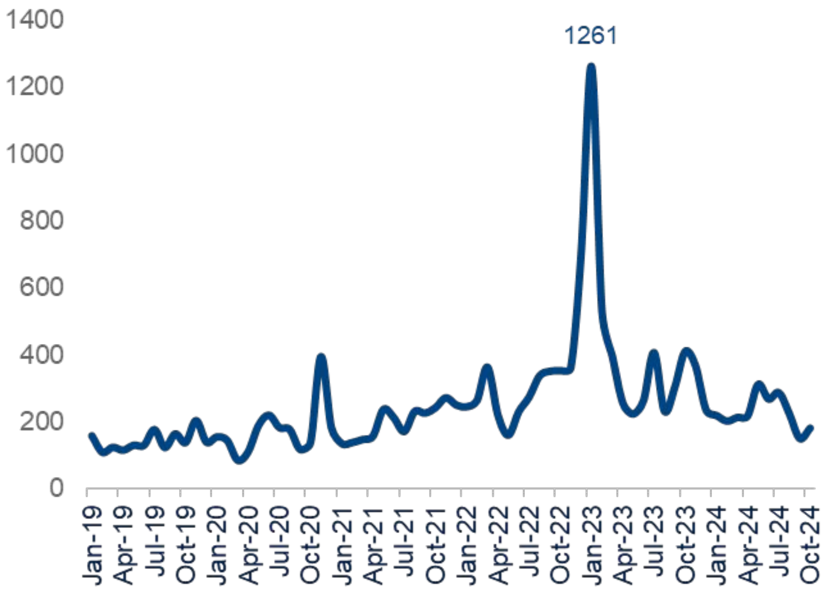
EL NIÑO 3.4 | PROBABILITY OF OCCURRENCE BY SCENARIOS IN THE PERIOD DEC.24-MAR.25 (%)



Source: ENFEN and NOAA. Prepared by: BBVA Research.

Political and social context: it is assumed that the current calm will continue moving forward... and also that risks on the Congress front will persist

COLLECTIVE PROTEST ACTIONS
(NUMBER)



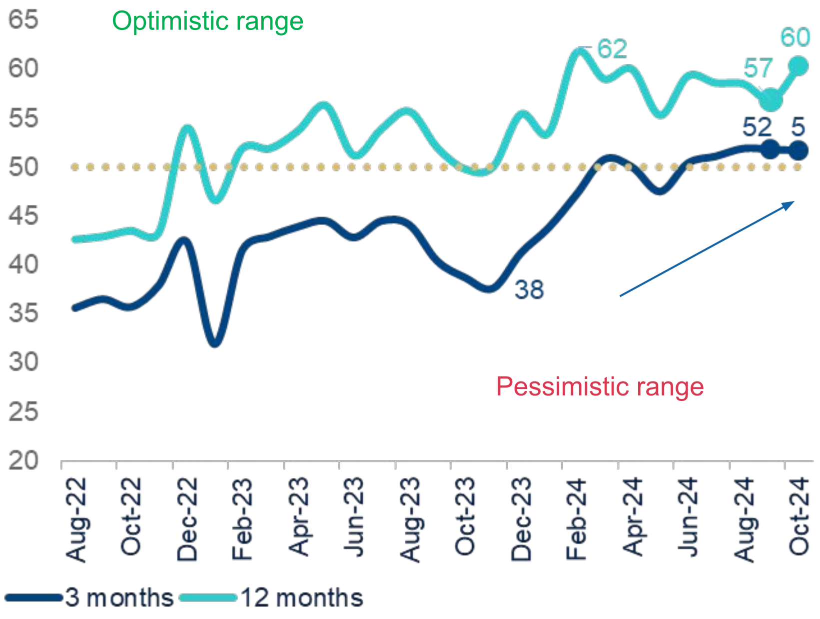
Source: Ipsos, Apoyo Consultoría, Datum and the Ombudsman's Office.

WHAT ARE OUR ASSUMPTIONS ABOUT...?

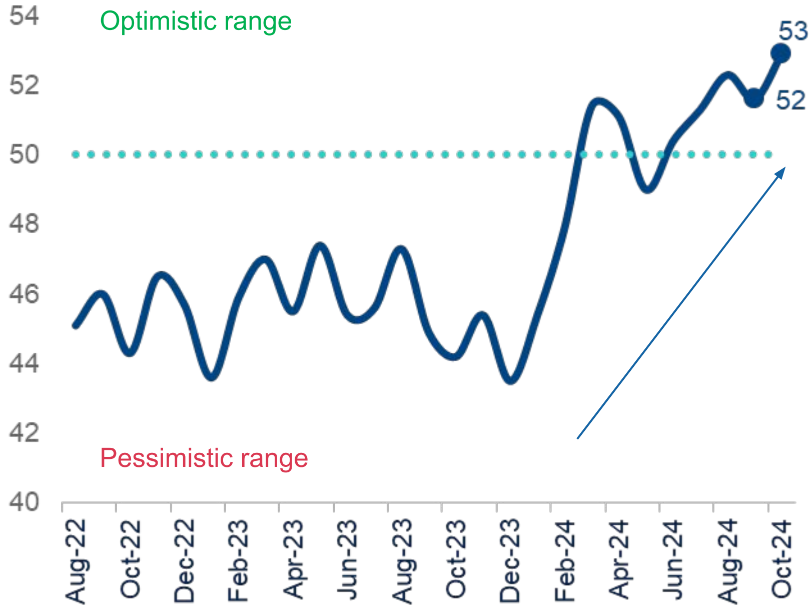
- **Culmination of the current presidential term.** Dina Boluarte will complete her term of office in 2026, although we believe that the risk of seeing earlier elections has risen recently.
- **Role of Congress.** It remains the main support for the Government. Ongoing regulatory risk (agendas of certain groups, populist measures).
- **Social conflict.** Relatively limited, not much higher than at present, despite the high level of presidential disapproval.
- **Election results in 2026.** Moderate government, with low political capital and ability to push through reforms.

Business confidence: remains in positive territory, supporting private sector spending

BUSINESS CONFIDENCE
(POINTS)



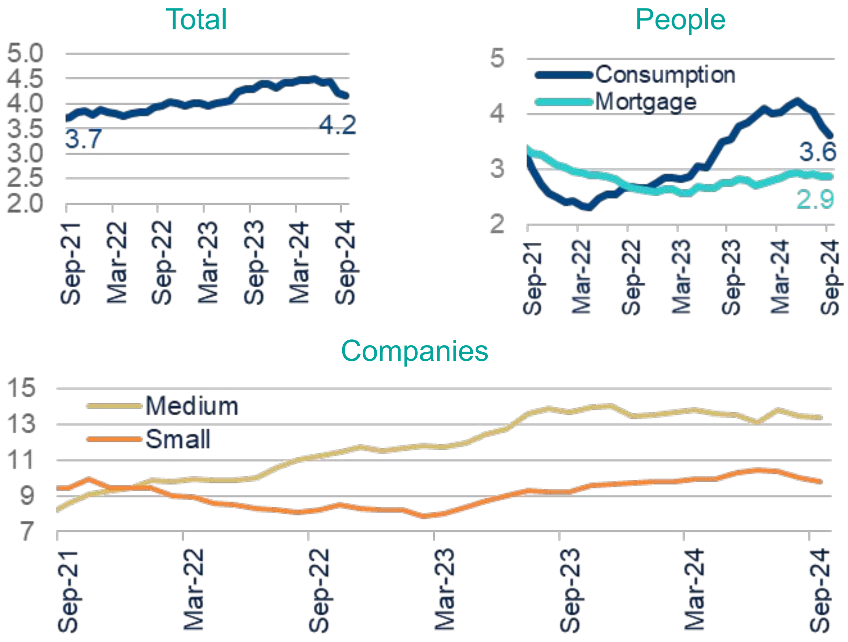
INVESTMENT EXPECTATIONS IN THE NEXT THREE MONTHS
(POINTS)



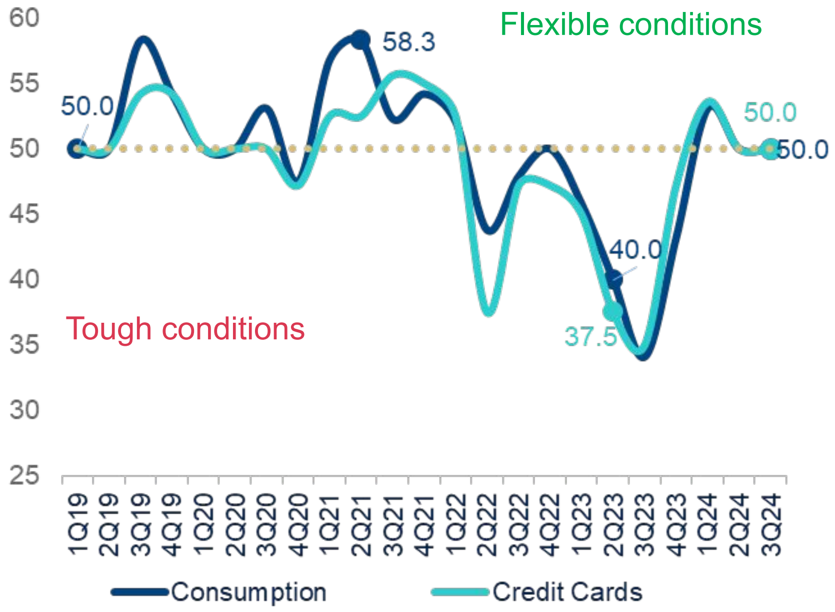
Source: BCRP.

Credit conditions: likely to gradually ease moving forward, as non-performing loans (NPL) begin to fall

NPL
(%)



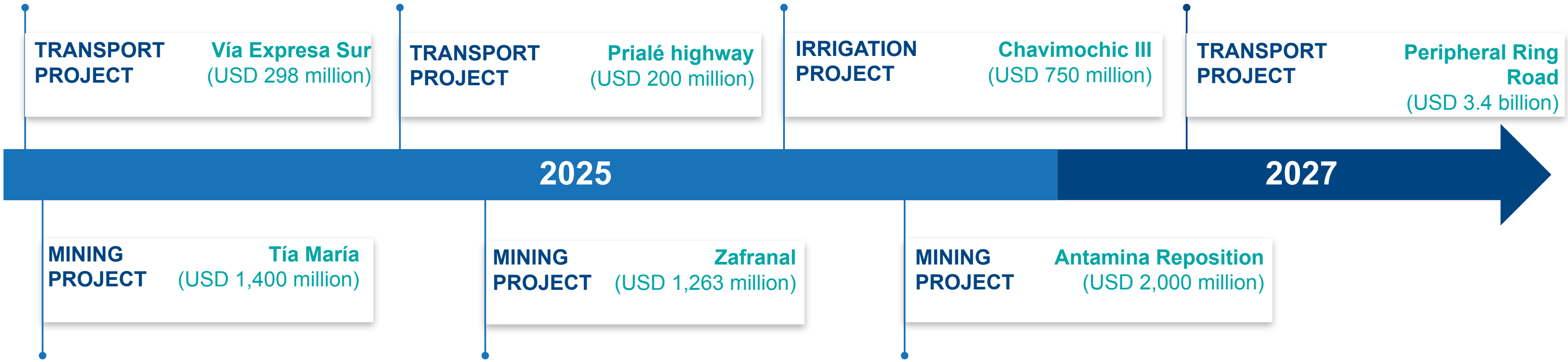
CREDIT CONDITIONS
(EXPECTATION INDICATORS)



Source: SBS and BCRP.

Investment projects: construction will begin on Zafranal, Antamina expansion, and Chavimochic in 2025; Tía María and Vía Expresa Sur join the roster

MAIN INVESTMENT PROJECTS ON WHICH CONSTRUCTION WILL BEGIN IN THE COMING YEARS



INVESTMENT FLOWS CONSIDERED IN THE BASELINE SCENARIO FOR MAJOR PROJECTS[1]

(BILLIONS OF USD)

1/ Includes mining projects (extension of Toromocho, Las Bambas – Chalcobamba pit, San Gabriel, Zafranal, Antamina Reposition, Inmaculada Reposition and Tía María), transportation projects (Vía Expresa Sur and extension of the Ramiro Prialé highway), and irrigation projects (Chavimochic III).

Source: Apoyo Consultoría, Macroconsult and BBVA Research

Operational start-up of Chancay port, which could make Peru a regional logistics hub

- **Location:** Chancay, department of Lima, 76 km from Metropolitan Lima.
- **Investment:** USD 3.4 billion, of which USD 1.315 billion in the first stage, which was recently unveiled.
- **Shareholders:** 60% Cosco and 40% Volcan.

- **Type:** base port (used for long-distance transport, i.e. it connects directly to other base ports in the world, such as Shanghai in China). It is able to accommodate the largest vessels that currently exist (up to 18,000 TEUs).
- **Capacity:** 1.0–1.5 million TEUs per year in the first stage and up to 3.7 million TEUs per year when the second stage (similar to the Callao and Manzanillo ports) comes into operation.
- **Smart Port Technology:** Chancay will feature state-of-the-art technology and will be the region's first "smart port." Crane automation will allow for 24/7 operation.
- **The new port will shorten trade voyages to China** by 12 days (from 35 to 23 days).

Source: Cosco Shipping, PUCP, Macroconsult, Infobae and Gestión.

Operational start-up of Chancay port, which could make Peru a regional logistics hub

BENEFITS OF THE PROJECT

- It may position Peru a regional maritime trade hub, facilitating the flow of cargo to/from Asia (avoiding stopovers, such as the United States).
- It should boost sectors such as fishing, construction, manufacturing, transportation and tourism, by generating new value chains, opportunities for Peruvian products, and jobs.
- It will also include complementary developments, such as Chancay Park and the Ancon Industrial Park, thus strengthening the country's logistics and commercial infrastructure. Special economic area?

CRITICAL ISSUES TO BE RESOLVED

- Widening of access roads. As a yardstick, it currently takes around four hours to reach Chancay from Lima, even though the distance is relatively short. Traffic flow could increase by up to 50% on the Panamericana Norte highway.
- Tariff regulation at the port (supervisor: Ositran)?
- The operation of the port will also have social impacts within the surrounding areas.

According to some estimates, the demand for housing could multiply fivefold, with prices reaching USD 1,000 x m2 (+1,650% compared to the price 15 years ago).

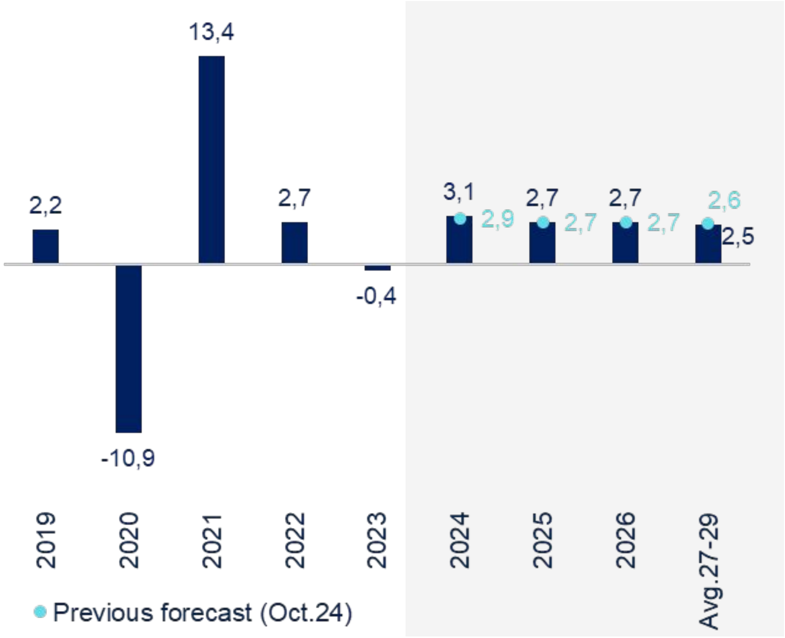
ESTIMATED IMPACT

- The impact on GDP will depend on several factors, such as the cargo that can be channeled from other countries, the installation of maquilas (duty free factories) near the port, the ease of access to the port from other parts of the country, and the cost reduction that can be generated for local industries.
- It is therefore hard to estimate the scale of the positive impacts on growth. According to the BCRP, the positive impact of the port's operation could be between 0.3 percentage points of GDP and up to 0.9 percentage points in 2025.

Source: La República, PUCP, Macroconsult, BCRP, Produce and BBVA Research

Taking these factors into account, the growth forecast for 2024 is revised upwards (from 2.9% to 3.1%) and the one for the next year is maintained (2.7%)

GDP
(YoY % CHG.)

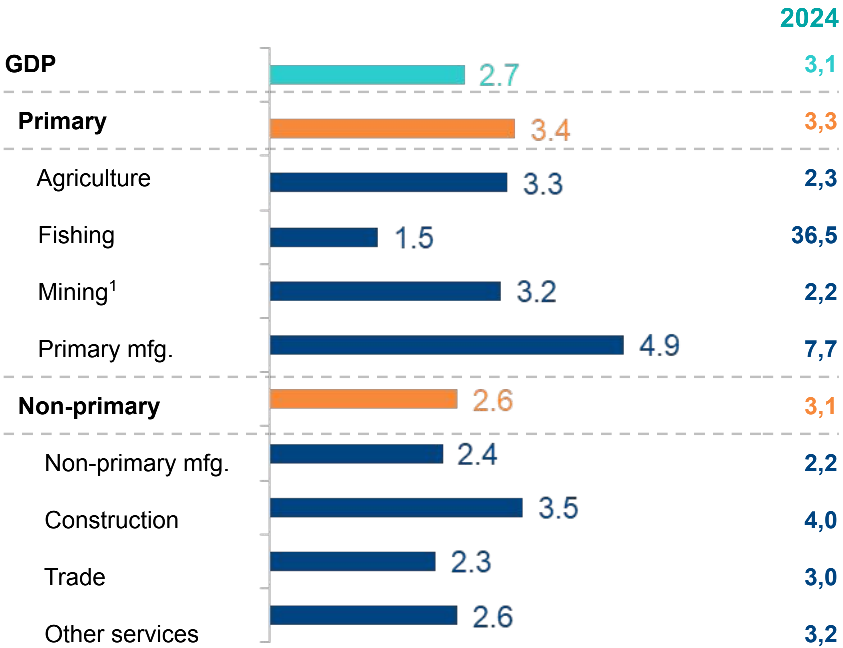


Source: BBVA Research.

- **We have raised our 2024 growth projection, due to: (i) the positive surprise in the third quarter** (3.8% compared to the 3.3% estimated); and (ii) a **higher than expected quota for the second anchoveta catch season** in the central-northern zone (2.5 million MT quota).
- **In 4Q24, activity should grow at a fairly similar rate to what we saw in 3Q24.** The positive impact of the release of pension funds will steadily dissipate, but there will be greater support from the fishing side.
- **In 2025,** there are **additional investment projects** under the baseline scenario (Tía María, Vía Expresa Sur), which **should compensate for a more challenging external outlook** (Trump 2.0).
- **Private spending should continue to recover** over the course of the year, as the construction of several large infrastructure projects gets underway and financial conditions gradually improve, despite the fact that the impact of the withdrawal of pension funds is dissipating. **Public spending loses steam** and is geared toward meeting fiscal targets.
- **In 2026 we will likely see an increase in uncertainty linked to the electoral process**, although this should be **offset by higher investment flows from infrastructure projects** and lower external interest rates. Therefore, growth should be substantially similar to the level reported in the previous year (2.7%).

By sectors, construction and mining are expected to outperform in 2025

SECTORAL GDP PROJECTION 2025
(ANNUAL % CHG.)

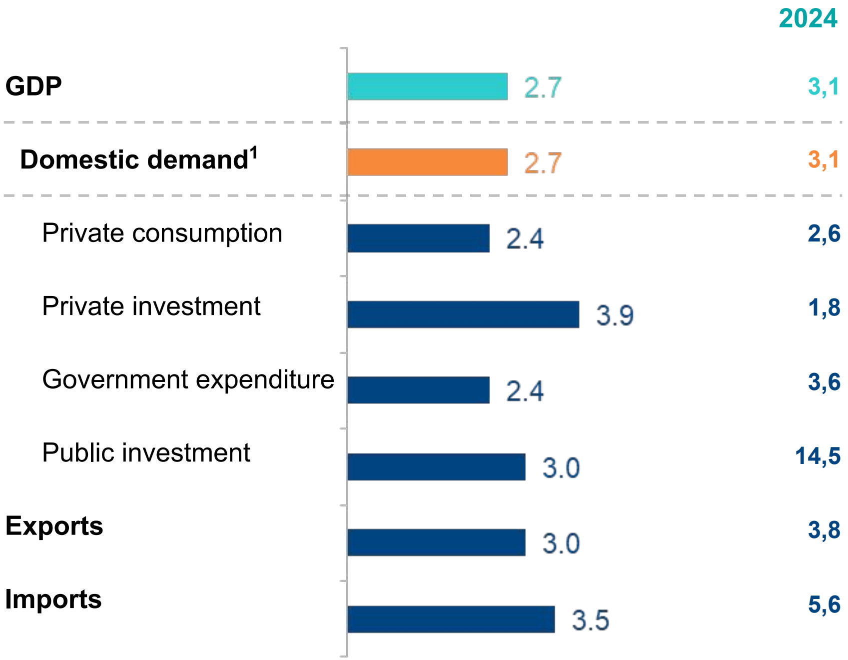


1: Includes metal mining and hydrocarbons
Source: BBVA Research.

- **Mining.** Increased copper production, following the start of Toromocho phase two. Increased production capacity at Las Bambas has also been considered.
- **Primary manufacturing.** It is assumed that the Talara refinery will reach its maximum production capacity. Also, the anchoveta landings for the end of 2024 will be processed in early 2025.
- **Construction.** Start of construction of several major investment projects, including mines (Antamina Reposition, Tía María, Zafranal), irrigation (Chavimochic III), and transportation (Vía Expresa Sur, Prialé highways). Private residential investment is growing again, following the adjustment made in the last few years and amid a more favorable environment. Public investment is losing momentum.
- **Trade and services.** Lower growth as the positive impact of pension fund releases gradually fades.

On the expenditure side, private investment is expected to rally in 2025, while public investment is likely to lose steam

GDP PROJECTION ON THE EXPENDITURE SIDE – 2025
(ANNUAL % CHG.)

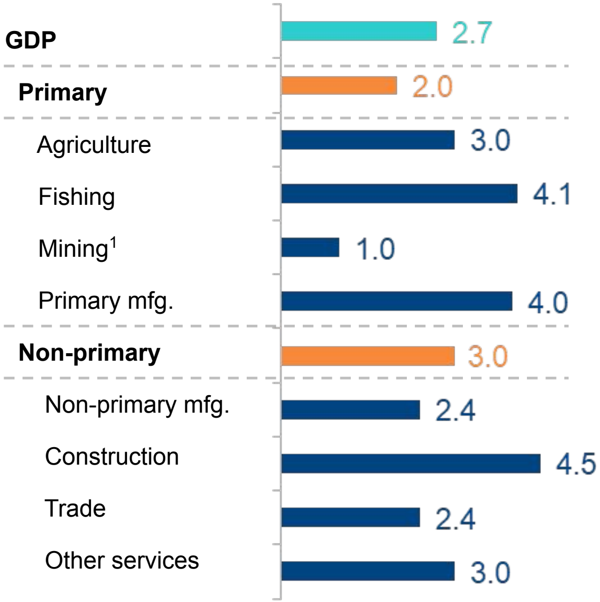


1: It does not include changes in inventories.
Source: BBVA Research.

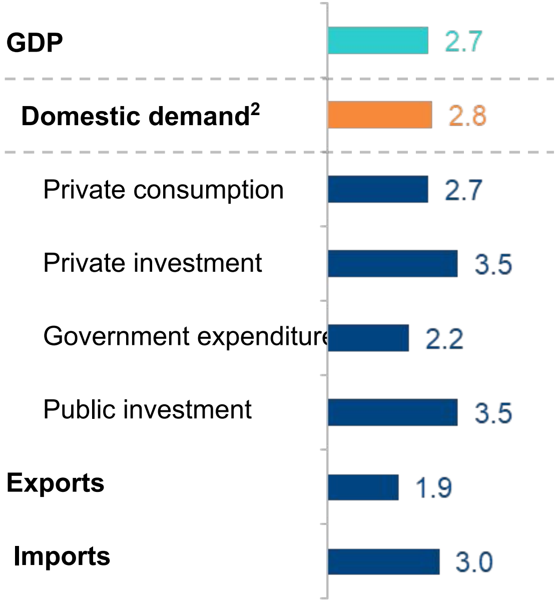
- **Private consumption.** It will stumble once the positive impact of the release of pension funds dissipates, despite the improvement in financial conditions.
- **Private investment.** Despite noticeably higher levels of electoral uncertainty, private investment rallied on the back of the imminent construction of new mining projects. Private residential investment will grow once again, following the adjustment process carried out in the last few years and amid a more favorable environment.
- **Public investment.** It has stumbled somewhat following heavy growth in the previous year, in a bid to contain the fiscal deficit.

In 2026, we will see heightened uncertainty due to the looming elections, although investment flows in large projects should also increase

SECTORAL GDP PROJECTION 2026
(ANNUAL % CHG.)



PROJECTION OF GDP ON THE EXPENDITURE SIDE 2026
(ANNUAL % CHG.)



- **Heightened uncertainty** over the looming elections.
- **Investment flows increasing related to large projects.** Mining, irrigation, and transportation projects.
- **Decrease in interest rates in foreign currency.** The Fed resumes its monetary easing cycle.
- **Construction**, on the sectoral side, and **private investment**, on the expenditure side, will be **the main performers**.

1: Includes metal mining and hydrocarbons 2: Does not include inventory variation.
Source: BBVA Research.

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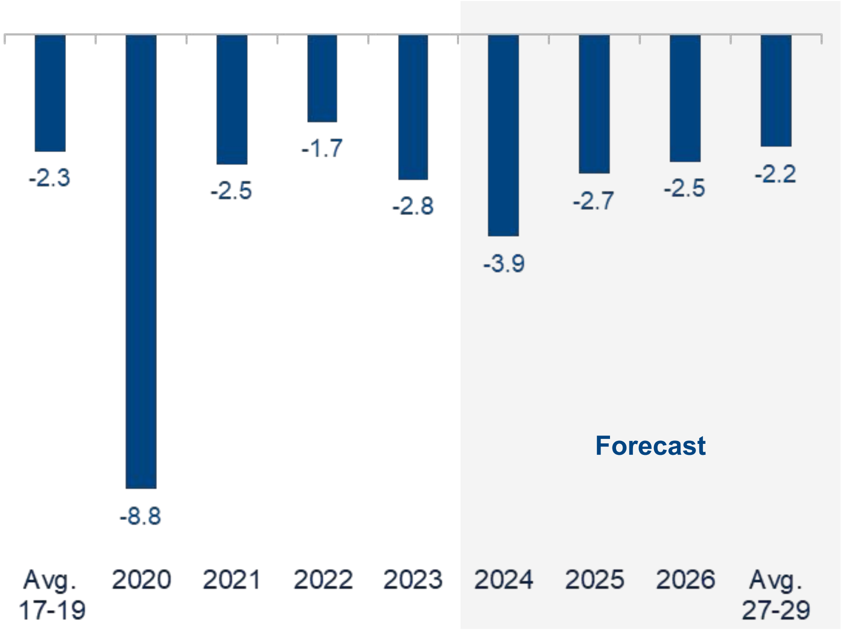
Peru economic forecasts

4.2. Fiscal balance and public debt

In all likelihood, the fiscal deficit targets will not be met, but the deficit will still head downward and the level of gross public debt will remain low

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

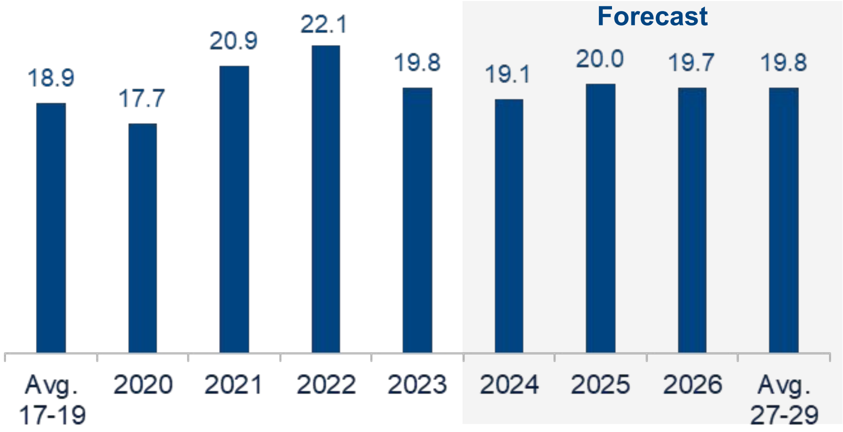


Source: BCRP and BBVA Research (forecasts).

- **The fiscal deficit has remained at around 4.0%** of GDP in recent months. There will be **a slowdown of sorts in the rest of the year** as and when revenues begin to improve, although the official target (ceiling equivalent to 2.8% of GDP) will not be met.
- **In 2025, the deficit will continue to retreat**, mainly due to the increase in revenues, as private spending continues to normalize and the terms of trade remain high. In this context, there will be an improvement in income tax receipts (final settlement of the 2024 tax year, for example). Extraordinary income will also be received from the sale of an electric utility and further revenue will come from the collection of IGV (Value Added Tax) on digital services.
- Due to the downward revision of metal prices and rising interest rates (**Trump 2.0**), among other factors, the **expected decline in the deficit is less pronounced than under the previous baseline scenario.**
- **Despite this decline, we do not think it will be enough to achieve the ceiling of the fiscal rule for that year (2.2%).**

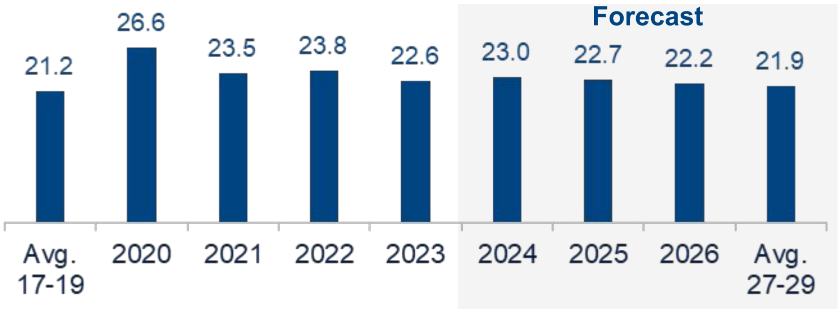
In the medium term, fiscal deficit slightly above 2.0% of GDP: revenues will improve in 2025 and expenditures will gradually decline (as a % of GDP)

REVENUE
(NON-FINANCIAL PUBLIC SECTOR, % OF GDP)



Revenues will improve in 2025 and thereafter stabilize at around 20% of GDP, above pre-pandemic levels. This assumes a certain reduction in tax non-compliance as the economy recovers.

EXPENDITURE[1]
(NON-FINANCIAL PUBLIC SECTOR, % OF GDP)



SPENDING ON WAGES (% OF GDP)

Avg. 17-19	2020	2021	2022	2023	2024
6.2	7.4	6.2	5.9	6.3	6.5

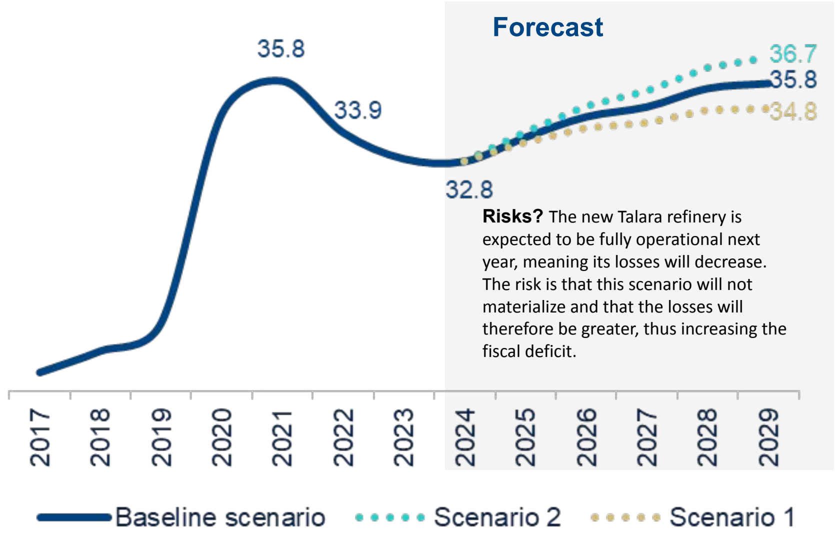
Pressure from spending on wages does not allow for a more pronounced decline in the fiscal deficit. Spending on infrastructure (Chavimochic, projects within the Municipality of Lima, Lima's beltway) also lead to a sharper decline.

Source: BCRP and BBVA Research (forecasts).

1: Includes interest expense on public debt and earnings of public enterprises.

Under the baseline scenario, gross public debt will reach close to 36.0% of GDP by 2029, which is still relatively low

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



Scenario 1: the projection considers a 1 pp increase in GDP growth (in each year of the forecast) with respect to the baseline 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 a 1 pp reduction in GDP growth (in each year of the forecast) with respect to the baseline 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	35.8%
Real GDP growth rate [1/]	g	2.7
Real interest rate [2/]	r	2.8
Primary balance required		**0.0**
Economic balance required		**-1.8**

1/ Considers the average of the GDP projection 2024–2029. 2/ Considers the average of the implicit interest rate discounted by inflation, average 2024–2029.

Given our growth and real interest rate forecasts, the fiscal deficit required to stabilize gross public debt at a level equivalent to 36% of GDP (projection for 2029) is around 1.8% of GDP.

The fiscal indicators will continue to worsen without further efforts to increase tax revenues, curb tax expenditures, and contain expenses

NON-FINANCIAL PUBLIC SECTOR INDICATORS

	2019	2021	2022	2023	2024(f)	2025(f)	2026(f)
Economic result (% of GDP)	-1.6	-2.5	-1.7	-2.8	-3.9	-2.7	-2.5
Assets (% of GDP)	13.6	14.1	12.8	10.4	7.8	7.5	7.1
Gross public debt (% of GDP)	26.5	35.8	33.9	32.9	32.8	337	34.5
Net public debt (% of GDP)	12.9	21.7	21.0	22.5	24.9	26.2	27.3
Gross public debt (% of fiscal revenues)	136	171	153	166	172	169	175
Dollarization of public debt (%)	32	54	52	48	45	43	40
Debt interest (% of GDP)	1.4	1.5	1.6	1.7	1.7	1.8	1.9
Interest (% of fiscal revenues)	7.0	7.2	7.1	8.4	8.9	9.2	9.5

(f) forecasts.
Source: BCRP and BBVA Research (forecasts).

Research

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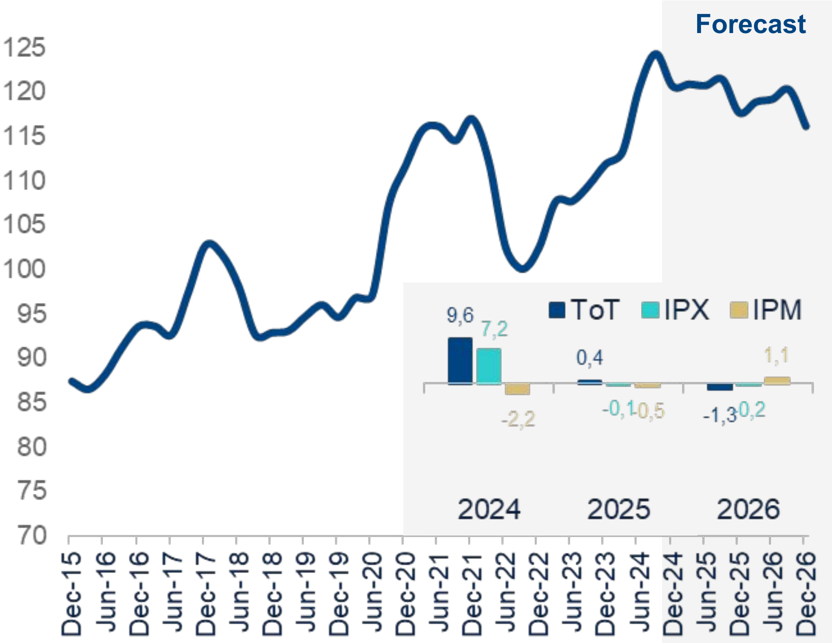
Peru economic forecasts

4.3. External sector

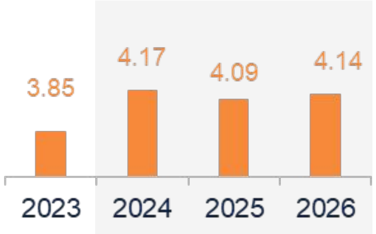
Terms of trade will remain high in 2025, despite the impact of Trump 2.0, but will experience a degree of downward correction in 2026

TERMS OF TRADE
(INDEX, 2007 = 100 AND YoY % CHG.)

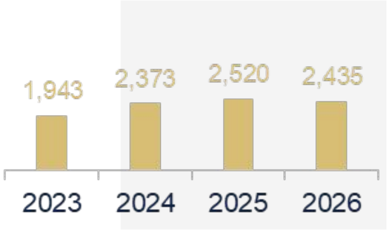


SELECTED EXPORT AND IMPORT PRICES (ANNUAL AVERAGE)

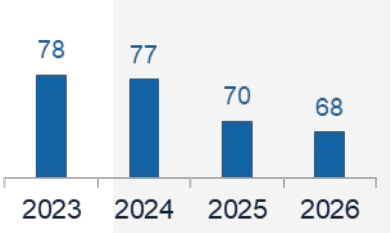
COPPER
(USD PER POUND)



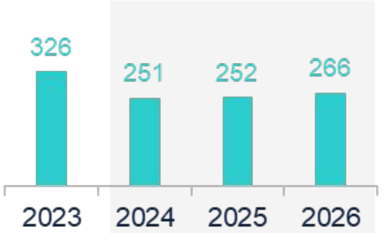
GOLD
(USD PER TROY OUNCE)



WTI OIL
(USD PER BARREL)



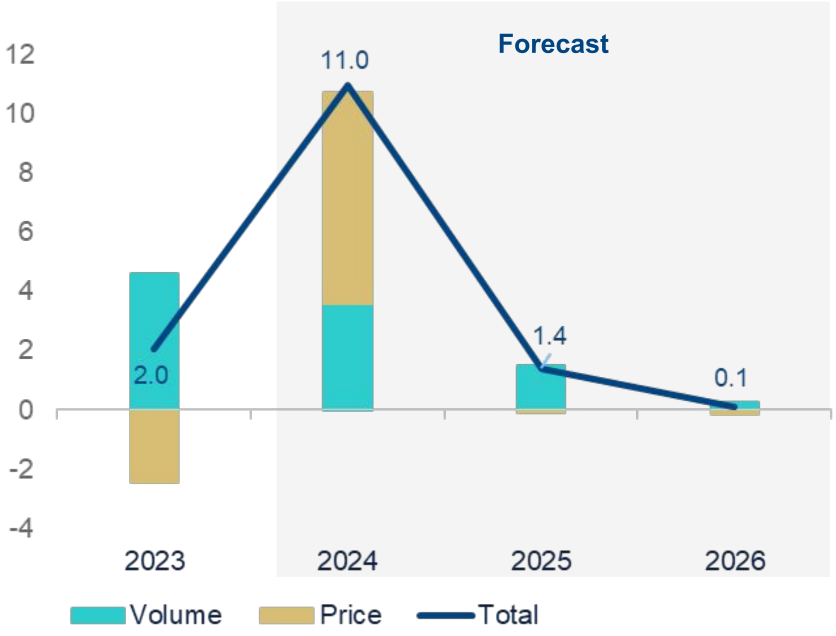
WHEAT
(USD PER MT)



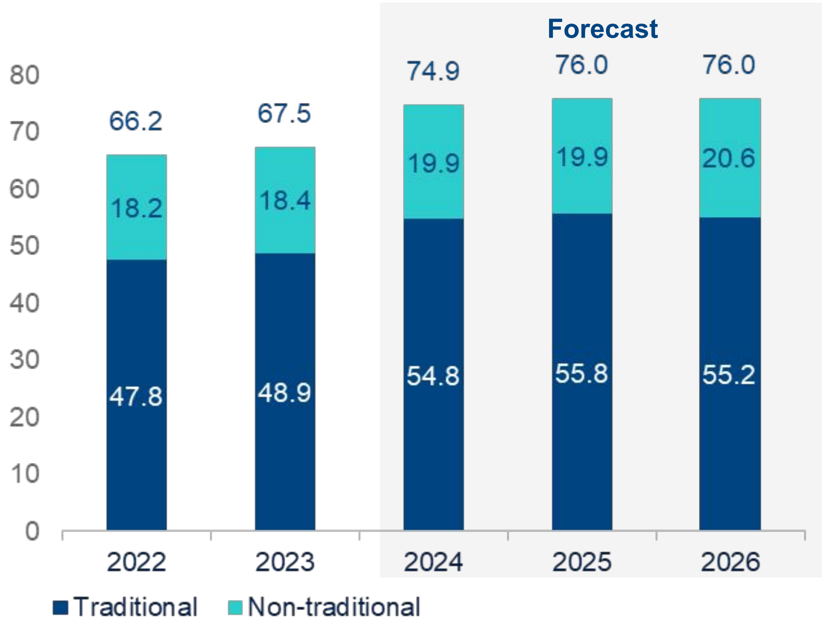
Source: BCRP and BBVA Research (forecasts).

Rising metal prices boosted the value of goods exported in 2024, although that momentum will dissipate over the forecasting horizon

EXPORTS OF GOODS
(YoY % CHG.)



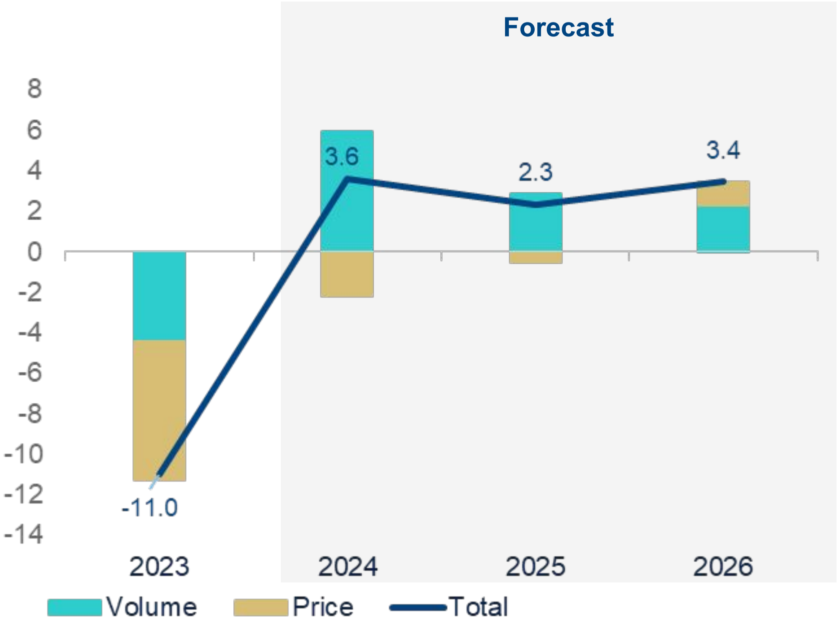
EXPORTS OF GOODS
(USD BILLIONS)



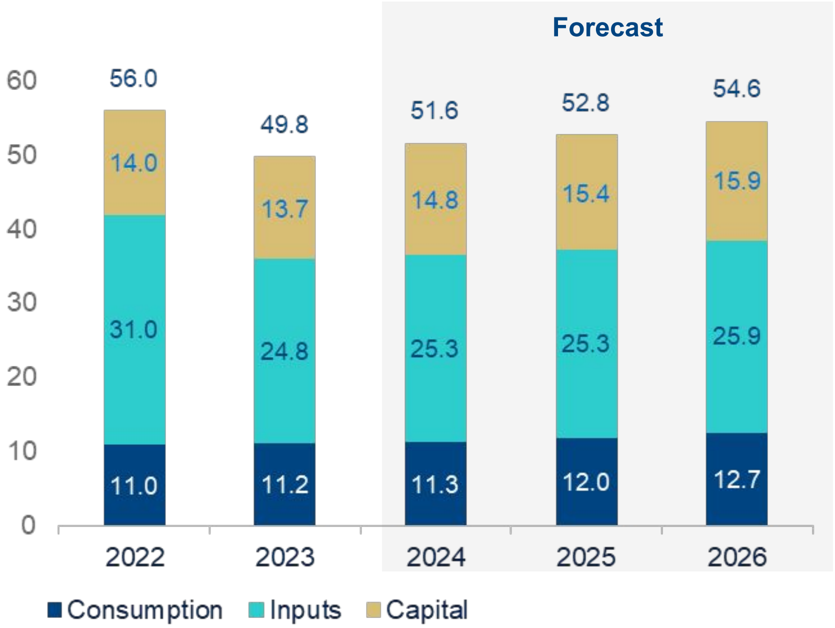
Source: BCRP and BBVA Research (forecasts).

Looking at imports of goods, volumes recovered in 2024 following last year's negative shocks, slowing thereafter

IMPORTS OF GOODS
(YoY % CHG.)



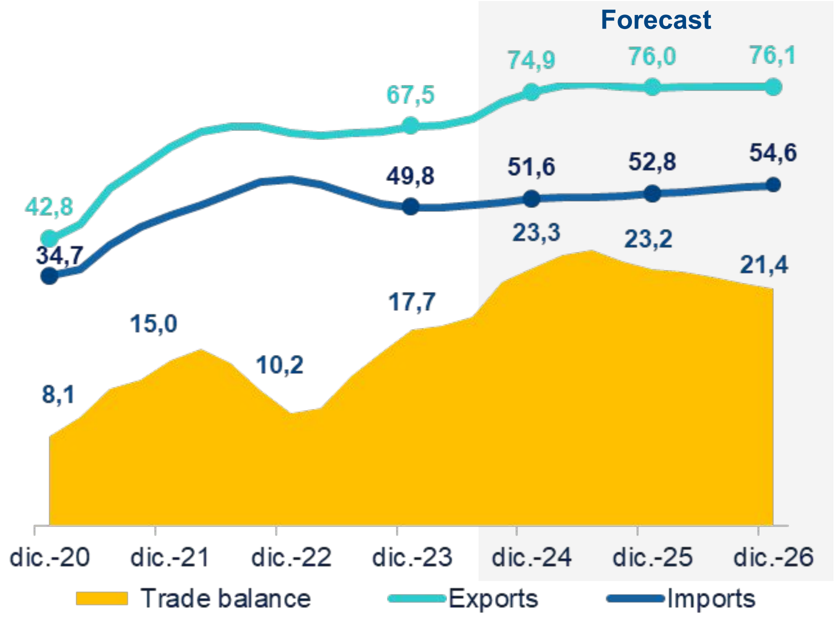
IMPORTS OF GOODS
(USD BILLIONS)



Source: BCRP and BBVA Research (forecasts).

In this context, the trade surplus will increase again this year and, although it will trend downward in 2025 and 2026, it will still remain high

TRADE BALANCE
(USD BILLIONS, ROLLING LAST 12 MONTHS)

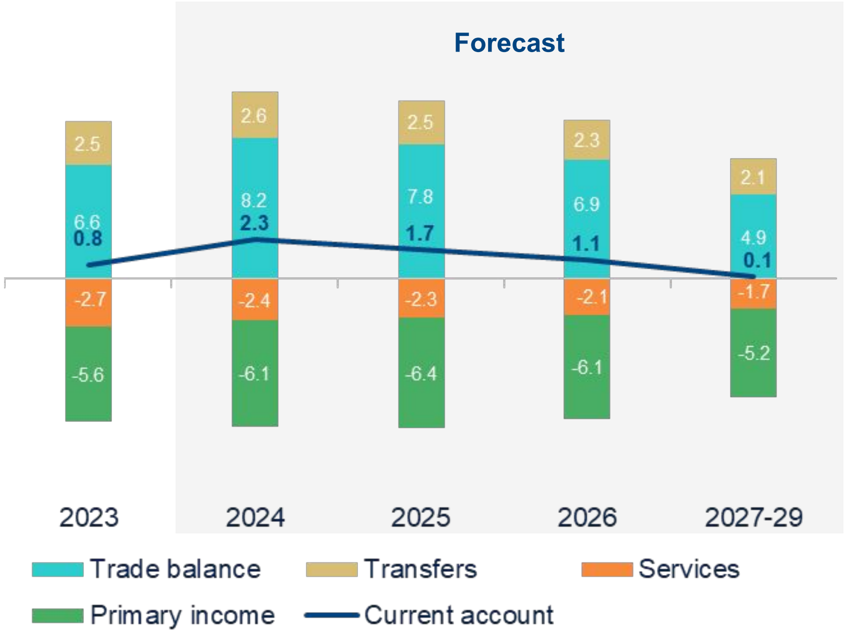


Source: BCRP and BBVA Research (forecasts).

- Mining (in terms of prices and volume) and normalization of supply in the sectors most affected last year by El Niño (fishing, agriculture) have been supporting exports in 2024. Normalization of imports following the shocks in 2023 is more gradual. In this context, the trade surplus will increase once again this year to reach an all-time high.
- In 2025, the trade surplus will remain high, despite the fact that a more conservative scenario has been considered for non-traditional exports to the U.S. due to the impact of the tariffs that could well be implemented by that country.
- Looking ahead to 2026, we expect to see a decline in export prices (especially metals), while import prices will increase only slightly after the contractions seen in the previous years. The increase in the volume of imports (associated with domestic demand at more normal levels) will also help to bring down the trade surplus, which will still remain high.

The current account of the balance of payments will remain in surplus for the next two years, mainly due to the favorable trade performance

BALANCE OF PAYMENTS CURRENT ACCOUNT
(% OF GDP)

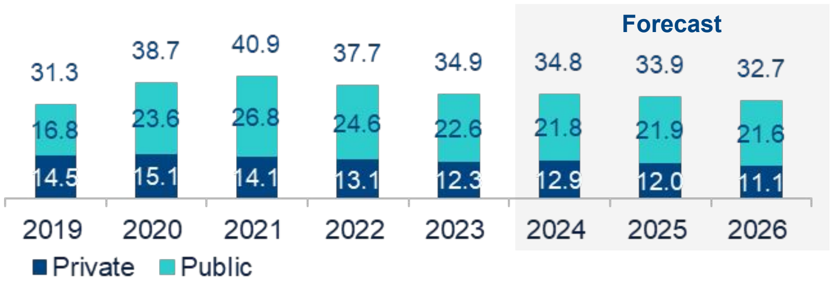


Source: BCRP and BBVA Research (forecasts).

- The current account surplus of the balance of payments will gradually moderate in 2025 and 2026, following the trend in the trade balance and also the decrease in transfers from abroad amid a more challenging external environment.
- It will partly offset the improved performance of the services balance over the coming years, mainly reflecting the recovery of inbound tourism.
- Profits of foreign companies operating in the country (primary income) are set to grow in 2025, due to high metal prices and a recovery in domestic demand, but will fall in 2026 as those same prices drop.

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

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



NET INTERNATIONAL RESERVES
(% OF GDP)

Source: BCRP and BBVA Research (forecasts).

- Current account surplus and lower interest rates imply that the economy will remain strong on the external side moving forward under the baseline scenario.
- Along these lines of sound external accounts, medium- and long-term external liabilities will gradually decline as debts are repaid in the absence of significant financing needs in 2024–2026.

NET INTERNATIONAL RESERVES

	2020	2021	2022	2023	2024	2025	2026
NIR/GDP (%)	36,2	34,7	29,4	26,5	27,8	30,1	31,4
Net International Reserves / short-term external debt	7,5	8,1	7,4	6,0	7,5	8,5	9,2
NIR / short-term external debt plus current account deficit	9,2	5,4	3,7	7,4	19,3	16,0	13,9

We estimate that the current account deficit required to stabilize long-term external debt is estimated at 1.7% of GDP

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:

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

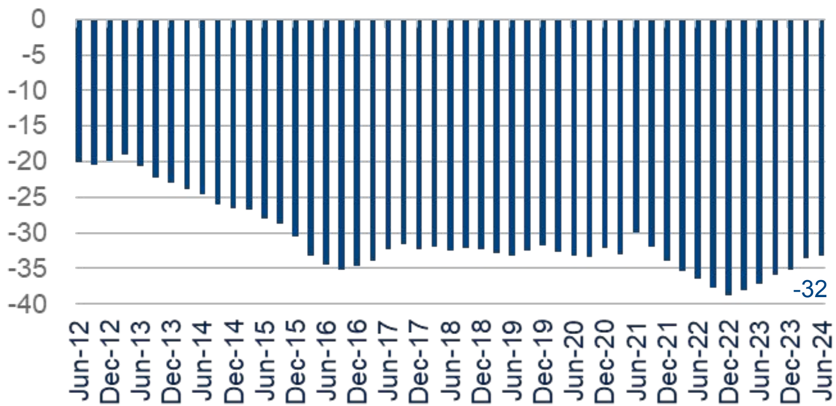
Current account stabilizing NEAs (ca*)

where: g is real GDP growth, π is inflation, and *b* is NEA target level.

Data	
NEA in 3Q24 (% of GDP)	-32%
Avg. inflation 2024-2029 (%)	2,5%
GDP. Avg. 2024–2029 (real % chg.)	2,7%
CC stabilizing NEA	-1,7%

Source: BCRP. Estimate: BBVA Research.

NET EXTERNAL ASSETS[1] (% 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.

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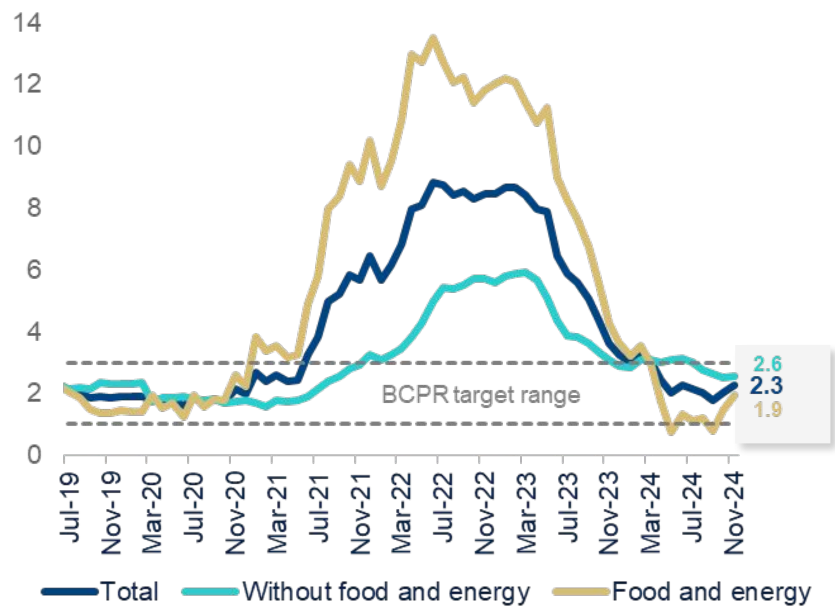
Peru economic forecasts

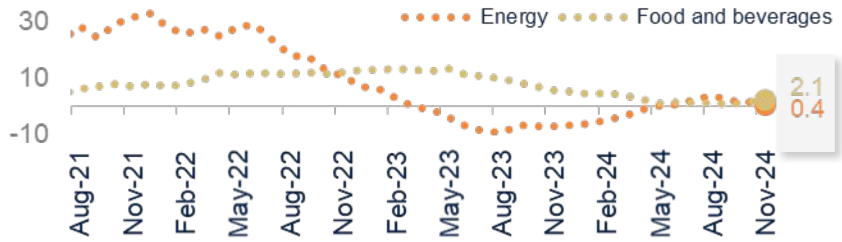
4.4. Inflation, monetary policy and exchange rate

The various inflation indicators are already comfortably within the central bank's target range...

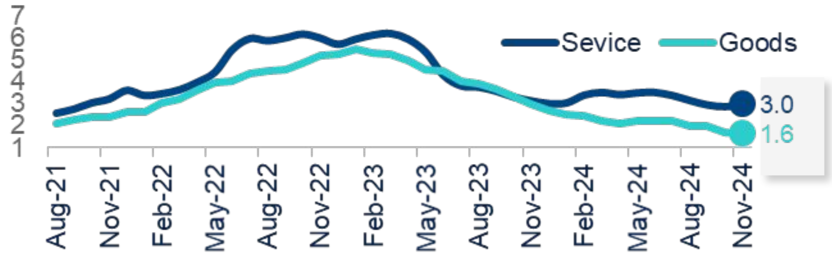
INFLATION: TOTAL & CORE
(YoY % CHANGE IN THE CPI)



INFLATION: FOOD & ENERGY
(YoY % CHG.)



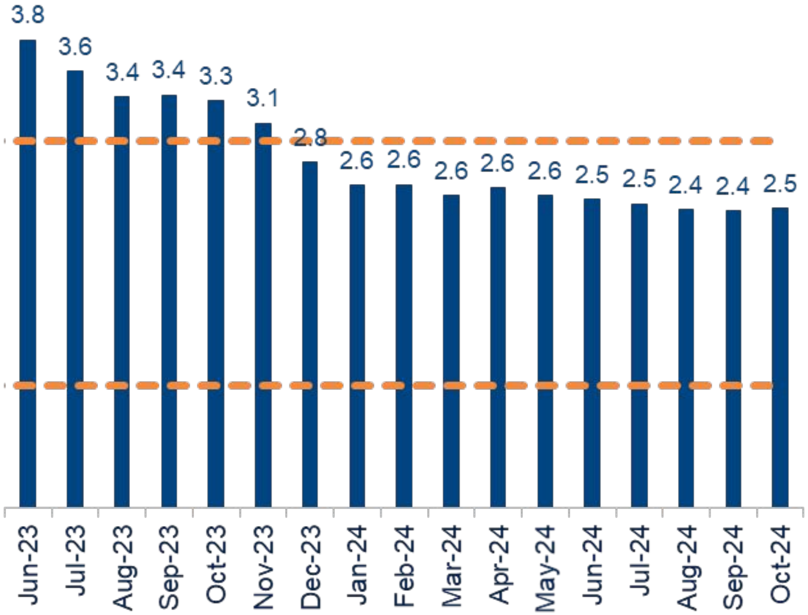
CORE INFLATION: SERVICES AND GOODS
(YoY % CHG.)



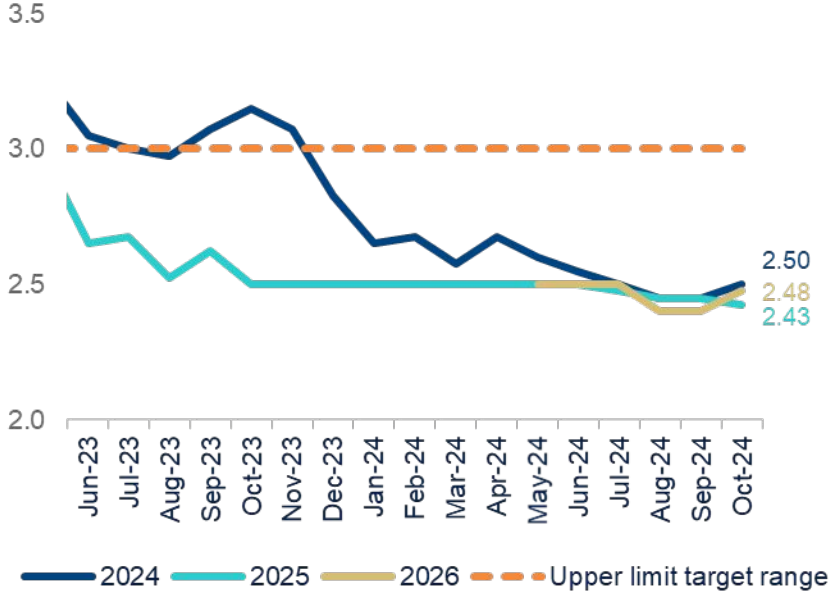
Source: INEI and BCRP.

… as well as inflationary expectations

12-MONTHS AHEAD INFLATION OUTLOOK
(YoY % CHANGE EXPECTED FOR THE CPI)



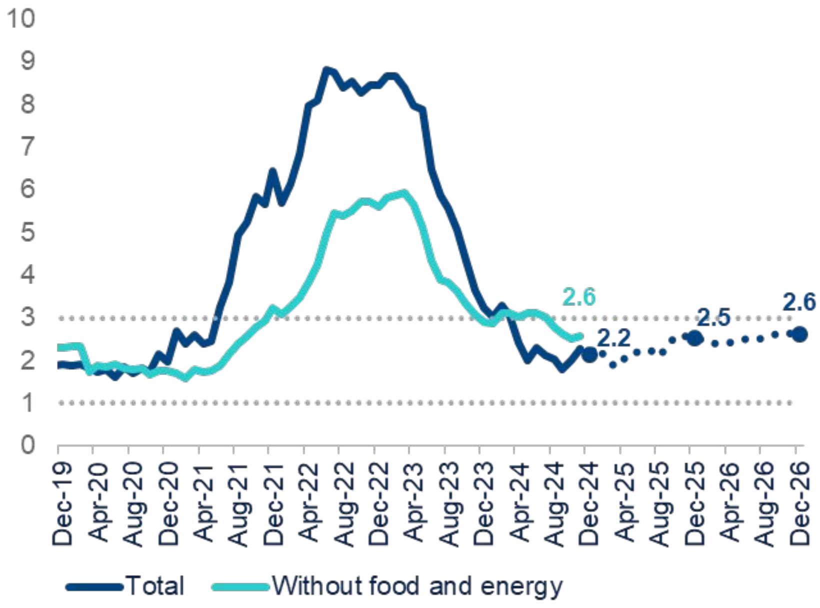
INFLATION EXPECTATIONS
(FOR YEAR-END, %)



Source: BCRP.

Over the forecasting horizon, the baseline macro scenario is consistent with an absence of significant inflationary pressures

INFLATION (YoY % CHG. IN THE CPI)



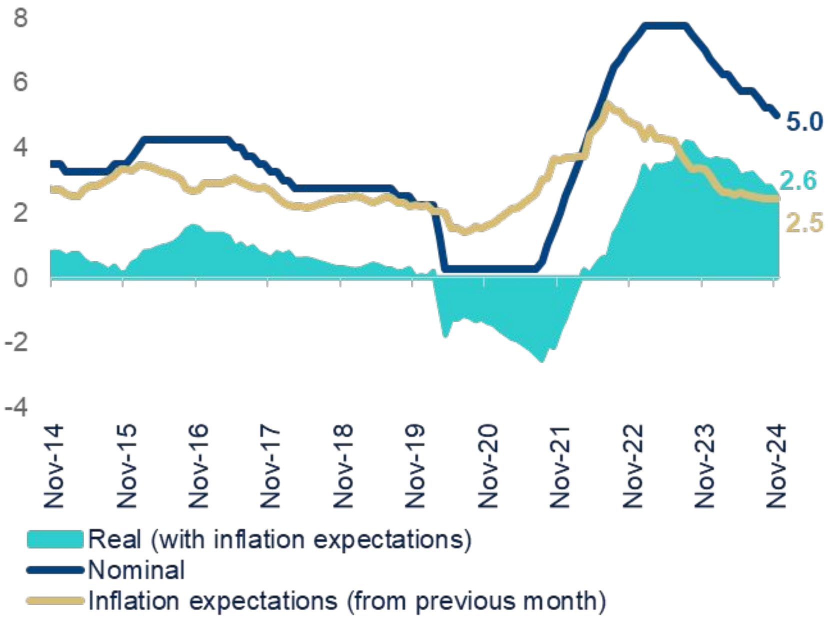
Source: INEI, BCRP, and BBVA Research (projections).

- The baseline scenario assumes that inflation will be around 2.2% by the end of the year, slightly below the current level (2.3%), and will remain under control, within the target range (2%, +/- one percentage point).
- The projection for 2025 (2.5%, eop) is of a closing output gap, the steady normalization of food and energy inflation (after the price correction this year that followed the supply shocks of 2024), and oil prices that will not fall as much as this year.
- Looking further ahead to 2026, inflation is expected to be around 2.6%, a level that we estimate to be the long-term trend.

The central bank continues to cut its policy rate, albeit cautiously due to the volatility within the financial markets, and there is still wiggle room

MONETARY POLICY INTEREST RATE

(%)



Source: BCRP.

- The BCRP has been normalizing the monetary position since September 2023, albeit gradually: 11 cuts of 25 bp each, to reach a level of 5.00% last November.

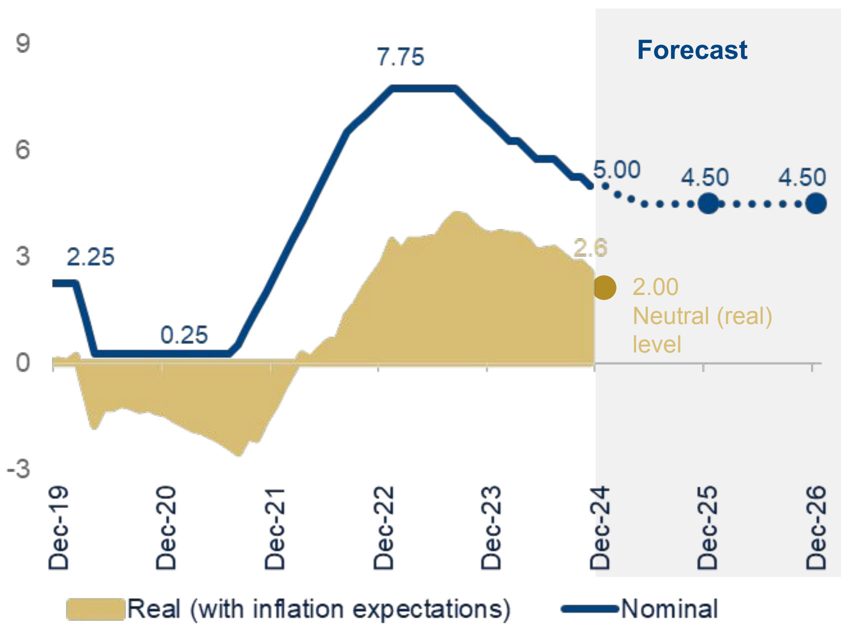
- With the various inflation measures already comfortably within the target range, slack in the economy, and a still restrictive monetary stance (real ex-ante interest rate at 2.6% versus an estimated neutral level of 2.0%), the recent gradual approach is due to volatility in the financial markets, more so now what with the change of administration in the United States .

- According to the latest signals coming from the central bank, it will continue to ease its monetary stance and seems to be in no hurry to keep lowering rates. It reckons that financial volatility is a factor that must be taken into account, and that the process will only continue with economic conditions permitting (according to the data released). In any event, we are already close to the neutral level.

Under the baseline scenario, we expect the monetary policy stance to turn neutral within the first few months of 2025

- In a scenario in which inflation remains comfortably within the target range going forward, inflation expectations remain anchored, and the economy is still below its potential level, we expect to see two further rate cuts in the coming months (of 25 bp each) to 4.50%.
- This implies that the sol-dollar short-term interest rate differential should be substantially similar to where it is now, which will limit exchange rate pressures, although there will be an additional easing of the monetary position.
- The timing of the rate cuts will depend, above all else, on what happens in the financial markets, due to the natural uncertainty over Trump 2.0.
- The monetary normalization process is expected to culminate in the second quarter of 2025, whereupon the policy rate should be at 4.50%, which we estimate as neutral (2.0% real rate and 2.5% medium-term inflation). This forecast implies that the BCRP will continue to act cautiously as the new U.S. administration deploys its policies, and notably this level of precaution is greater than what we envisioned under our previous baseline scenario.

MONETARY POLICY RATE (%)



Source: BCRP and BBVA Research (forecasts).

Uncertainty about Trump 2.0, the Fed's next moves, and China's economic growth is driving volatility in the domestic foreign exchange market

EXCHANGE RATE
(PEN-USD)

CENTRAL BANK FOREIGN EXCHANGE INTERVENTION*
(IN NET SELLING POSITION, MILLIONS OF USD)

BCRP foreign exchange swap balance	2022	2023	2024*
billions of USD	9.8	12.0	12.8

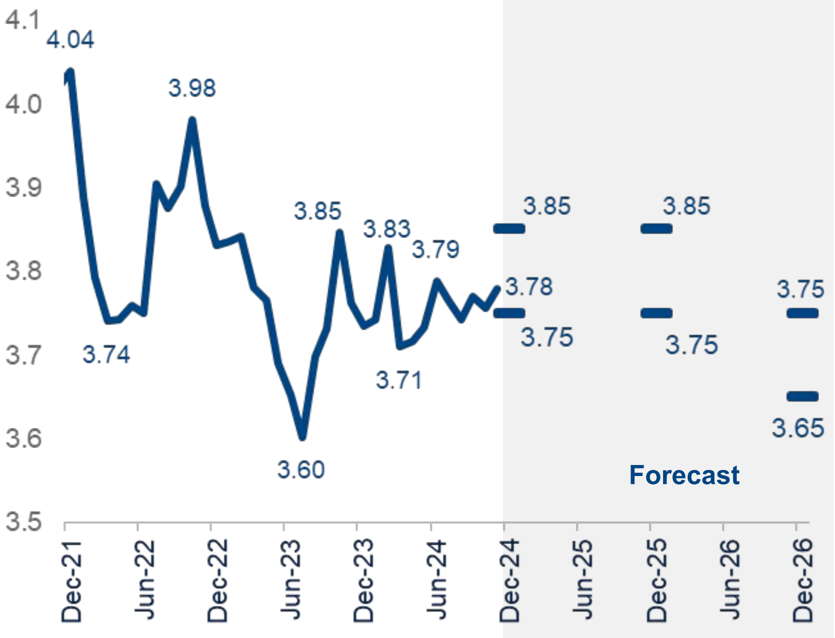
Source: BCRP.

* Data for 2024 as of November 26 (intervention) and November 22 (swaps).

Volatility is likely to persist in the coming months due to Trump's announcements and Peru's upcoming general elections

- Uncertainty over the upcoming change of administration in the United States and the expected consequences of the policies it will unfurl suggest that the exchange rate will continue to face upward pressure for the remainder of the year. The strong external surplus and seasonal factors should limit these pressures. The exchange rate looks set to end the year in a range between 3.75 and 3.85 soles per dollar (daily average for December).
- The short-term interest rate differential in 2025 will be substantially similar to where it is at the end of 2024. However, toward the end of 2025, more defensive positions will likely be taken given the proximity of the general elections, which will exert upward pressure on the exchange rate. The high trade surplus will continue to support the PEN. In this context, we expect the USD/PEN to end the year in a range similar to the level it reached at the end of 2024 (between 3.75 and 3.85 soles per dollar).
- From mid-2026 onward, when the Fed resumes its monetary normalization process (following a lengthy hiatus in 2H25 and 1H26), the PEN-USD interest rate differential will widen to favor the Peruvian sol, which will strengthen as a result.
- These exchange rate forecasts are higher than under the previous baseline scenario due to the likely impact of the new U.S. administration's policies.

EXCHANGE RATE
(SOLES PER USD, MONTH AVERAGE)



Source: BCRP and BBVA Research (forecasts).

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05

Main risks to Peru's economic outlook

Creating Opportunities

Main domestic risks to the baseline scenario for Peru

EXTERNAL RISKS

Slower global growth due to the policies to be implemented by the new U.S. administration.

Negative supply shocks due to geopolitical conflicts or meteorological events

Higher inflation and interest rates due to expansionary fiscal policies

United States imposes trade tariffs on small countries such as Peru?

LOCAL RISKS

Escalation of political and social conflict

Government breaks up before 2026, generating instability and bringing forward the general elections

Election results adverse to the market economy

Credit conditions that fail to improve as expected

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

More positive economic impact following start of operations at the port of Chancay

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06

Macroeconomic forecasts at a glance

Summary of macroeconomic forecasts

	2023	2024 (f)	2025 (f)	2026(f)
GDP (% chg.)	-0.4	3.1	2.7	2.7
Domestic demand (excluding inventories, % chg.)	-0.6	3.1	2.7	2.8
Private spending (% chg.)	-1.6	2.4	2.7	2.9
Private consumption (% chg.)	0.1	2.6	2.4	2.7
Private investment (% chg.)	-7.3	1.8	3.9	3.5
Public expenditure (% chg.	4.1	6.3	2.6	2.6
Public consumption (% chg.)	4.6	3.6	2.4	2.2
Public investment (% chg.)	2.8	14.5	3.0	3.5
Exports (% chg.)	4.9	3.8	3.0	1.9
Imports (% chg.)	-1.4	5.6	3.5	3.0
Exchange rate (vs. USD, EOP)	3.74	3.75–3.85	3.75-3.85	3.65-3.75
Inflation (% YoY, EOP)	3.2	2.2	2.5	2.6
Monetary policy interest rate (%, EOP)	6.75	5.00	4.50	4.50
Fiscal balance (% of GDP)	-2.8	-3.9	-2.7	-2.5
Current account balance of payments (% of GDP)	0.8	2.3	1.7	1.1
Exports (USD billion)	67.5	74.9	76.0	76.1
Imports (USD billion)	49.8	51.6	52.8	54.6

(f) Forecast. Forecast closing date: December 1, 2024.
Source: BBVA Research.

Summary of macroeconomic forecasts

	2023	2024(f)	2025 (f)	2026(f)
GDP (chg. %)	-0.4	3.1	2.7	2.7
Primary GDP (chg. %)	**2.9**	**3.4**	**3.4**	**2.0**
Agricultural	-2.4	2.3	3.3	3.0
Fishing	-21.2	36.5	1.5	4.1
Mining[1]	8.1	2.2	3.2	1.0
Primary manufacturing	-2.3	7.7	4.9	4.0
Non-primary GDP (chg. %)	**-1.2**	**3.1**	**2.6**	**3.0**
Non-primary manufacturing	-8.0	2.2	2.4	2.4
Construction	-7.8	4.0	3.5	4.5
Trade	2.4	3.0	2.3	2.4
Other services	0.3	3.2	2.6	3.0

(f) Forecast. Forecast closing date: December 1, 2024.
1: Includes metal mining and hydrocarbons
Source: BBVA Research.

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Peru Economic Outlook

December 2024

Creating Opportunities