BBVA Research

JUNE 2025

Peru Economic Outlook

Contents

Key points

Economic uncertainty

U.S. tariffs have risen sharply. While tariffs on China stand at around 30%, below the expected 60% and the peak of 145% after ‘Liberation Day,’ they still remain historically high and represent a persistent source of risk. In this context, and with the prospect of heavy fiscal deficits looming, the U.S. risk premium has risen. Output growth remains firm and inflation has eased, despite initial signs of deterioration.

Outlook: growth

Protectionism and uncertainty will shackle economic activity. Growth will slow more than expected in the United States, though not necessarily in China and the Eurozone. In the case of China, the lower-than-expected U.S. tariffs supports an upward revision of the growth outlook. In Europe, the impact of tariffs will be mitigated by fiscal spending, especially in defense.

Outlook: inflation and interest rates

Tariffs will increase inflation in the U.S., prompting the Fed to hold rates steady for longer. Monetary easing could resume by the end of 2025 if price pressures are transitory. The cycle of cuts is nearing its end in the Eurozone, but continues in China.

Risks

Prolonged uncertainty and higher risk premiums in the United States are a cause for concern. The risk related to tariffs continues to increase, but now seems more balanced.

Key points

Domestic macro outlook: economic activity

The Peruvian economy started the year strongly, growing 3,9% year on year in the first quarter, in line with expectations and buoyed by domestic demand.

As is customary every three months, the baseline forecast scenario has been updated. This includes a challenging international environment of trade tensions that will have a negative impact on global growth and a tariff imposed by the U.S. on imports from Peru of around 10%. Despite this, the terms of trade remain at high levels.

Locally, the baseline scenario assumes a relatively calm political and social environment, with general elections in 2026 (which generate increasing uncertainty in the coming months, more visible once we reach the end of 2025), confidence that continues to shore up private spending, and the start of construction of several major mines. It also includes the various negative events that in recent months have affected the production in certain important mining (and hydrocarbon processing) units.

In this context, we continue to forecast output growth of 3,1% for 2025, with the first half of the year outperforming the second, when, in spite of the start of construction of new mines, the y/y comparison base will be higher, the global impacts of U.S. tariff policy will be more significant, and the uncertainty over the impending elections will be more visible. For 2026, the output growth forecast remains at 2,7%, a year in which, as usual in an election process, uncertainty will be higher, particularly in the first six months.

Compared with the previous baseline scenario (March), the revision considers higher growth in China for 2025 and a sharper decline in oil prices (conducive to private spending), but also lower economic growth in the United States and negative events that have occurred at several important mining units. In this context, the output growth forecast for the year remains at 3,1%. For 2026, mining production normalises following the slump of the previous year and China's GDP growth rate has been revised upwards, but the United States is now expected to grow less than in the previous base scenario, which on balance leaves Peru's output growth forecast at 2,7%, with an upward bias.

Key points

Domestic macro outlook: fiscal accounts

After closing 2024 at a level equivalent to 3,5% of GDP, the fiscal deficit has trended downward in the first half of 2025, underpinned by high export prices and domestic demand growth. We expect it to end the year at around 2,7% of GDP and to fall further in 2026 (to 2,5%). On the positive side of the fiscal accounts, gross public debt remains relatively low (31% of GDP in 1Q25) and the deficit is falling. However, there is some concern over public finances because the decline in the deficit is slower than expected and because measures that will dampen revenues or lead to higher spending in the coming years are on the table (or are in the process of being approved), which would lead to gross public debt trending upward faster than expected as we move forward. Under the baseline scenario, gross public debt will still be below 34% of GDP at the end of 2026, but will continue to increase in the following years, reaching a level slightly above 37% by the end of 2030.

Domestic macro outlook: external accounts

Terms of trade have continued to rise and are at all-time highs. The trade balance surplus is close to USD 27 billion. With copper and gold prices expected to remain at attractive levels, but with oil prices trending downward, the terms of trade will remain high in 2025 and 2026. Peru's external accounts will thus maintain a relatively high surplus, with the current account of the balance of payments even exceeding a level equivalent to 2,0 % of GDP this year and reaching between 1,5% and 2,0 % of GDP next year.

Key points

Domestic macro outlook: exchange rate

The domestic currency has strengthened so far this year. The higher surplus in the external accounts has backed the Peruvian sol, leading to some unwindings in foreign exchange derivatives positions (from banks' perspective, a decrease in forward dollar sales), which has also provided positive support. Moving forward, trade policies in the world (and their implications) will continue to be a source of exchange rate volatility. In the last few months of the year, with local elections approaching, the Peruvian sol is likely to weaken and the exchange rate should end 2025 in a range of 3,65 to 3,75 soles to the dollar. Next year, once the elections have come and gone, propped by the external accounts surplus, and with the U.S. monetary policy interest rate normalising, the domestic currency will strengthen, with the exchange rate closing 2026 in a range between 3,60 and 3,70 soles per dollar.

Domestic macro outlook: inflation

Inflation (both headline and inflation excluding food and energy) and inflationary expectations are comfortably within the central bank's target range. With economic activity around its potential level, inflationary expectations anchored, and in the absence of significant weather anomalies, inflation will remain within that range. In the third quarter it is expected to move between 1,5% and 2,0% as a monthly average, while in the last quarter it will likely increase due to the low year-on-year comparison base, ending 2025 at around 2,2%. For 2026 we forecast an inflation rate of 2,6%, more in line with its medium-term trend.

Key points

Domestic macro outlook: monetary policy

The central bank has been cutting its policy interest rate gradually since September 2023, bringing it to 4,50%, i.e. around the nominal level we estimate to be neutral. A neutral monetary stance is consistent with the inflation outlook and the current cyclical position of the Peruvian economy. Under the baseline scenario, the policy interest rate will remain at 4,50% for the coming months. The bias, however, is downward. In the short-run, the trend in inflation and the domestic currency appreciation pressures could open that door. The likelihood of this alternative scenario happening is lessened by the negative sol-dollar interest rate differential that would occur (increasing the vulnerability of the local currency to changes in market sentiment), the persistent uncertainty related to the tariff policy of Peru's main trading partners, and an electoral campaign that is drawing closer (with the inevitable precautions that this usually entails).

Main risks to output growth forecasts for 2025–2026

External risks include (i) greater uncertainty over U.S. trade policy, which will affect spending decisions; (ii) financial stress related, for example, to a further increase in the U.S. risk premium; (iii) U.S. tariffs other than those considered already; (vi) geopolitical conflicts or climate shocks. At the domestic level, risks include (i) increased political and social conflict; (ii) the possibility of the elections being brought forward, generating instability; (iii) an electoral result contrary to a free-market economy; (iv) a greater sense of insecurity due to an increase in crime and the spread of illegal economies; (iv) new withdrawals from pension funds; and (v) an earlier start of large mining projects or greater investment flows in some of the mining and infrastructure projects already considered under the baseline scenario.

Research

1. Context and outlook

Global scenario

Global economy under pressure by US policies

High US tariffs; although lower on China, they are larger than assumed on others, and a greater source of uncertainty

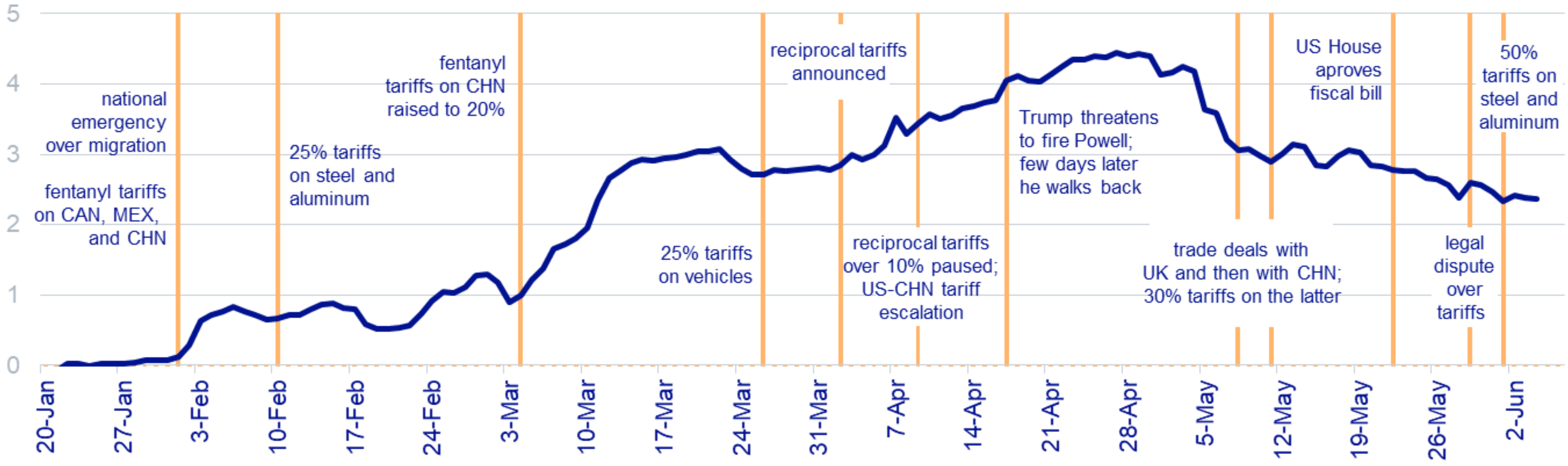
Resilient growth; confidence deteriorated, but impact of tariffs on activity and inflation is limited, so far

Larger US risk amid increasing concerns on fiscal accounts and uncertainty on US policies

Weaker USD, higher long term yields, and a cautious Fed; policy rates fell further in China and Europe

Uncertainty remains in place

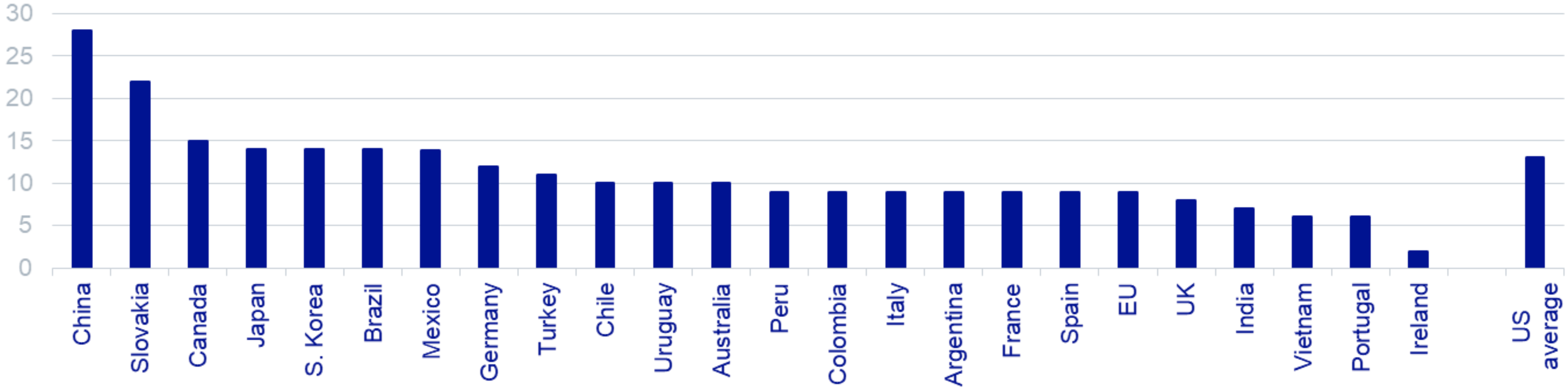
BBVA RESEARCH ECONOMIC POLICY UNCERTAINTY INDEX: UNITED STATES (*)
(28-DAY MOVING AVERAGE, AVERAGE SINCE 2017 EQUALS TO ZERO)



(*) Last available data: June 4, 2025
Source: BBVA Research.

US tariffs have risen sharply and erratically

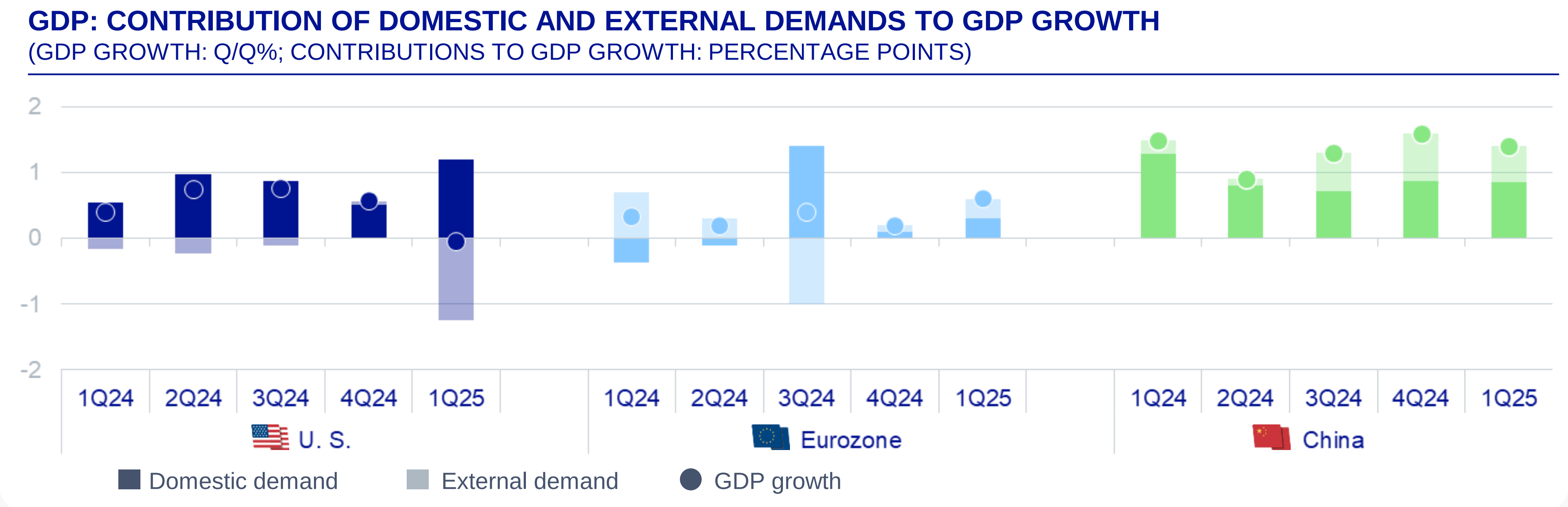
US TARIFFS: ESTIMATED INCREASE SINCE THE BEGINNING OF 2025 UNTIL JUNE 9, 2025 (*)
(PP)



(*) Based on i) 25% tariffs on vehicles and vehicles parts and 50% tariffs o aluminum and steel (lower rates for the UK, Mexico and Canada), ii) 0% tariffs on pharmaceutical goods, oil, copper and selected electronic goods, iii) fentanyl tariffs on China, Mexico and Canada, and iv) 10% reciprocal tariffs.
Source: BBVA Research.

After some de-escalation, US tariffs rose again in late May/25, with levies on steel and aluminum reaching 50%; trade negotiations continue, and disputes over the legal validity of the tariffs remain unresolved

GDP stagnated in the US and grew by more than expected in the EZ and China in 1Q25 amid preemptive trade flows

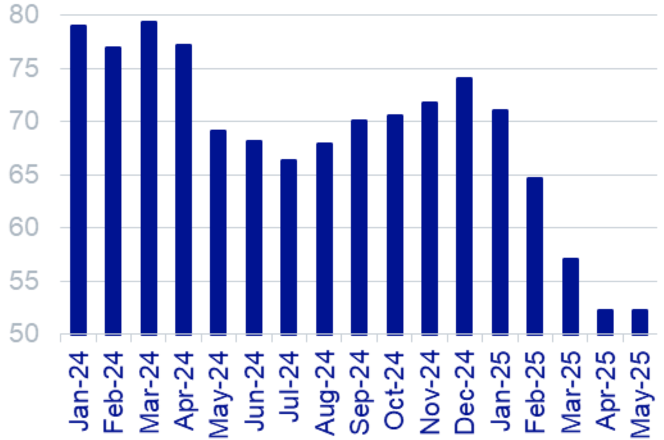


Source: BBVA Research based on data from Haver and China's NBS.

Ahead of tariffs, imports and inventories increased sharply and private consumption weakened somewhat in the US; exports performance helped to sustain growth in China and the Eurozone

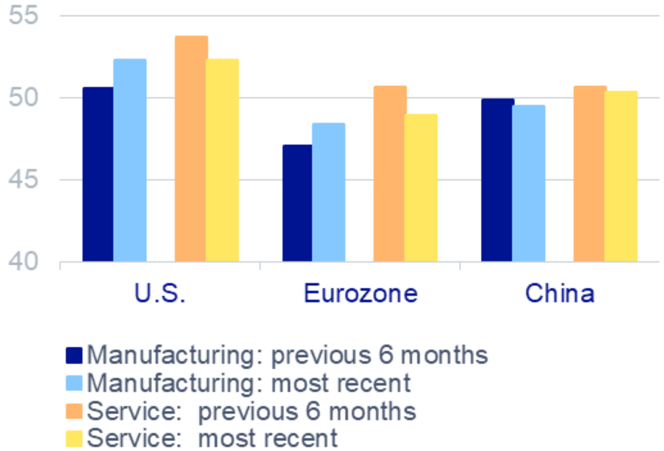
Growth remains relatively resilient, but there are incipient signs of tariff effects on activity

US CONSUMER SENTIMENT
(INDEX)



Source: BBVA Research based on data from Survey of Consumers, University of Michigan

PMI INDICATORS: 2H24 AVERAGE AND MOST RECENT DATA (*) (MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



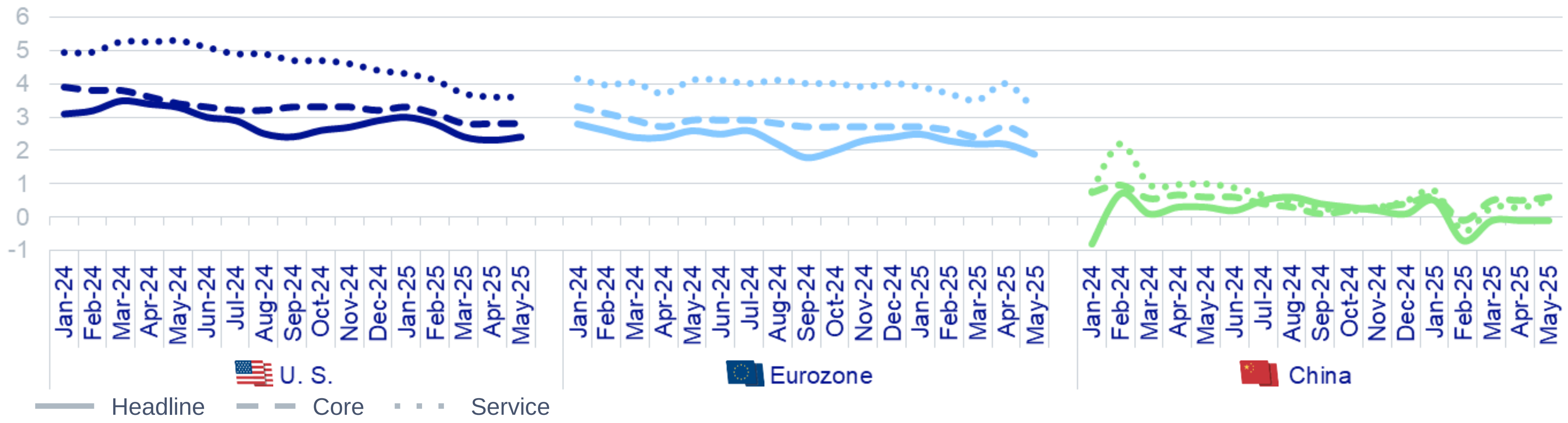
(*) Most recent data: May 2025.
Source: BBVA Research based on data from Haver.

Confidence has deteriorated and services have weakened, while manufacturing has benefited from lower interest rates and pre-tariffs trade surge; labor markets are losing some of their steam, but remain strong

Inflation has eased more than expected lately; limited effects of tariffs so far

CPI INFLATION: HEADLINE, CORE AND SERVICE

(Y/Y %)



Source: BBVA Research based on data from Haver.

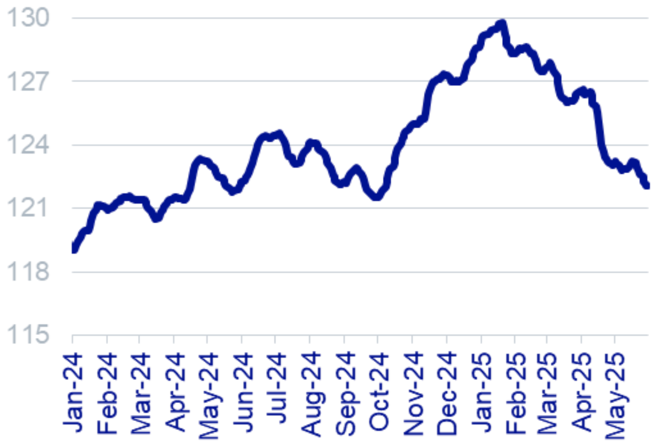
Contained demand pressures and lower energy prices have contributed to a moderation in inflation, which remains over 2% in the US (but not in the Eurozone anymore), to some extent due to still pressured service prices

The US risk premium has edged higher, weighing on long-term yields and the dollar

YIELDS ON US 30-YEAR SOVEREIGN BONDS (*) (%, 7-DAY MOVING AVERAGE)

(*) Last available data: June 5, 2025
Source: BBVA Research based on data from the Fed

NOMINAL BROAD US DOLLAR INDEX (*)
(INDEX: JAN/06=100; 7-DAY MOVING AVERAGE)

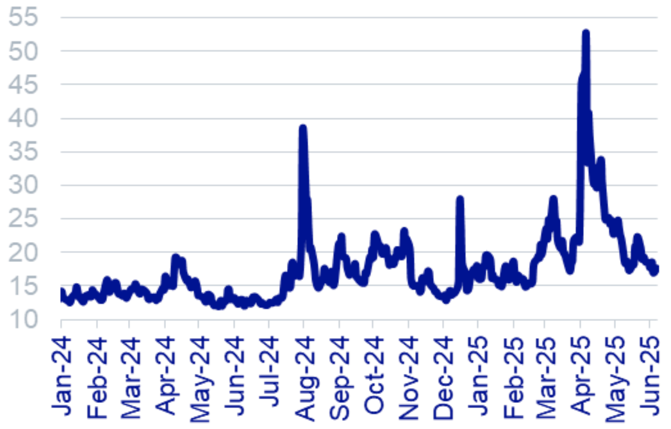


(*) A weighted average of the foreign exchange value of the U.S. dollar against currencies of a broad group of major U.S. trading partners. Last available data: May 30, 2025
Source: BBVA Research based on data from the Fed

Policy uncertainty, prospects of larger fiscal deficits, threats to the Fed independence, talks about a dollar devaluation, a potential tax on foreign investors, among other factors, have pushed US risk up

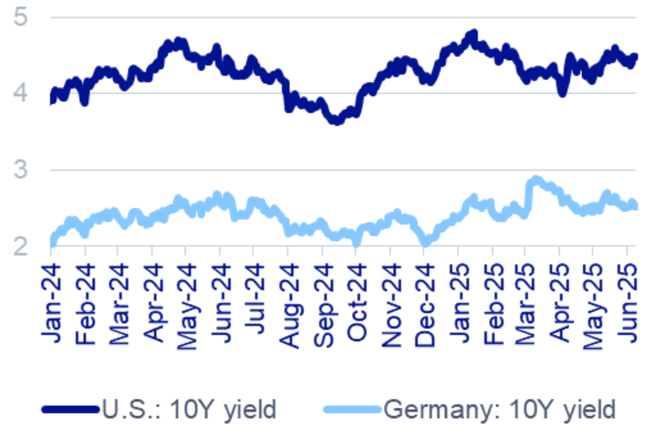
Financial volatility has eased more recently, after a surge in April, but remains elevated

EQUITY VOLATILITY: VIX (*)
(%)



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

SOVEREIGN YIELDS (*)
(%)

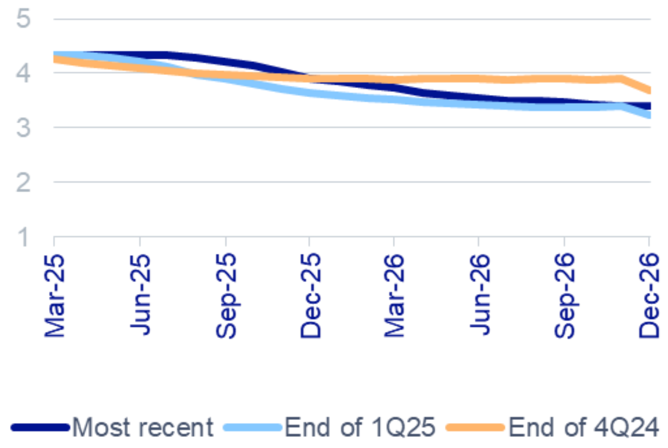


(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

Upward pressure on 10-year sovereign yields due to rising risk premium in the US and fiscal spedning prospects in the EZ, to some extent offset by growth concerns, mainly in the Eurozone

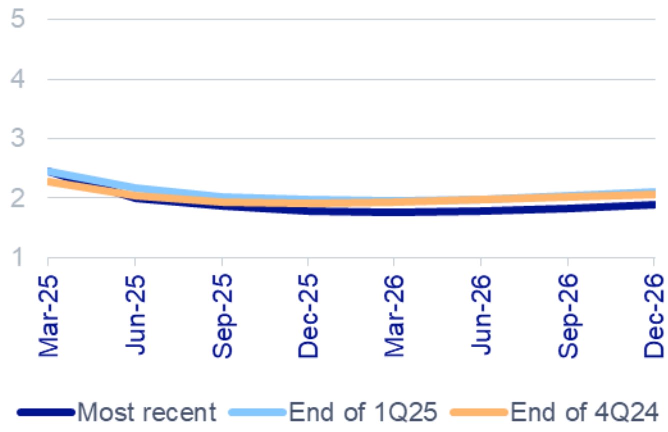
Despite lower inflation, the Fed remains cautious and markets see limited room for extra easing in the short run

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



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

EZ: IMPLICIT RATE IN EURIBOR FUTURES (*)
(%)



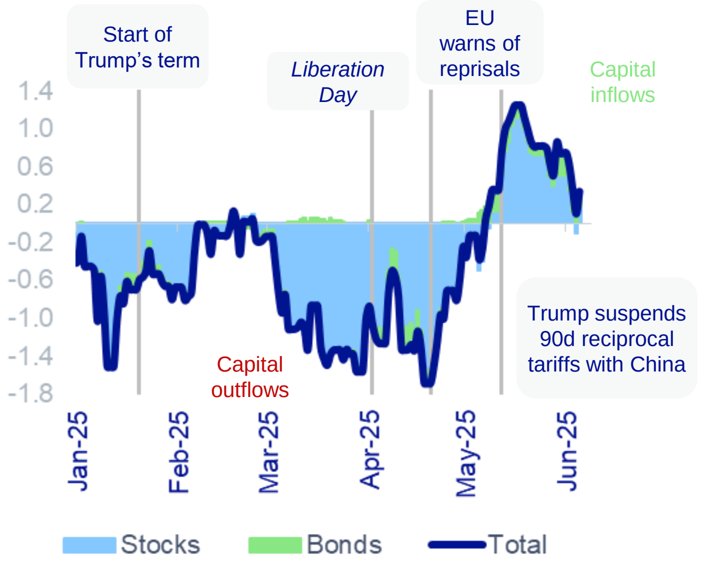
(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

The likely impact of tariffs on inflation has backed the Fed's decision to keep rates unchanged lately; The ECB cut rates to 2% in Jun/25 and suggested that, despite large uncertainty, the easing cycle is nearly over

In emerging markets, capital inflows; in LatAm, risk premiums reverse after rising in April…

CAPITAL FLOWS TOWARD EMERGING MARKETS[1]

(USD BILLIONS, 28-DAY MOVING AVERAGE)



LATAM: COUNTRY RISK

(MEASURED WITH EMBI, INDEX 1.1.25 = 100)

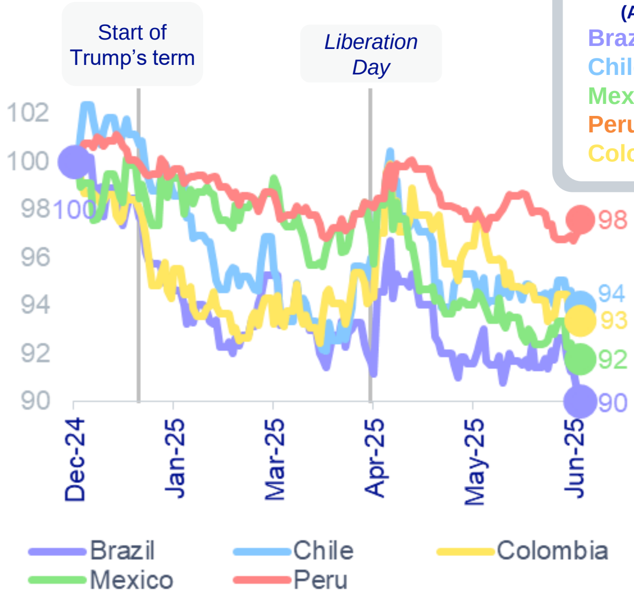
Change (bps) versus Liberation day (April 2, 2025)

Colombia: 1
Peru: -14
Brazil: -13
Chile: -14
Mexico: -34

(1) Includes China.
Source: IIF (information as of June 10) and BCRP (information as of June 12).

… and the region's currencies strengthen, while sovereign yields deliver mixed performances

LATAM: EXCHANGE RATES
(LOCAL CURRENCY VS USD, INDEX DEC 31, '24=100)



% change compared with Liberation day (April 2, 2025)

Brazil:	-2,9
Chile:	-1,9
Mexico:	-6,4
Peru:	-1,8
Colombia:	-1,2

LATAM: 10-YEAR SOVEREIGN BOND YIELDS (%)

Bp change versus Liberation Day (April 2, 2025)

Source: Investing (information as of June 16)

Base scenario: protectionism and uncertainty will hit the global economy; stimulus will support China and Eurozone

Growth will moderate, faster than forecast in the US although tariffs may be lower than expected; policy stimulus will support China and Europe

Inflation is set to rebound in the US, at least in the short-term, thanks to higher tariffs, but will be around 2% in Eurozone and low in China

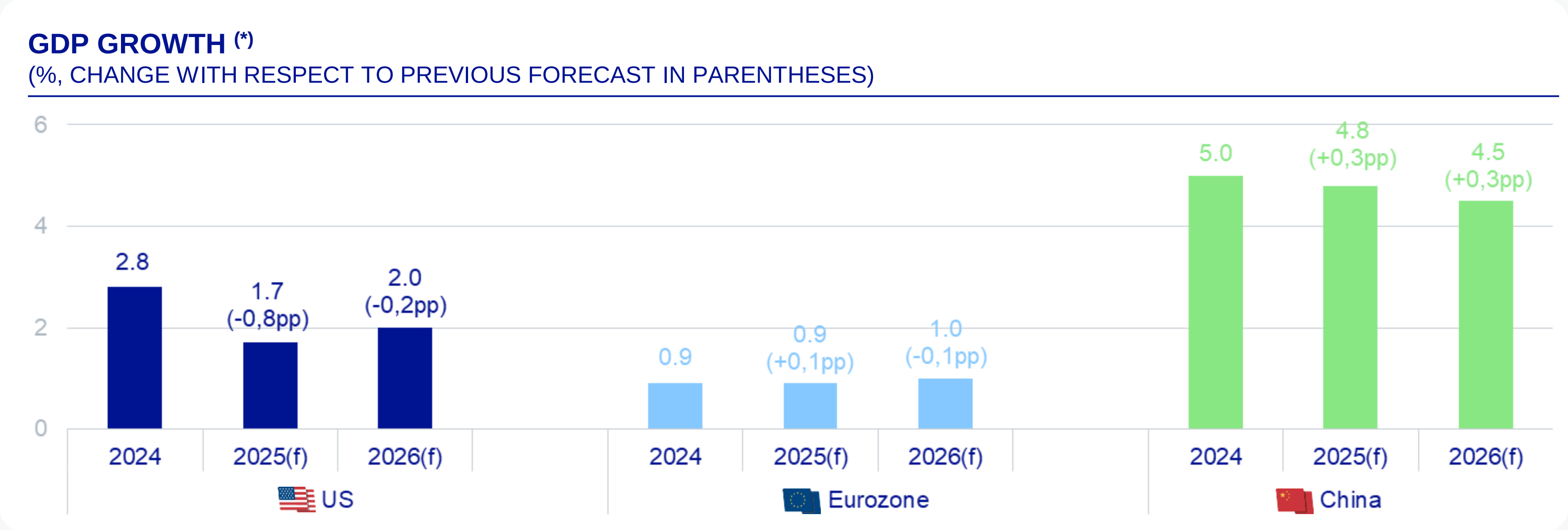
A cautious Fed will keep rates on hold through year-end; ECB's easing cycle is likely over, but extra cuts are dependent on tariffs

Market volatility will likely persist amid lasting uncertainty and rising US risk, potentially hitting the dollar

Prospects for US policies: baseline scenario assumptions

	BBVA Research baseline scenario on main US policies
Tariffs	**Higher for longer uncertainty, although lower levies on China would imply smaller US average tariffs than anticipated**. Working assumption: around 30% on China, 10% on Mexico/Canada, average of current (as of end of May) and reciprocal (as of “Liberation day”) tariffs for others, implying a 13pp increase in the overall US tariffs (vs. 60% on China and 10% on others, which implied a 17pp increase in US tariffs, assumed in 1Q25).
Fiscal Policy	**Potentially larger fiscal deficits**, driven by significant tax cuts and limited offsetting revenue, will likely weigh on US yields and the dollar.
Monetary and FX Policy	**Higher-than-expected noise** will help keep market volatility and US assets under pressure. Still, the Fed is expected to maintain its independence, and the dollar should remain the dominant global reserve currency.
Other policies	**Migration policies will not have a significant impact on labor markets** in the forecast horizon. No shocks related to foreign and regulatory policies are being assumed.

Growth prospects have deteriorated in the US, but not in China or the Eurozone

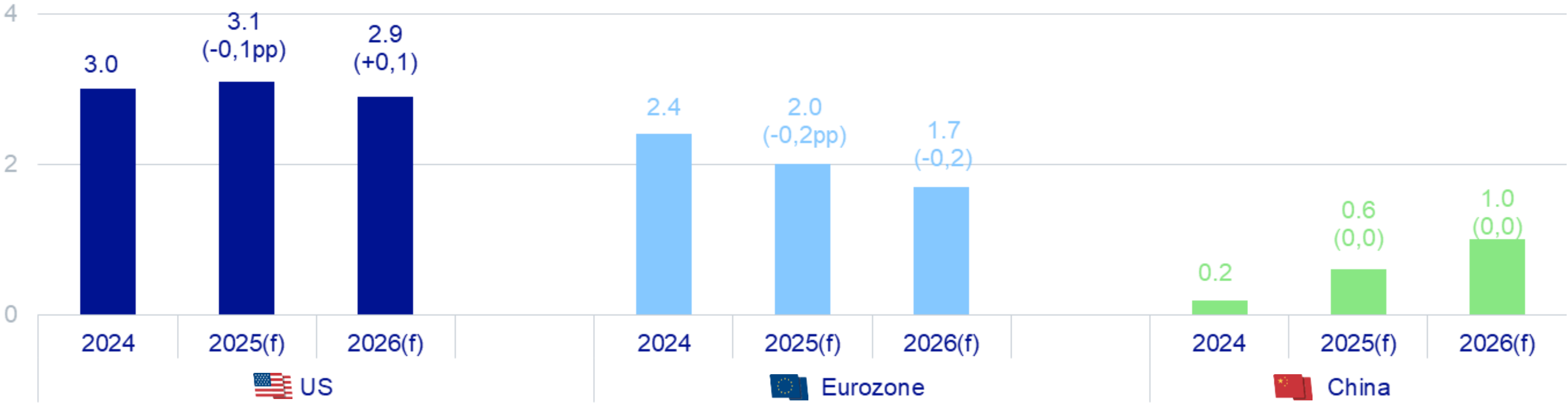


(*) Global GDP grew by 3.4% in 2024 and is forecast to expand by 3.0% in 2025 and 3.1% in 2026, respectively three and two decimal points below the expected in 1Q25.
(f): forecast.
Source: BBVA Research

Weaker US growth on higher uncertainty, weaker 1Q25 data (to be partially offset by a 2Q25 rebound); growth will be backed by lower US tariffs and economic stimuli in China, and by defense and infrastructure spending as well as by lower inflation and interest rates in the Eurozone

Inflation is still likely to rebound in the US following tariff hikes, and to remain contained in the Eurozone and China

HEADLINE CPI INFLATION
(Y/Y %, AVERAGE OF THE PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



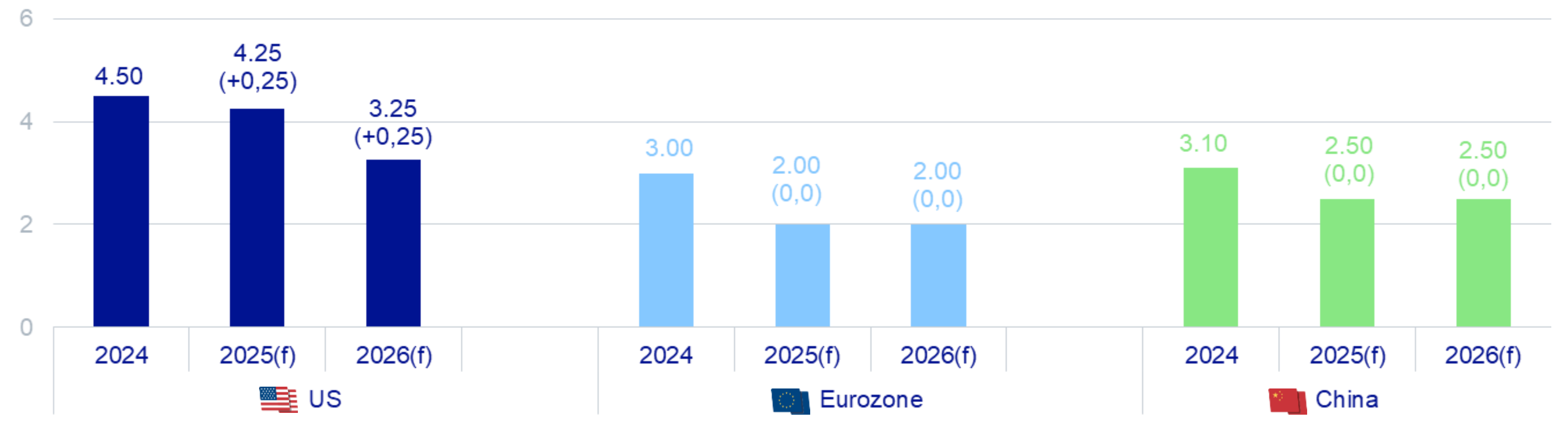
(f): forecast.
Source: BBVA Research

Lower energy prices and weak demand pressures support controlled inflation, except in the US, where tariffs are likely to raise production costs—at least in the short term; a stronger euro is also likely to keep price pressures limited in Europe

The Fed will keep rates unchanged for longer given tariff uncertainty; ECB monetary tightening is (likely) over

POLICY INTEREST RATES (*)

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



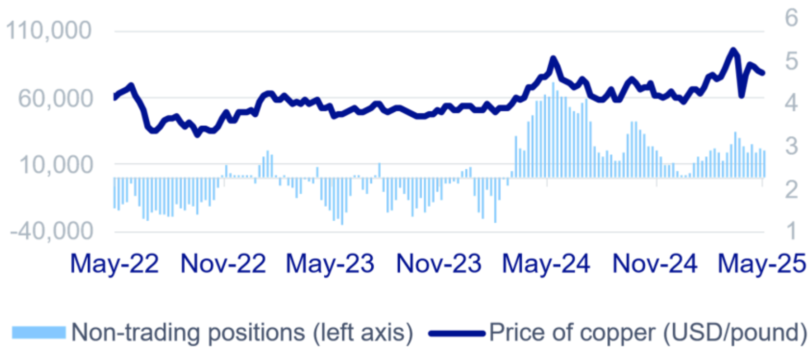
(f): forecast.
(*) In the case of the Eurozone, interest rates of the deposit facility.
Source: BBVA Research.

The Fed is forecast to cut rates once this year (in 4Q25), but the easing cycle would continue in 2026, at least if inflation rebound on tariffs proves to be temporary; in the Eurozone, rates are forecast to remain at 2%, but growth concerns and controlled inflation could pave the way for extra cuts

Metal prices: copper remains at attractive levels, amid higher demand (threat of tariffs and China’s growth)

- The price of copper, and especially gold, has been higher so far this year than we expected three months ago.
- In the case of copper, the threat of tariffs by the U.S. Government fueled speculative demand in the COMEX market, which spilled over to the LME. Expectations of economic stimulus in China also provided support.
- Uncertainty over the impact of the Trump administration’s trade policies, the course of the trade war, and geopolitical conflicts boosted demand for gold as a safe-haven asset.

COPPER PRICE AND NON-TRADE POSITIONS (USD PER POUND, COMEX)



GOLD PRICE
(USD PER TROY OUNCE)

Source: COMEX and BCRP.

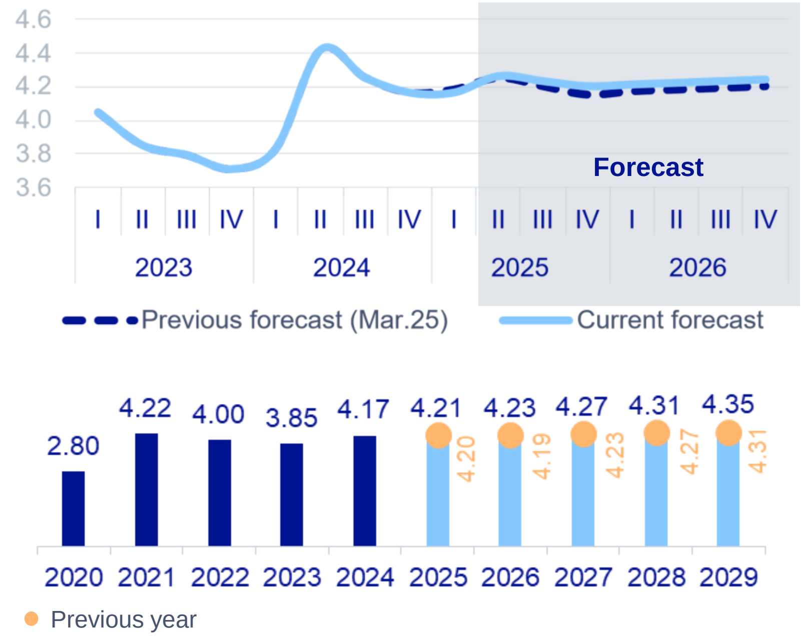
The outlook for copper prices has risen amid stronger growth in China and despite Trump's policies

- The price of copper will likely close this year with an annual average somewhat higher than forecast under the previous base scenario (March): demand from China has been supporting copper prices, as has the recent progress made in trade negotiations between the United States, Europe and China.

- In the coming months, the price of copper will fall somewhat as the global impact of U.S. trade policy becomes more pronounced.

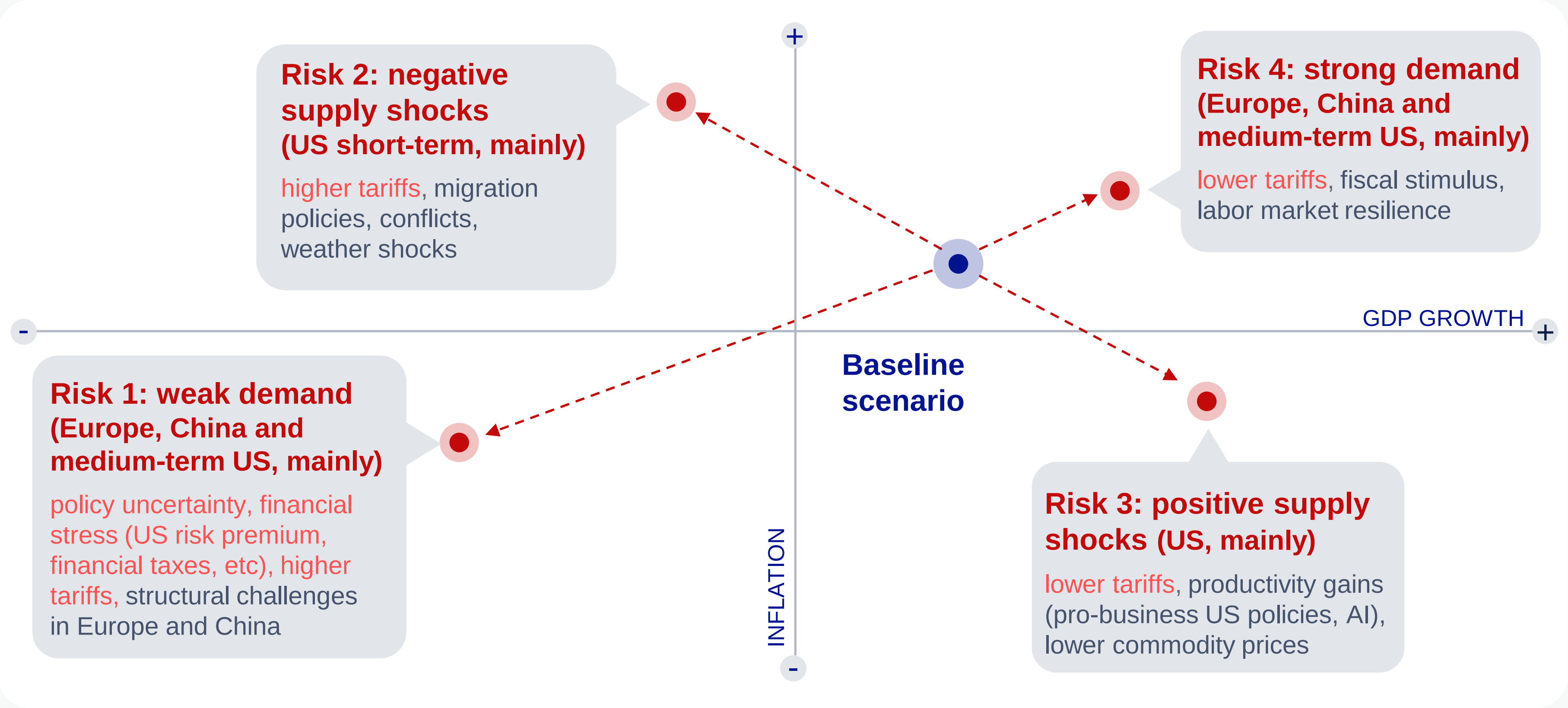
- From 2026 onward, the positive impact (on copper demand and prices) of the energy transition (green infrastructure and electric vehicles) will take center stage. Demand from AI centers and greater spending on defense should provide further support.

COPPER PRICE
(QUARTER AVERAGE, USD/POUND, LME)



Source: BCRP and BBVA Research.

Risks: mainly on greater uncertainty and rising US risk premium; tariff risks are also higher, but more balanced



Research

2. Forecasts for the Peruvian economy

Considerations under the baseline scenario

Challenging international environment… yet terms of trade will remain high

INTERNATIONAL ENVIRONMENT

It is believed that U.S. tariffs on imports from Peru will remain at around 10%. Growth in the United States and China will slow, and oil prices will ease. With copper and gold prices holding at attractive levels, the terms of trade will remain at all-time highs.

Under the new baseline scenario, China grows more than in the previous one and the decline in oil prices is more pronounced (terms of trade are higher), although the slowdown in the United States picks up.

METEOROLOGICAL CONDITIONS

Normal conditions under the forecast horizon.

POLITICAL AND SOCIAL CONTEXT

It is widely assumed that President Boluarte will see out her term (until July 2026). Electoral uncertainty will become more visible as the elections approach. Most likely scenario for the outcome of the next elections: president with relatively limited leeway for undertaking any meaningful reforms.

Confidence and infrastructure investment flows will shore up growth

BUSINESS CONFIDENCE

Remains in bullish territory, supporting private sector spending.

INVESTMENT PROJECTS

Construction of large-scale copper mines will begin and investment flows in transport infrastructure will increase.

NEGATIVE EVENTS IN MINING AND HYDROCARBONS

The new baseline scenario incorporates negative events that have affected significant iron, gold, and copper producing units and oil refining in recent months.

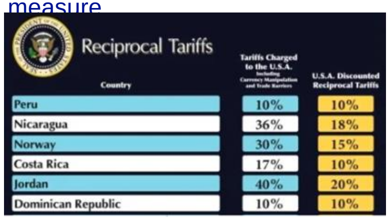
These negative events were not included under the previous baseline scenario.

International environment: The 10% tariff that the United States has applied since April on Peruvian imports will remain in place

TARIFF THAT THE U.S. APPLIES TO IMPORTS FROM PERU

On April 2, the U.S. government announced:

- **a 10% tariff on imports from Peru**, as well as tariffs on products imported from more than 180 different countries. The tariff that the United States had hitherto charged on Peruvian imports was next to nothing.
- **It excluded copper** (among other products) from this measure



Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%
Nicaragua	36%	18%
Norway	30%	15%
Costa Rica	17%	10%
Jordan	40%	20%
Dominican Republic	10%	10%

Thus, **the average effective tariff for Peru is close to 9.4%** (10% announced tariff, but excluding copper, which pays no tariff and accounts for 6% of total U.S. imports from Peru).

Direct impact: reduction in Peruvian exports to the United States equivalent to:

0.2% of GDP

The estimated impact does not consider factors that amplify or attenuate the effects by sector, such as:

- Tariffs on third countries that use Peruvian inputs.
- Tariffs on competitors of Peruvian products.
- Differences by product in (i) price elasticity of demand for imports from the United States and (ii) seasonal factors.

Source: BCRP, ADEX Data Trade, and BBVA Research

While the impact of the tariff can be broadly stomached at the aggregate level, some industries will be hit harder than others

AGROINDUSTRY

- **Exports to the U.S.: $4.0 billion**
- **Equivalent to 31% of the sector's production***
- **How does the competition stand?**
  - Canada – Blueberries: 0% tariff on the U.S. (USMCA)
  - Avocados (Mexico) and grapes hardly affected because imports among competitors arrive in different seasons

TEXTILE

- **Exports to the U.S.: $0.8 billion**
- **Equivalent to 7% of the sector's production**
- **How does the competition stand?**
  - Some competitors (Southeast Asia) will have to contend with higher tariffs than Peru.

Remittances? In the aggregate, they are not as significant: equivalent to 1.7% of GDP. Half come from the U.S. Low level of deportations of Peruvians in that country. Avoidance of the 3.5% remittance tax by using alternative remittance channels?

PERU: EXPORTS TO THE U.S. BY SECTOR, 2024

SHARE (%) OF EXPORTS TO THE U.S.

	Agro-industries	Traditional mining	Clothing and textiles	Iron, steel and metallurgical	Non-metallic mining	Traditional agro-industry
TOTAL EXPORTS AS % OF NATIONAL PRODUCTION	86%*	87%	13%	4%	12%	22%
EXPORTS TO THE U.S. AS % DOMESTIC PRODUCTION	**31.1%**	4.0%	**6.5%**	1.0%	5.0%	6.6%

*Certain crops and products aimed at the external market are considered (blueberries, grapes, bananas, cocoa, asparagus, onions, mango, garlic, and canned fruits and vegetables), which account for ~35% of the sector's production.

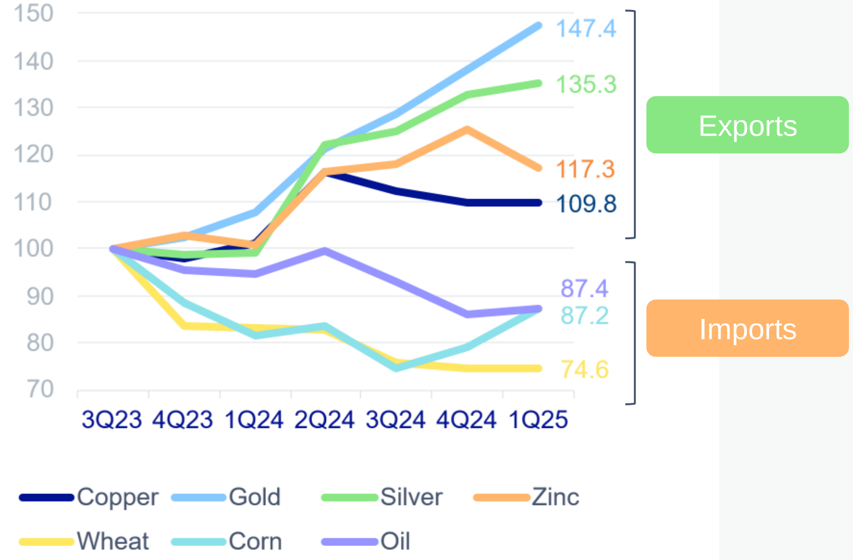
Source: BCRP, ADEX Data Trade, and BBVA Research

International environment: the terms of trade have continued to rise, reaching all-time highs

TERMS OF TRADE
(INDEX, 2007 = 100)

Source: BCRP

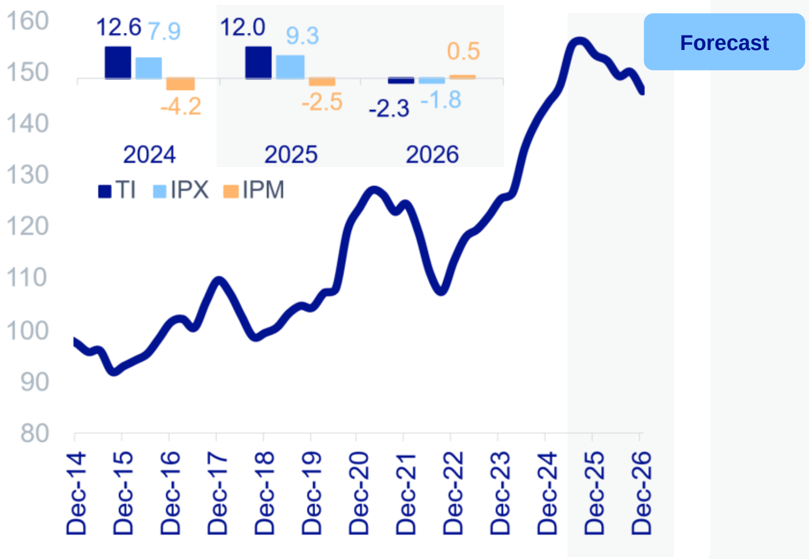
SELECTED EXPORT AND IMPORT PRICES
(INDEX, 3Q23 = 100)



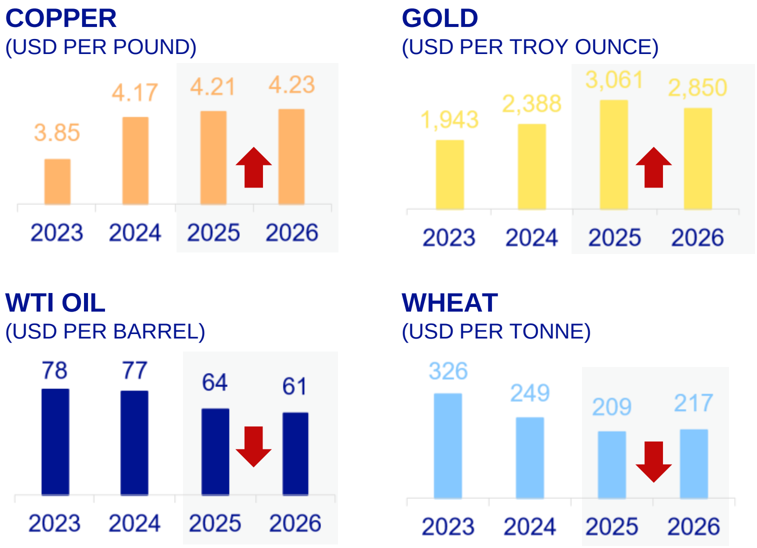
Source: BCRP

Supported by metal prices and the decline in oil prices, they will remain high in 2025 and 2026

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



SELECTED EXPORT AND IMPORT PRICES
(ANNUAL AVERAGE)

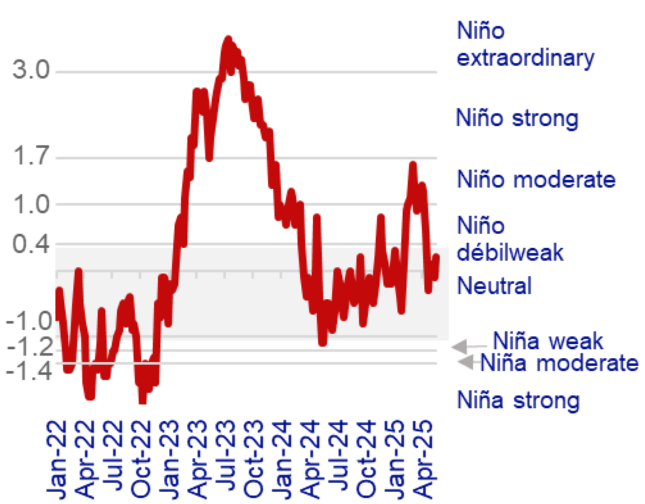


Increased outlook with respect to the previous baseline scenario (March)

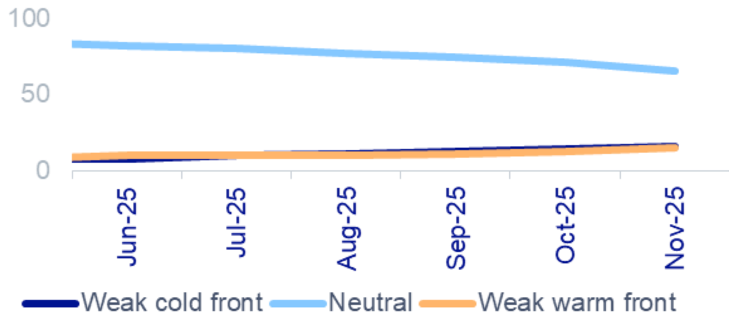
IPX: Export Price Index; IPI: Import Price Index
Source: BCRP and BBVA Research (forecasts)

Meteorological conditions will remain at normal levels over the scenario horizon

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



EASTERN PACIFIC OCEAN (EL NIÑO ZONE 1+2) | PROBABILITY OF SCENARIO OCCURRENCE (%)

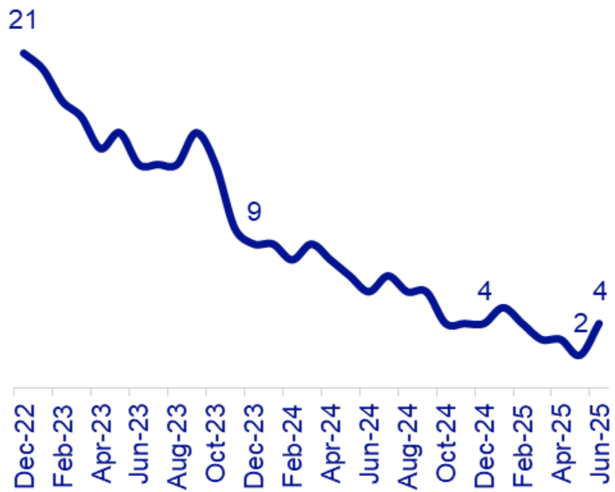


- The status of the coastal El Niño warning system remains at “Not Active,” meaning conditions are normal.
- The seasonal forecast for the May–July 2025 three-month period indicates that the most likely scenario is that of neutral conditions.

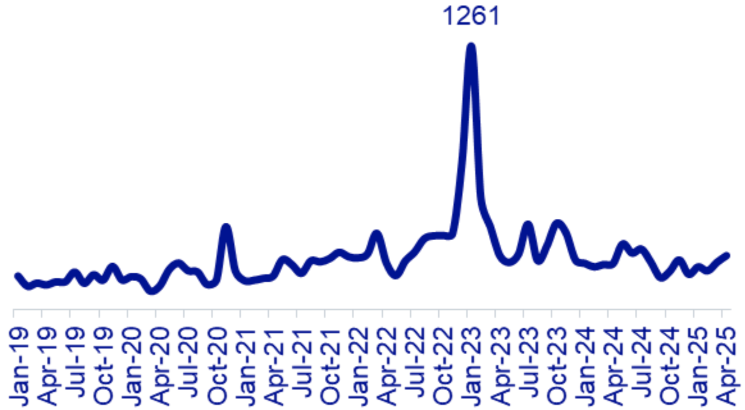
Source: ENFEN with NOAA data

Political and social context: presidential approval hits a new low, although the situation remains relatively calm

PRESIDENTIAL APPROVAL
(% SURVEY RESPONDANTS)



COLLECTIVE PROTEST ACTIONS
(NUMBER OF PROTESTS)



- In Congress,, the Executive, despite not having its own group, finds support from certain other parliamentary groups.
- The electoral campaign will soon take center stage in the political arena. Uncertainty over the outcome of the elections will begin to increase as we move forward.

Source: IPSOS Peru and Ombudsman's Office

Most likely election outcome: president with limited leeway to undertake reforms

GENERAL ELECTIONS IN 2026

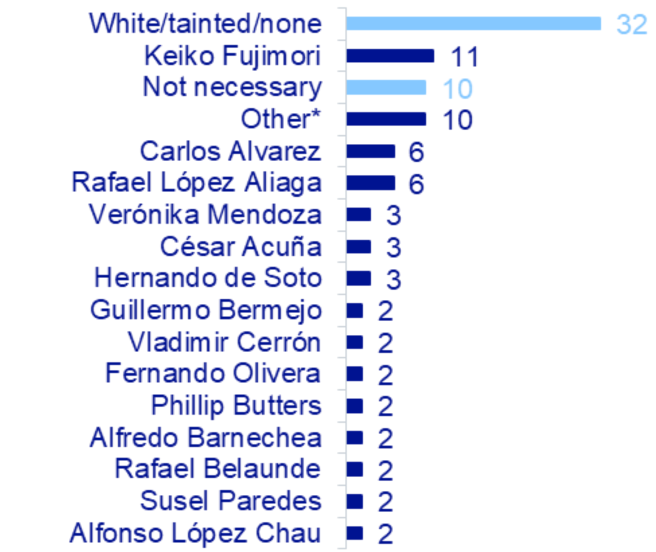
43 Political parties registered for the next elections

Key dates:

- **12/04/2025:** elections called
- **02/08/2025:** deadline for forming a political alliance between two or more parties
- **01/09/2025:** deadline for alliances to be registered
- **23/12/2025:** registration of presidential candidates
- **12/04/2026:** first round of the general elections

APR-25: VOTING INTENTION

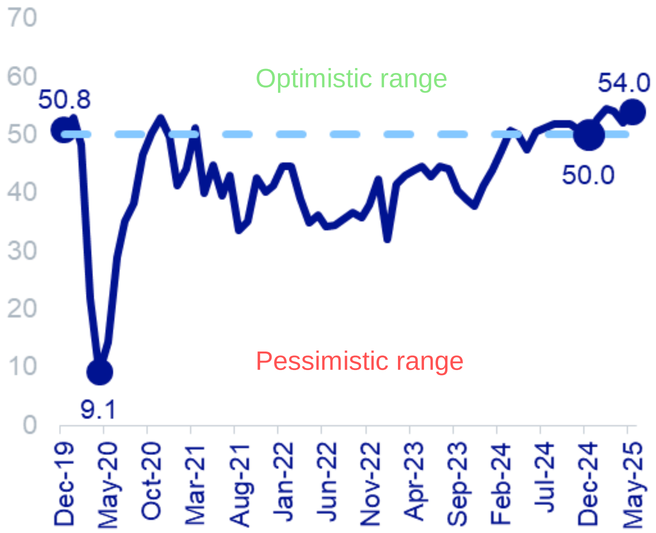
(PUBLIC OPINION, PP)



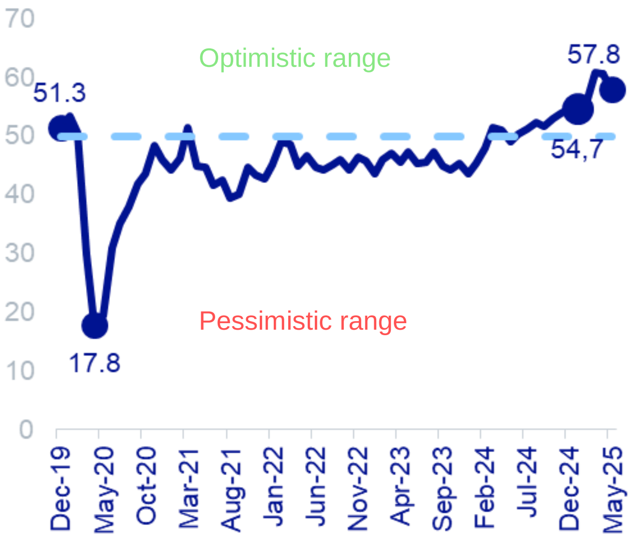
*: George Forsyth, Alberto Otárola, José Luna, Ricardo Belmont, Roberto Chiabra, Fiorella Molinelli, Carla García, Luis Durán, Javier Bedoya, Marisol Pérez-Tello, Álvaro Paz de la Barra, Jorge Nieto, Jonás Ataucusi, Rolando Breña, Carlos Espá, Nicanor Boluarte, Wolfgang Grozo
Source: Ipsos

Confidence, broadly optimistic, continues to support business spending

BUSINESS CONFIDENCE
(EXPECTATIONS FOR THE ECONOMY IN THE NEXT THREE MONTHS, IN POINTS)



INVESTMENT EXPECTATIONS
(FOR THE NEXT THREE MONTHS, IN POINTS)



Source: BCRP and BBVA Research.

Investment projects: construction of large-scale mines to begin; heavier investment in other projects

MAIN INVESTMENT PROJECTS UNDER THE BASELINE SCENARIO

Tía María

Mining project

- Copper project located in Arequipa.
- Estimated investment: USD 1.8 billion.
- Estimated annual production: 120,000 tons of copper cathodes.

Zafranal

Mining project

- Gold-copper project located in Arequipa.
- Estimated investment: USD 1.3 billion.
- Estimated annual production: 76,000 tons of copper and 29,000 fine ounces of gold.

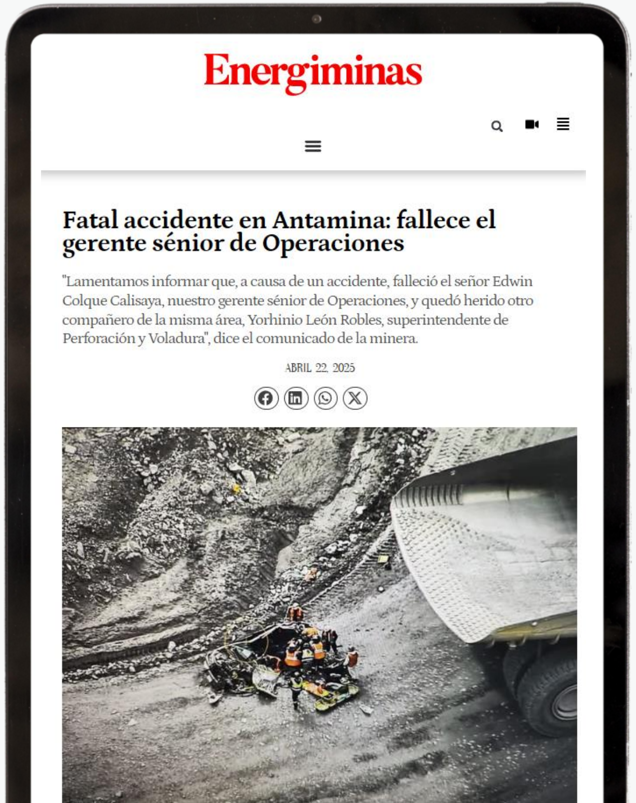
Second line of the Lima Metro

Transportation infrastructure project

- Engineering studies have been approved for key points of the project.
- In this context, an acceleration of investment flows is expected.

Source: Apoyo Consultoría, Macroconsult, Gestión, Infobae and BBVA Research

Negative events in mining and hydrocarbon processing operations in recent months



Energiminas

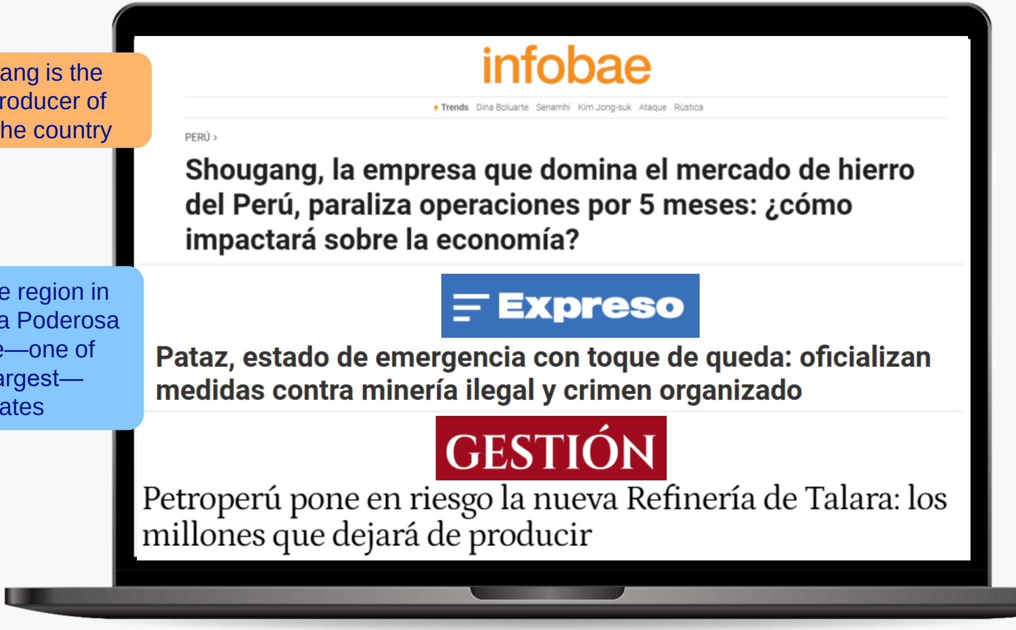
Fatal accidente en Antamina: fallece el gerente sénior de Operaciones

"Lamentamos informar que, a causa de un accidente, falleció el señor Edwin Colque Calisaya, nuestro gerente sénior de Operaciones, y quedó herido otro compañero de la misma área, Yorhinio León Robles, superintendente de Perforación y Voladura", dice el comunicado de la minera.

ABRIL 22, 2025

Shougang is the main producer of iron in the country

Pataz is the region in which the La Poderosa gold mine—one of Peru's largest—operates



infobae

Trends Dina Boluarte Senamhi Kim Jong-suk Ataque Rústica

PERÚ ›

Shougang, la empresa que domina el mercado de hierro del Perú, paraliza operaciones por 5 meses: ¿cómo impactará sobre la economía?

Expreso

Pataz, estado de emergencia con toque de queda: oficializan medidas contra minería ilegal y crimen organizado

GESTIÓN

Petroperú pone en riesgo la nueva Refinería de Talara: los millones que dejará de producir

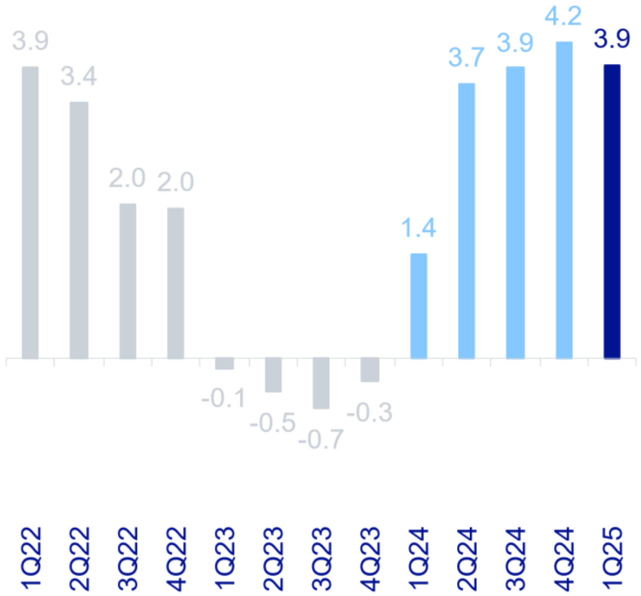
Source: various media outlets

2. Forecasts for the Peruvian economy

Economic activity

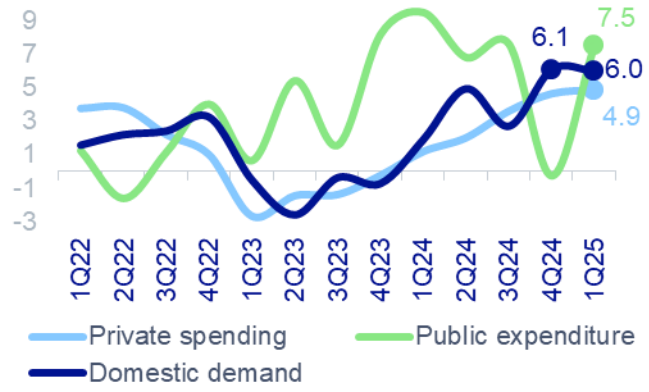
Economic activity started the year strongly, growing by around 4% in the first quarter, buoyed by domestic demand

GDP
(YoY % CHG.)



GDP for April: 1.4% slip due to negative and transitory base effect (Easter Week)

Domestic demand
(YoY % CHG.)



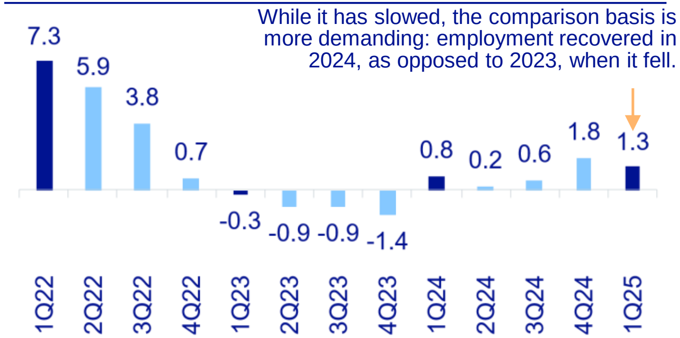
	2023	1Q24	2Q24	3Q24	4Q24	1Q25
GDP	-0.4	1.4	3.7	3.9	4.2	**3.9**
Primary GDP	2.9	1.2	7.5	2.8	5.0	**4.1**
Non-primary GDP	-1.3	1.4	2.5	4.2	4.0	**3.9**

Source: BCRP

Employment also rose, job quality improved, and the total wage bill increased in the first quarter of the year

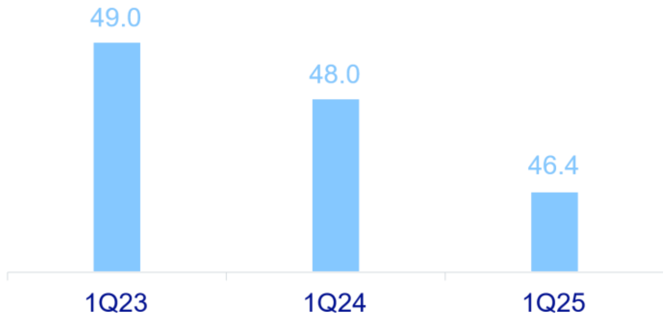
EMPLOYMENT AT NATIONAL LEVEL[1]

(YoY % CHG.)



UNDEREMPLOYMENT RATE

(% OF TOTAL EMPLOYED)



	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25
Employed EAP (millions)	**17.0**	17.3	17.2	17.2	**17.2**	17.3	17.3	17.5	**17,4**
Unemployment rate (%)	**5.9**	5.3	5.1	5.2	**6.4**	5.9	5.3	4.7	**5,5**

LABOR INCOME

1,780 soles
in Q125

TOTAL WAGE BILL 1Q25

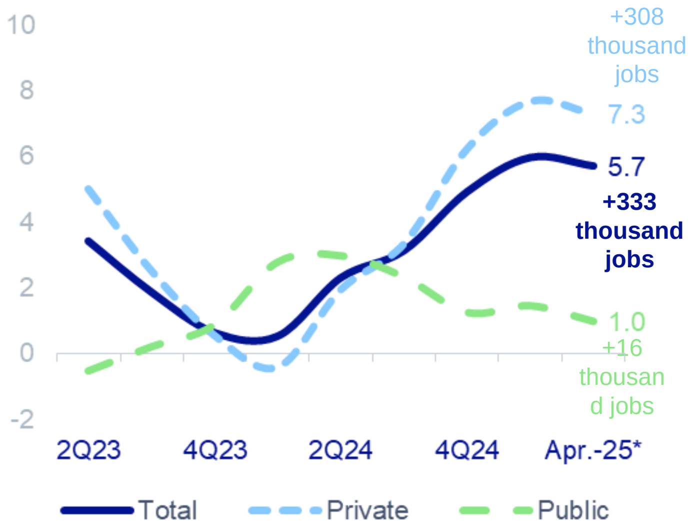
(corrected for inflation)

+ 4.2%
versus 1Q24

1: Until December 2022, ENAHO information is used. For2023, 2024 and 2025, the EPEN is used.
Source: INEI (ENAHO, EPEN). Prepared by: BBVA Research.

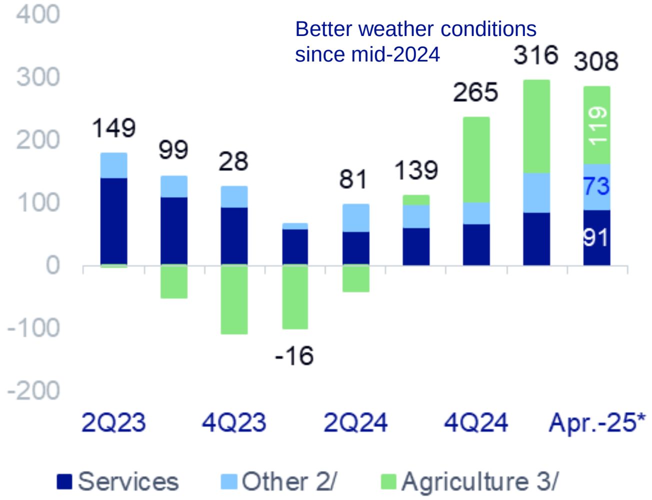
In the formal labor market in particular, employment is picking up, especially in the private sector

FORMAL JOBS
(ANNUAL % CHG.)



*Three-month moving average.

FORMAL JOBS IN THE PRIVATE SECTOR[1]
(YoY CHANGE, IN THOUSANDS)

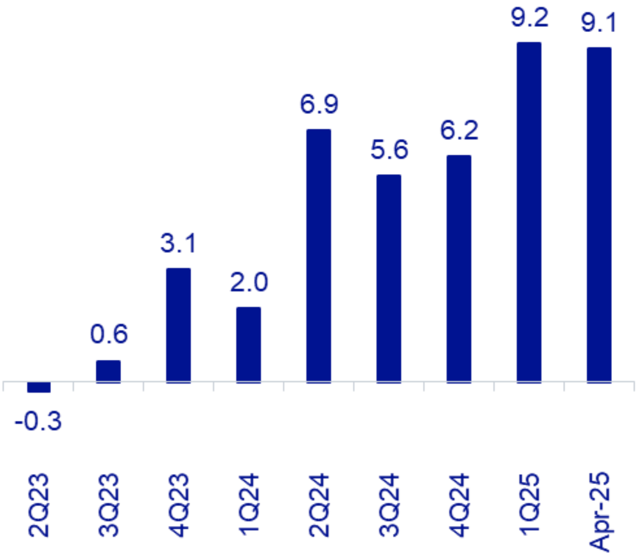


*Three-month moving average.

1: It should be noted that every March and April profit-sharing payments are made. Therefore, the number of job positions is also increased by the number of people who, while they no longer work at the company, still appear in the electronic payroll register for profit-sharing payments.
2: The rest includes Commerce, Construction, Manufacturing, Mining, Fishing and Electricity.
3: The Agricultural sector includes processing and preserving of fruits and vegetables.
Source: BCRP, based on Sunat data.

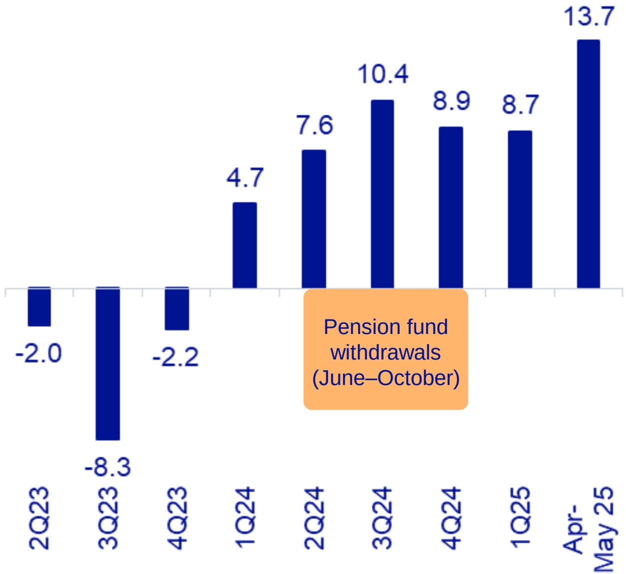
In this context, the formal wage bill remains solid at the start of 2025 and supports household spending

TOTAL WAGE BILL, FORMAL LABOR
(YoY % CHANGE, ADJUSTED FOR INFLATION)



*Three-month moving average.

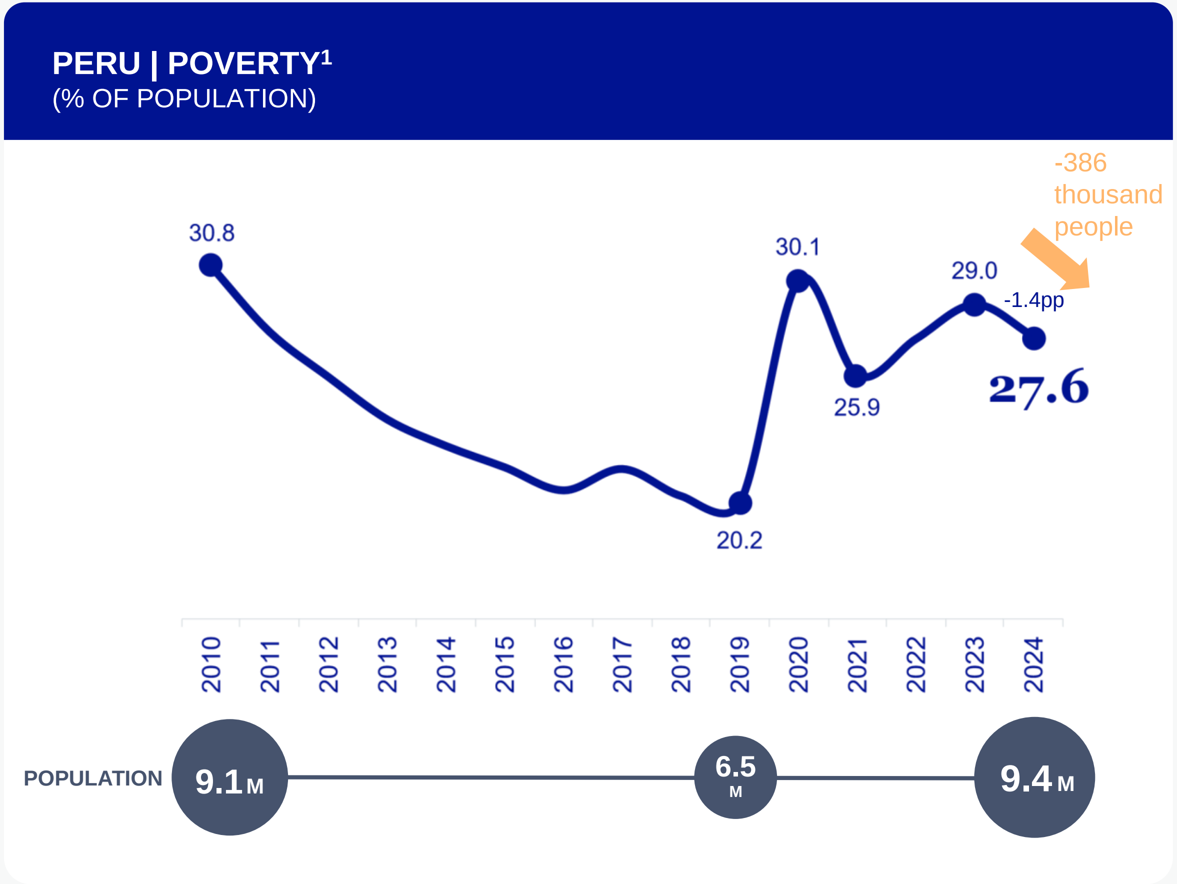
BIG DATA INDEX OF PRIVATE CONSUMPTION[1]
(YoY % CHANGE, ADJUSTED FOR INFLATION)



1: 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

Employment is buoyant and is sustaining the decline in poverty, which also helps to curb price increases

The poverty rate fell in 2024, although it is still above the figure recorded in 2019 (the year before the pandemic)

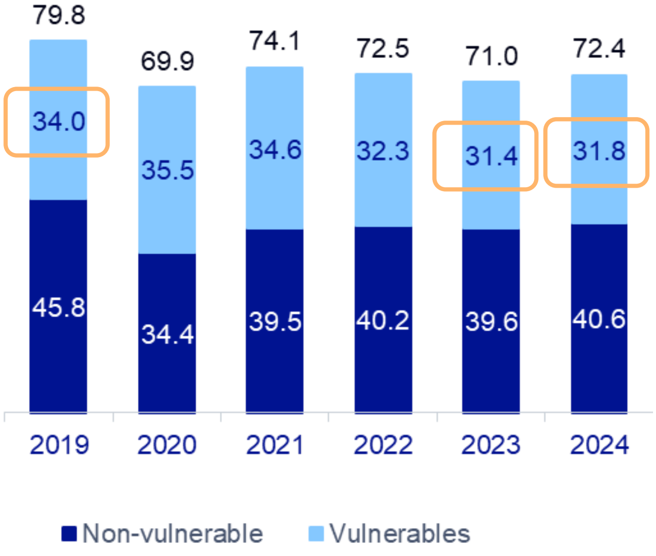


(1) These poverty figures refer to poverty measured in monetary terms (monetary poverty). A person is considered poor in monetary terms if their spending fails to reach a minimum amount (poverty line), which includes basic food and services such as health, housing, transportation, and education. In 2024, a person was considered poor if their monthly expenses did not exceed S/ 454 (poverty line).
Source: INEI

Some of the people who moved out of poverty in 2024 are at high risk of returning to it (vulnerable population)

- The population that is not poor but is vulnerable to falling into poverty[1] stood at 31.8% of the total population in 2024 (10.8 million people), higher than the figure recorded in 2023 (10.6 million, equivalent to 31.4% of the total population).
- Thus, although monetary poverty fell by 1.4pp in 2024, the vulnerable population increased by 0.4pp, suggesting that a significant proportion of the people who escaped poverty are still at high risk of returning to it.
- The population that is neither poor nor vulnerable to being poor, i.e. those with the greatest economic stability, increased by one percentage point in 2024, to 40.6% of the total population (from 13.4 million people in 2023 to 13.8 million people). People who belong to this group have a greater capacity to save and a lower need to borrow to cover their expenses, unlike non-poor but vulnerable people.

PERU: NON-POOR POPULATION[1]
(% OF POPULATION)



1: A person is considered not to be poor (in monetary terms), but vulnerable, when the probability of falling into poverty is high because they have little capacity to accumulate savings enabling them to face moments of difficulty or unexpected events. According to INEI, in 2024 a non-poor person was vulnerable if their monthly expenses did not exceed S/ 740.
Source: INEI

The middle-income population gained in size in 2024, despite falling short of the figure reported in 2019

PERUVIAN POPULATION SEGMENTED BY INCOME LEVEL[1]

(% OF POPULATION)

1: Classification based on thresholds related to the poverty line (PL). Low income: <1× poverty line (PL); low median income: 1–2 × PL; Average income: 2–12 × PL; high income >12 × PL.
Source: ENAHO 2007–2024, own calculations based on the rangesused by the World Bank (LAC Equity Lab).

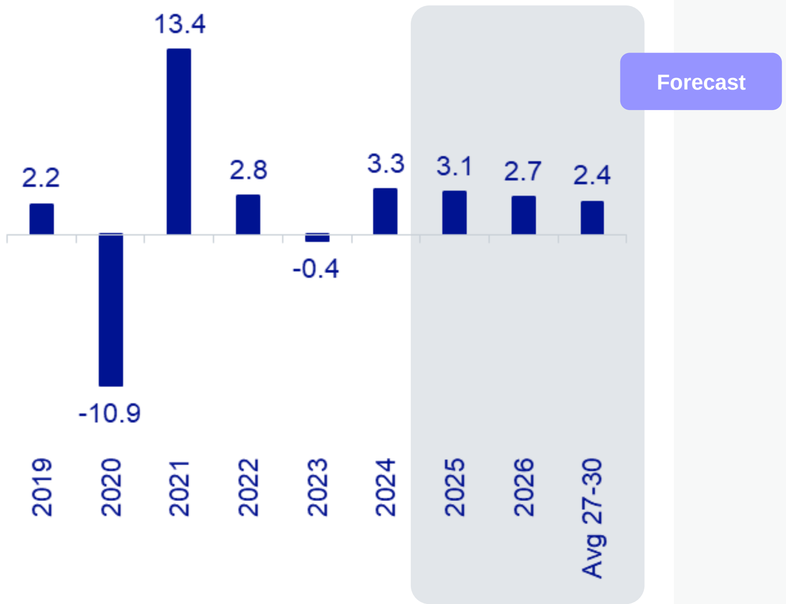
It is likely that the middle-income population will continue to grow if economic activity and employment continue to advance.

Looking forward, we still expect the Peruvian economy to grow by around 3% in the next two years

- **Growth in 2025 will be 3.1%.** The high terms of trade, the recovery of business confidence, and the start of large-scale infrastructure works will favor the expansion of GDP. Toward the end of the year, the uncertainty over the upcoming elections (with an impact on private spending decisions) will increase. Growth in the second half of the year (between 2.5% and 3.0%) will be lower than in the first half (slightly above 3.5%).
- **The growth projection for 2025 is similar to that of the previous baseline scenario (March).** Although the Chinese economy is expected to rally and oil prices should drop, lower U.S. growth and negative events in mining units will offset these positive factors.
- **In 2026, the growth of the Peruvian economy (2.7%) would be somewhat lower than the previous** year in a context of heightened uncertainty over to the outcome of the general elections.
- **The growth projection for 2.7% is similar to that of the previous baseline scenario (March).** This result incorporates the normalization of mining production and further economic growth in China, though also the downgrading of U.S. growth . The projection for 2026 has an upward bias

.

GDP
(YoY % CHANGE)

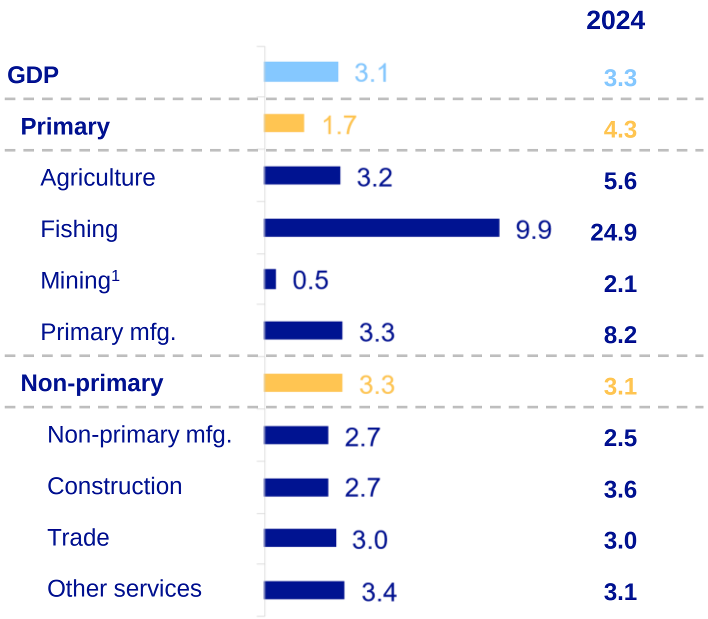


Source: BBVA Research.

On the sectoral front, the performance of the non-primary sectors will be a key concern in 2025… as will the slump in mining

- **Fishing.** Anchovy landings are expected to reach close to MT 3 million in the first catch season in the north-central zone, the highest in the last seven years.
- **Construction.** The construction of large-scale mines will begin and investment flows in certain transport infrastructure works will increase. Public investment remains as a support factor.
- **Trade and Other services.** They show the improvement in formal employment in an environment in which inflation remains under control.
- **Mining.** Negative events at several major production units.

2025 SECTORAL GDP PROJECTION
(ANNUAL % CHG.)

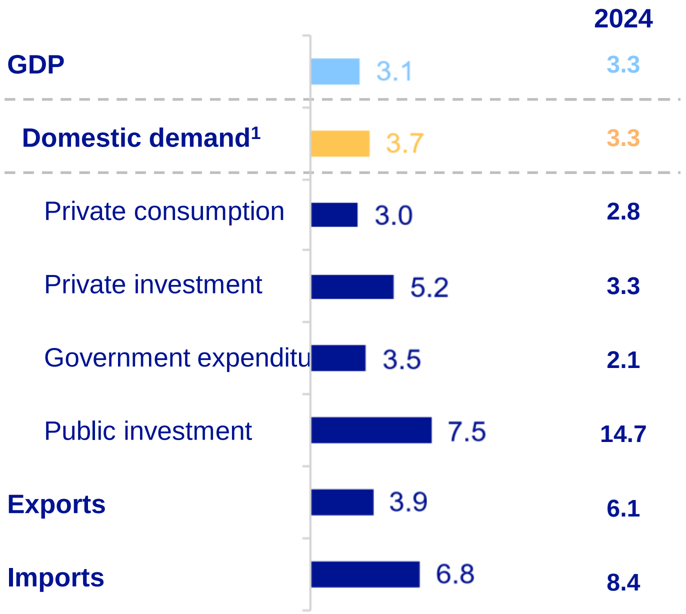


1: Includes metal mining and hydrocarbons
Source: BBVA Research

On the expenditure side, both public and private investment should stand out in 2025

- **Public investment.** It continues to grow rapidly, with notable infrastructure projects in transportation and education.
- **Private investment.** It is picking up, considering that the construction of new mines will soon begin. In addition, private investment in the residential sector should pick up once again following the adjustment process seen in recent years. All this despite the fact that electoral uncertainty will become more visible in late 2025.
- **Private consumption.** While the positive impact of the withdrawal of pension funds has faded, private consumption will find support in a buoyant labor market.

EXPENDITURE-SIDE GDP FORECAST FOR 2025 (ANNUAL % CHANGE)

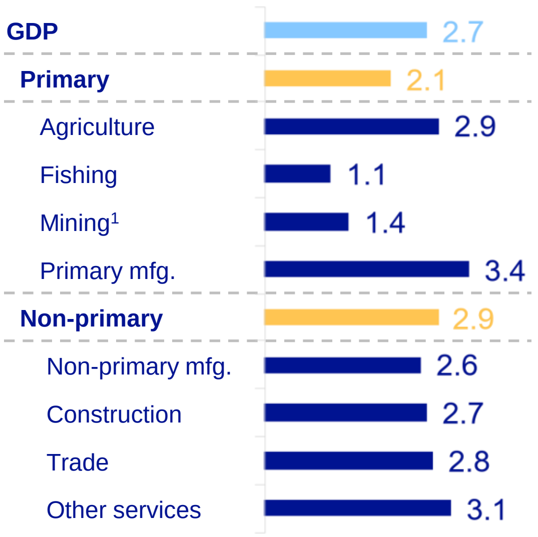


1: Does not include inventory change
Source: BBVA Research

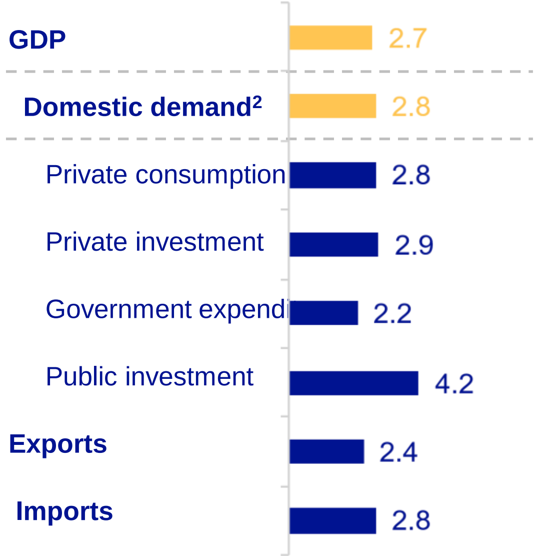
Uncertainty will be a dominant factor in 2026 owing to the general elections

- Investment flows at the mining units that began to be built the previous year are increasing.
- Investment flows in projects related to transport and education are falling.
- Uncertainty over the outcome of the elections, which is sure to affect private spending decisions in the first half of 2026.

2026 SECTORAL GDP PROJECTION
(ANNUAL % CHG.)



PROJECTED GDP BY EXPENDITURE SIDE – 2026
(ANNUAL % CHG.)



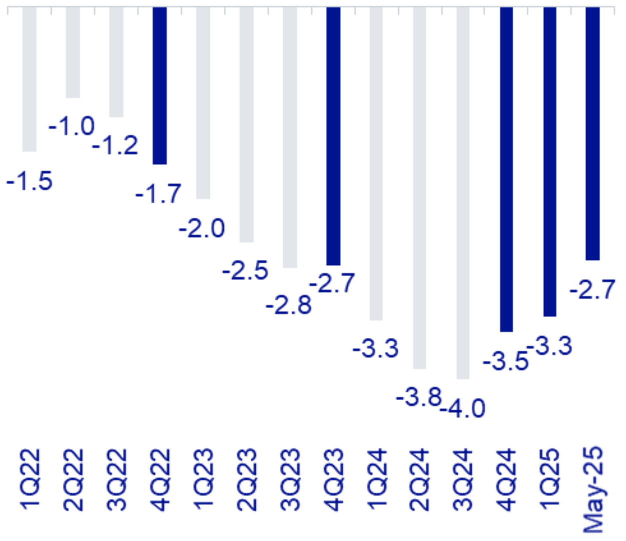
1: Includes metal mining and hydrocarbons. 2: Does not include inventory change.
Source: BBVA Research.

2. Outlook for the Peruvian economy

Fiscal balance and public debt

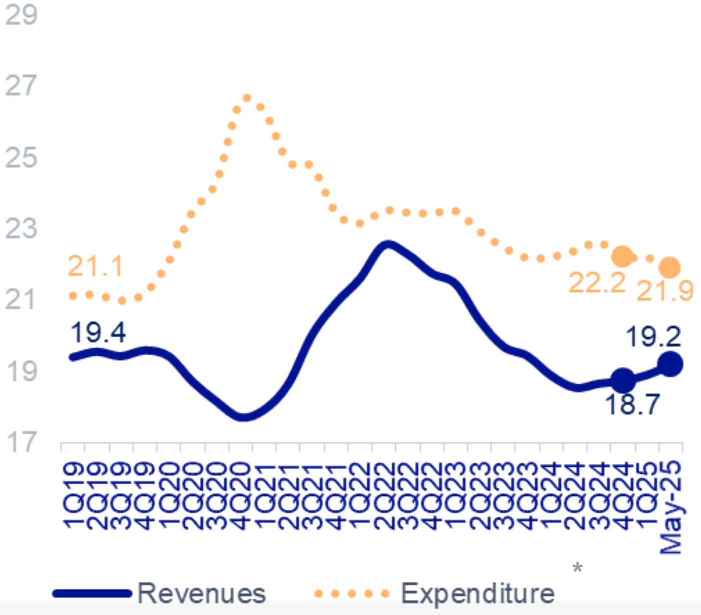
Public deficit declines, although the revenue improvement is slower than expected

FISCAL RESULT
(NFPS, ACUM. LAST 12 MONTHS, % OF GDP)



Gross public debt (1Q25): **31,1%**

FISCAL REVENUE AND EXPENDITURE
(NFPS, CUM. LAST 12 MONTHS, % OF GDP)

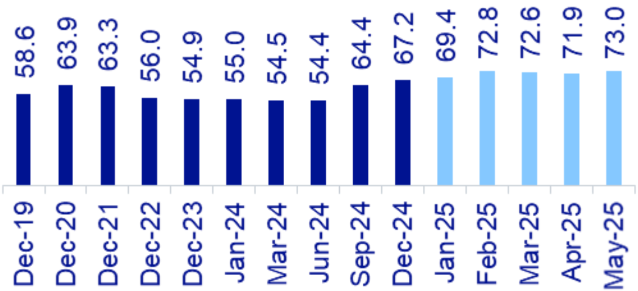


Source: BCRP

*Includes general government expenditure, the results of non-financial public enterprises, and interest expenses.

Appetite for Peruvian sovereign bonds among foreign investors remained strong in early 2025

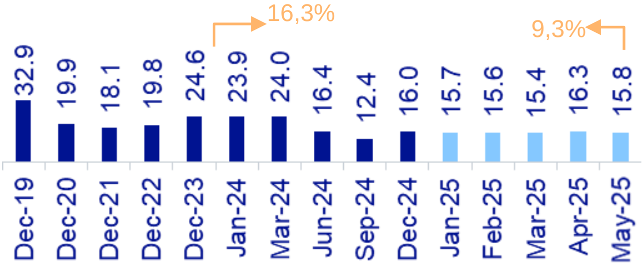
SOVEREIGN BONDS IN THE HANDS OF NON-RESIDENTS
(BILLIONS OF SOLES)



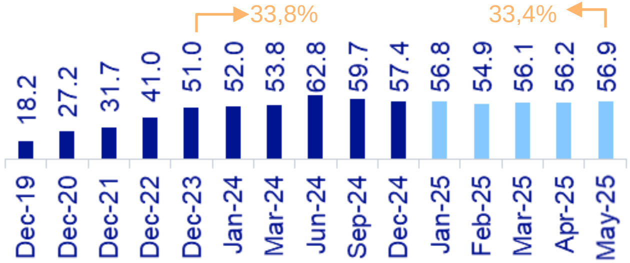
SOVEREIGN BONDS IN THE HANDS OF NON-RESIDENTS (% OF TOTAL BALANCE)

Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	May-25
48.7	51.9	49.4	41.1	36.4	35.5	34.9	40.4	40.9	43.2	42.9

SOVEREIGN BONDS IN THE HANDS OF PRIVATE PENSION ADMINISTRATORS
(BILLIONS OF SOLES)



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



Source: MEF.

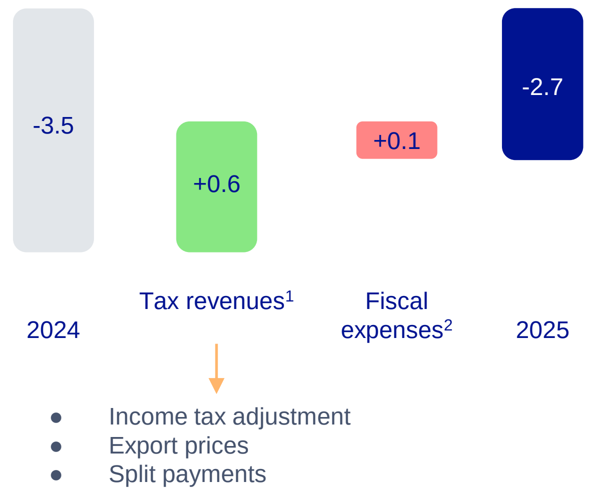
The public deficit is forecast to decline this year, mainly due to rising revenues

– **The fiscal deficit will likely decrease in 2025 to 2.7% of GDP** (from 3.5% at the end of 2024), following an increase in revenues, largely due to the ongoing economic recovery, high metal prices and one-off revenues. Income tax collection, in particular, will rise following an the increase in export prices and the tax adjustment relating to fiscal year 2024.

– **Meanwhile, government expenditure will remain relatively stable as a percentage of GDP.** It should be noted that the forecast does not envision a new capitalization of PetroPerú by the General Government. This element remains a significant risk factor for public finances.

– **Despite the expected reduction in the fiscal deficit in 2025, it will be larger than we anticipated under our previous baseline scenario** (March: 2.4% of GDP), due to the slower recovery of revenues and increased spending in the defense sector (aircraft procurement).

FISCAL RESULT (NON-FINANCIAL PUBLIC SECTOR, PP OF GDP)

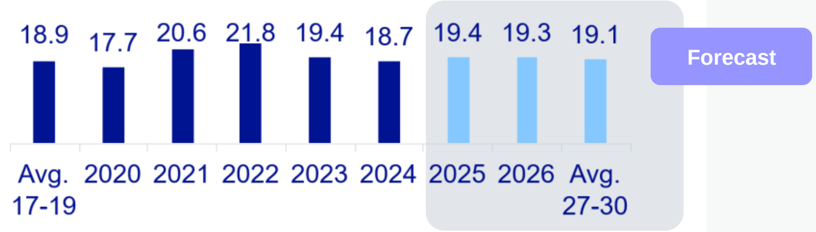


1/ Reflects the change in General Government tax revenues in 2025.
2/ Reflects the change in General Government expenses in 2025, earnings of non-financial public companies, and interest expenses.
Source: BBVA Research.

Further ahead, the public deficit will continue to decline, converging to 2.5% of GDP in the medium term…

- In the 2026–2030 period, tax revenues will average 19.2% of GDP on an annual basis (19.4% in 2025). In general, metal prices will remain high, supporting revenues, although some may sporadically fall in value.
- General government (non-financial) spending is expected to reach 19.9% of GDP as an annual average between 2026 and 2030 (20.4% in 2025). This decrease in non-financial expenditure of the general government (as a percentage of GDP) is explained by lower capital expenditure (2025: 5.9%; annual average 2026–2030: 5.4%), while current expenditure will remain around 14.5%.
- Interest expenditure is projected to rise from 1.7% of GDP in 2025 to 1.9% as an annual average over the 2026–2030 period.

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



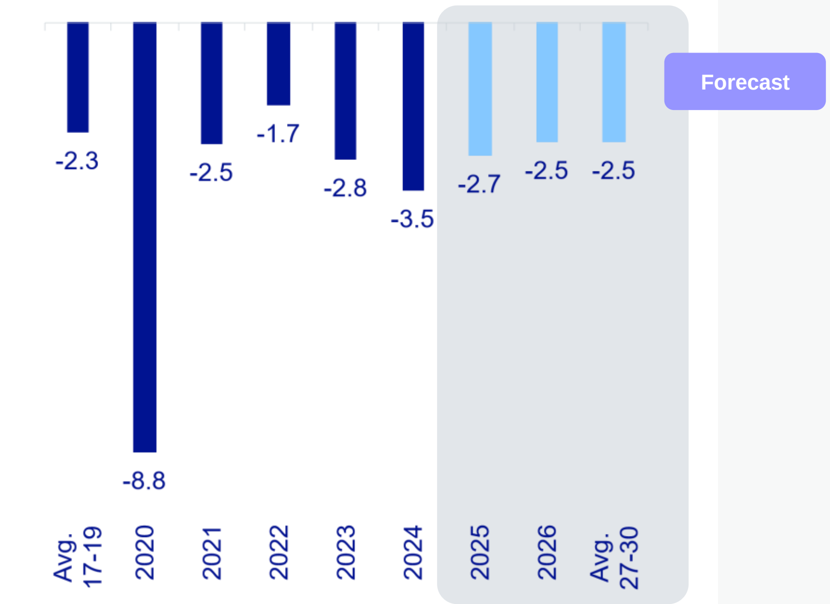
EXPENDITURE[1]
(NON-FINANCIAL PUBLIC SECTOR, % OF GDP)

1/ Includes general government expenditure, the earnings of non-financial public enterprises, and interest expenses.
Source: BCRP and BBVA Research (forecasts).

Further ahead, the public deficit will continue to decline, converging to 2.5% of GDP in the medium term…

- It is estimated that between 2026 and 2030, the fiscal deficit will be equivalent to 2.5% of GDP (as an annual average), above the previous forecast, closer to 2.0%, and the current fiscal consolidation pathway proposed by the Government.
- This worsening of the fiscal deficit forecast for the 2026–2030 period with respect to the previous baseline scenario (March) is due to the inclusion of higher spending in the defense sector (procurement of aircraft), the redistribution of IGV revenues (it is assumed that the increase in the portion earmarked for FONCOMUN (fund to support municipal investments) will ultimately be approved and that the national government will not be able to replace all these resources by cutting spending in other areas), and the constraints that currently exist to increasing tax revenues. In addition, infrastructure spending under certain modalities will continue to exert pressure on the fiscal accounts.
- Based on this outlook, it seems hard for the nation to achieve fiscal consolidation consistent with a deficit of no more than 1.0% of GDP in the medium term.

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



Source: BCRP and BBVA Research (forecasts)

… and gross public debt will reach 37.2% of GDP by 2030, which is still relatively low

PRIMARY BALANCE REQUIRED TO STABILIZE GROSS PUBLIC DEBT

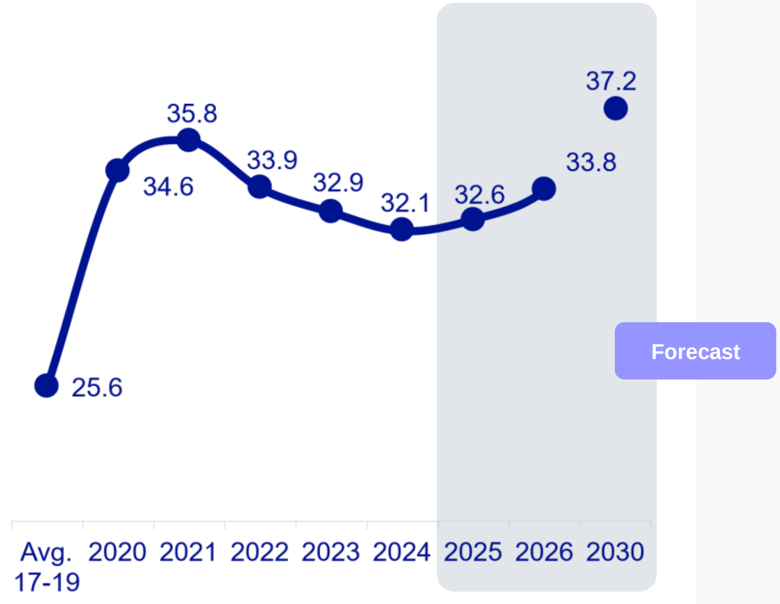
Public debt to stabilize (% of GDP)	d	37.2%
Real GDP growth rate (actual % chg.)[1/]	g	2.5
Real interest rate (%) [2/]	r	2.6
Required primary result (% of GDP)	f*	**0.04**
Interest payments (% of GDP) 3/		**1.9**
Economic result required (% of GDP)		**-1.9**

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

1/ Considers the annual average projected GDP growth rates for 2026–2030.
2/ Considers the annual average between 2026 and 2030 for the implied interest rate discounted for inflation.
3/ Considers the average annual interest payment between 2026 and 2030 (1.9% of GDP), which is consistent with the public debt projection of 37.2% of GDP to 2030.

– Gross public debt is projected to reach a level equivalent to 37.2% of GDP by 2030 (32.1% in 2024). Based on economic growth and real interest rate forecasts, a fiscal deficit of approximately 1.9% of GDP would be needed to stabilize the debt at that level.

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



Source: BCRP and BBVA Research (forecasts).

Risks to the outlook for the fiscal accounts

RISKS

- Negative primary results at PetroPerú.
- The approval of various regulations by Congress that generate public expenditure or reduce fiscal revenue.
- The fiscal cost of the pension reform approved last year (we have not considered this fiscal cost under the baseline scenario because the regulations of the reform law have yet to be approved and there is considerable uncertainty over the estimates made and how it will be financed).
- Infrastructure portfolio under concession and the updating of prioritized addenda in PPP projects.

Risks to the fiscal outlook

Tax exemptions and tax benefits

Since 2023, 19 laws granting tax relief have been enacted.

Among the most notable, the Fiscal Council points to three specific laws which, together, imply a fiscal cost of approximately 0.1% of annual GDP:

- Law No. 31969 (2023): Granting tax relief to the textile, clothing and agricultural sectors.
- Law No. 32219 (2024): Extending the lower rate of IGV for restaurants and hotels until 2027.
- Law No. 32317 (2025): Restores the special IGV tax credit for the San Martín region.

Legislative projects in process: the Fiscal Council has flagged at least 32 legislative initiatives in Congress that seek to: (i) create new tax relief; (ii) extend existing relief; and (iii) extend special tax regimes.

Notable examples:

- PL 02421. Proposes new tax benefits for the agricultural sector (income tax to fall from 29.5% to 15.0%), with an estimated fiscal cost of > S/ 1 billion per year (according to the Ministry of Economy and Finance).
- PL 02707. Creates Special Tourism Development Zones, offering tax incentives.
- Enrolled bill on Special Private Economic Zones (ZEEP). Introduces a new preferential tax regime: gradual increase in the tax rate (income tax), starting at 0% for 5 years, 7.5% between years 6 and 10, 10% between years 11 and 15, 12.5% between years 16 and 20, and 15% between years 21 and 25.

Remarks:

- These measures carry significant risks. They erode the tax base and weaken the State’s permanent revenues, while also increasing the complexity and inequity of the tax system, and generating institutional disorder, as they do not undergo a technical assessment by the MEF or the Fiscal Council, thus affecting the transparency and planning of public expenditure.

Source: Fiscal Council

Risks to the fiscal outlook

Reform of the FONCOMUN

The legislative proposal proposing a **reform of the FONCOMUN** includes **two main** measures:

- **Redistribution of IGV** revenues, allocating a greater proportion directly to local governments, and therefore leading to **a reduction in the revenues of the Public Treasury**. Currently, when a sale is made, the consumer pays 16% for IGV and 2% for Municipal Promotion Tax (IPM). The latter is earmarked for FONCOMUN, a fund that seeks to compensate those local municipalities that have less available capital at hand.

  Of the total IGV collected (16% of the value of sales), 2pp are assigned to FONCOR (for regional governments) and the remaining 14pp to the National Government. With the reform, FONCOMUN's share would double from the current 2% to 4% in 2029, with increases of 0.5pp per year between 2026 and 2029, while the Central Government's share would fall from 14pp to 12pp. The allocation to FONCOR would remain unchanged.

- **Increase in the minimum amount of transfers that local governments receive from FONCOMUN** from 8 to 15 tax unit values (UITs).

According to the Fiscal Council, these modifications would generate a cumulative increase in transfers by FONCOMUN of around S/ 8,000 million by 2029, equivalent to roughly 0.7% of GDP. These additional resources would be financed with revenues from the Public Treasury, taking away fiscal space from other levels of government and state functions.

Risks to the fiscal outlook

Reform of the FONCOMUN

These measures carry significant fiscal risks. Notably, they could generate a budgetary imbalance for the national government from 2026 onward, unless corrective steps are taken, such as cuts in other expenditures (offsetting), reductions in transfers to municipalities, or increased indebtedness.

Meanwhile, an increase in transfers for a predetermined use or purpose makes the budget more rigid, limiting the ability of the national government to reallocate resources or respond to economic crises. If offsetting measures are not applied, the result would be a higher fiscal deficit and a sustained growth of public debt.

In view of these risks, the Fiscal Council advises ensuring the fiscal neutrality of the measure. For this to happen, it proposes three offsetting methods: (i) reducing other transfers to subnational governments, while acknowledging existing legal restrictions; (ii) increasing permanent tax revenues through a tax reform to broaden the tax base and reduce exemptions; and (iii) cutting national government spending in non-priority areas. These actions would mitigate the fiscal impact and help to ensure the sustainability of public finances in the medium term.

Source: Fiscal Council and BBVA Research

Forecast for the main fiscal indicators

NON-FINANCIAL PUBLIC SECTOR INDICATORS

	2019	2021	2022	2023	2024	2025(f)	2026(f)
Economic result (% of GDP)	-1.6	-2.5	-1.7	-2.8	-3.5	-2.7	-2.5
Assets (% of GDP)	13.6	14.1	12.8	10.4	8.6	7.7	7.3
Gross public debt (% of GDP)	26.5	35.8	33.9	32.9	32.1	32.6	33.4
Net public debt (% of GDP)	12.9	21.4	20.8	22.1	23.5	24.9	26.2
Gross public debt (% of fiscal revenues)	136	171	153	166	171	168	173
Dollarization of public debt (%)	32	54	52	48	47	45	41
Interest on debt (% of GDP)	1.4	1.5	1.6	1.7	1.7	1.8	1.8
Interest (% of fiscal revenues)	7.0	7.2	7.1	8.4	8.9	8.8	9.2

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

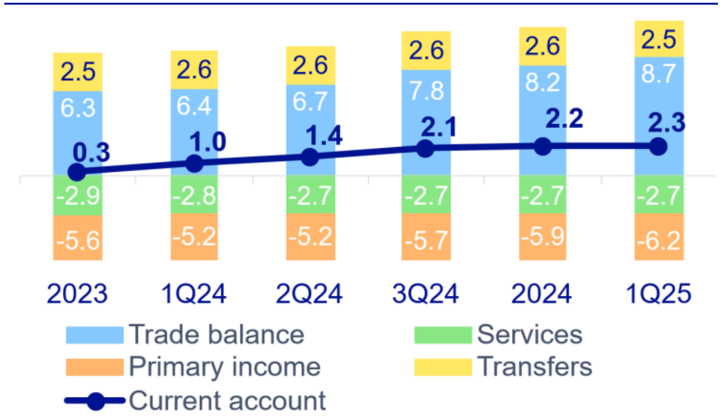
2. Outlook for the Peruvian economy

External sector

The current account surplus of the balance of payments continues to rise, thanks to the trade balance

- The surplus in the trade balance remains high, reaching around USD 26.0 billion in 1Q25.
- Main support factors: high prices of exported metals, strong performance in terms of volume of exports of goods, especially non-traditional goods, and lower import prices (oil).
- The profits of foreign companies have been aided by metal prices, which has led to an increase in primary income, thus curbing the positive impact of the trade balance on the surplus in the current account of the balance of payments, which nevertheless continued to increase at the beginning of the year.
- The increase in private savings is still the main factor explaining the lower external savings needs (savings-investment gap).

Current account of the balance of payments
(ROLLING LAST FOUR QUARTERS, % OF GDP)

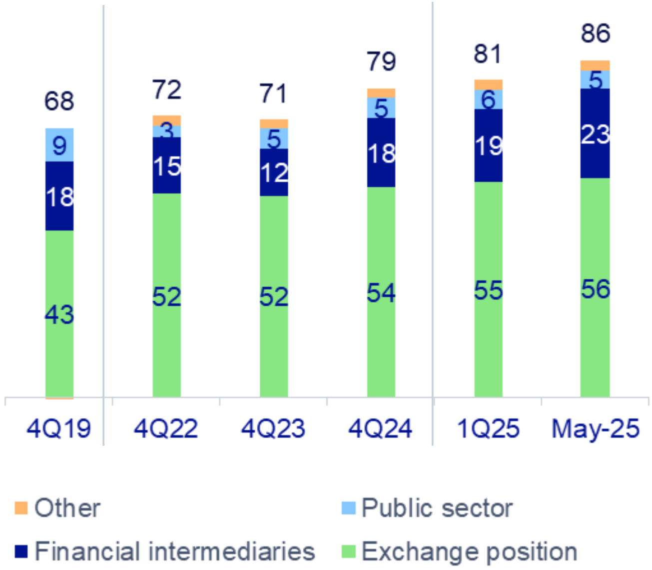


% of GDP (cum. 4Q)	4Q22	4Q23	4Q24	1Q25
National savings	16.9	18.4	23.3	23.6
Public sector	4.3	3.0	1.8	1.9
Private sector	12.6	15.4	21.5	21.6
External savings	4.1	-0.7	-2.2	-2.3
Investment[1]	21.0	17.7	21.1	21.3

1: Includes inventory accumulation.
Source: BCRP.

Peru maintains its low external vulnerability, making the country more resilient in a challenging international environment

NIR
(USD BILLION)



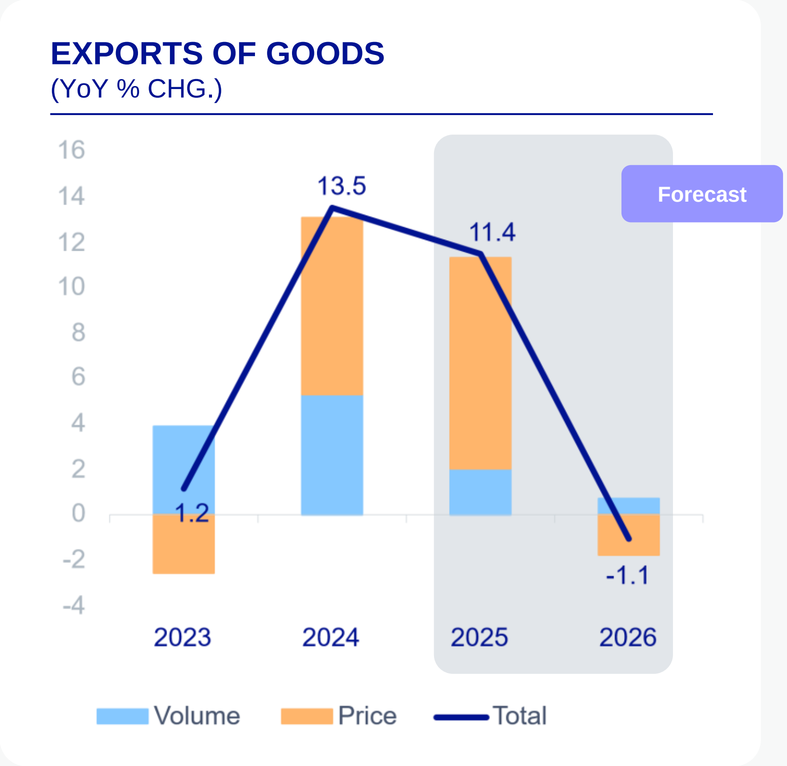
Source: BCRP.

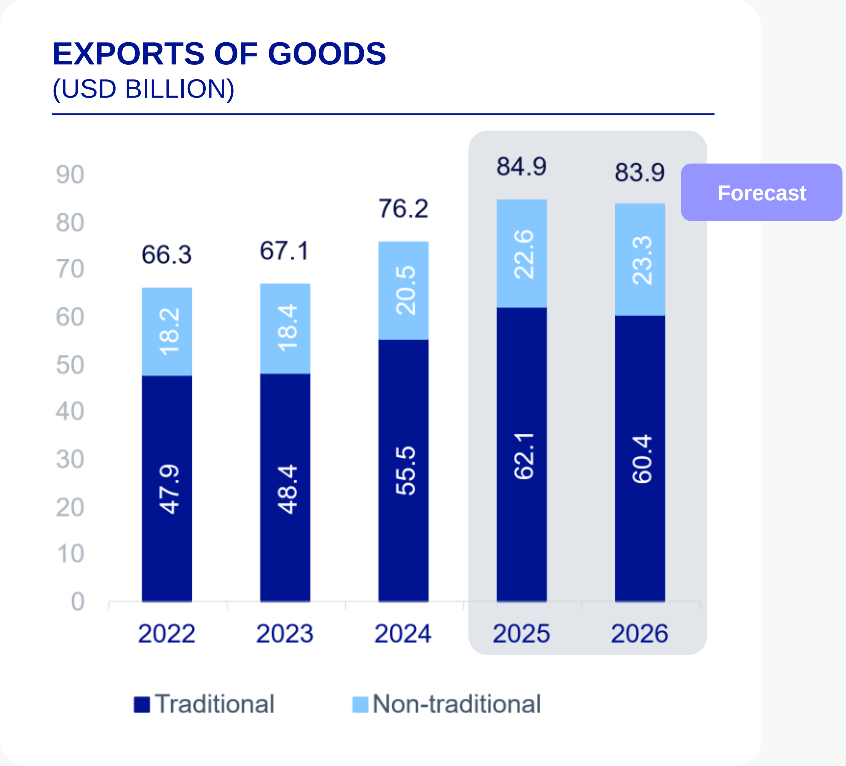
INTERNATIONAL LIQUIDITY INDICATORS

	4Q19	4Q23	4Q24	1Q25	May-25
Net International Reserves (NIR) (% of GDP) 1/	28.9	26.1	26.8	26.8	28.4
NIR / Monthly imports (times) 1/	16	13	14	14	15
NIR / Short-term external debt (times) 1/	8.6	6	8.2	8.1	8.8
Medium and long-term liabilities (% of GDP)	30.8	34.3	33.6	33.4	n.a.
Private (% of GDP)	14.2	12.1	11.4	11.2	n.a.
Public (% of GDP)	16.6	22.2	22.1	22.2	n.a.
Short-term liabilities (% of GDP)	3.4	4.3	3.2	3.3	n.a.

1/ The figures for May use data from 1Q25 as the denominator.
Source: BCRP.

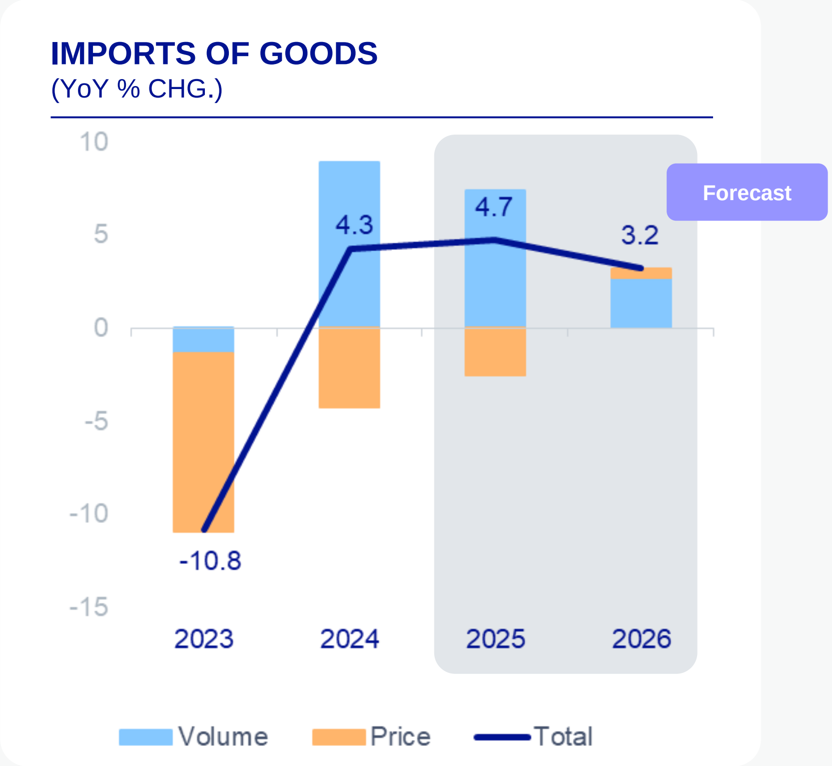
Looking ahead, the upward trend in metal prices dissipates and growth in exported volumes slows

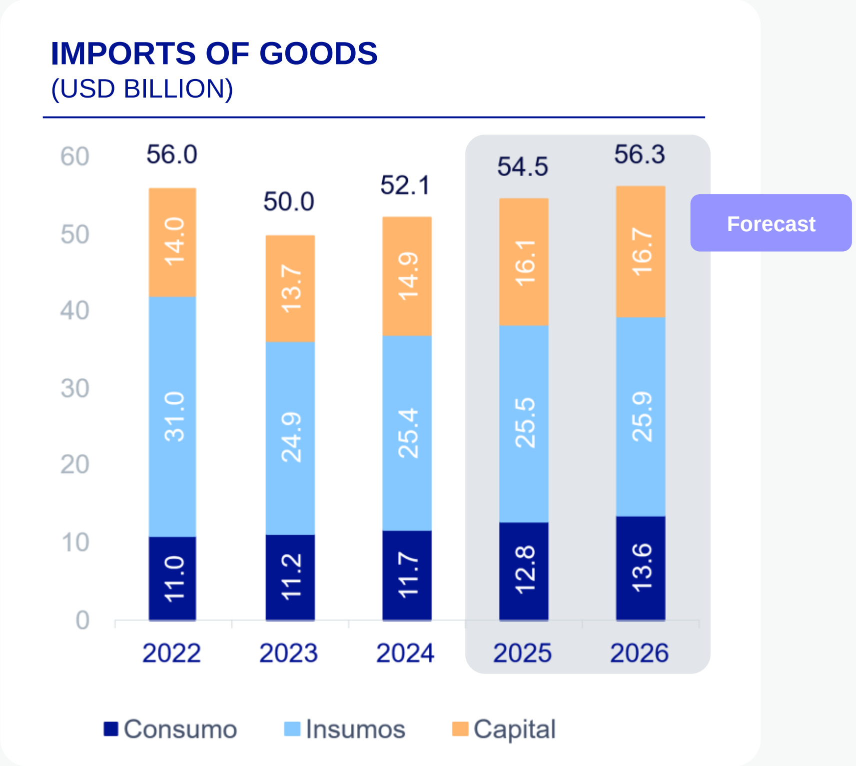




Source: BCRP and BBVA Research (forecasts).

Looking at imports of goods, expansion of volumes will reflect growth in domestic demand



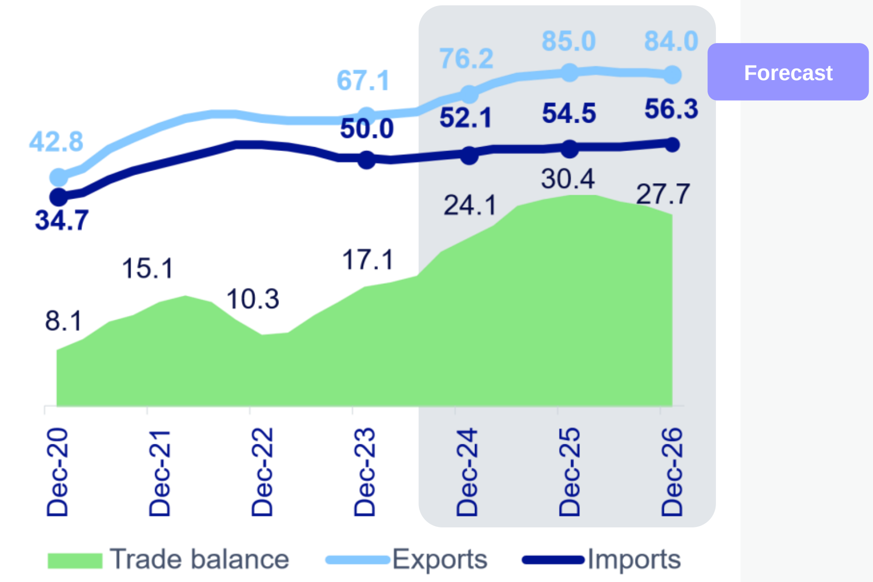


Source: BCRP and BBVA Research (forecasts).

The trade surplus will rise again this year and, with some moderation, should remain high next year

- In 2025, the trade surplus will increase due to higher terms of trade (high metal prices, lower international input prices, including oil) and despite the trade policies being pursued by the Trump administration in the United States.
- For 2026, we expect to see some decline in the terms of trade: export prices will fall to some degree (metals, in particular), while import prices will grow timidly folowing the contractions seen in previous years. The increase in the volume of imports (associated with a sustained recovery in domestic demand) will also help to reduce the trade surplus, which will still remain high.
- Compared with the previous baseline, we now anticipate a larger surplus in the trade balance due to the upward outlook for the terms of trade.

TRADE BALANCE
(USD BILLIONS, ROLLING LAST 12 MONTHS)

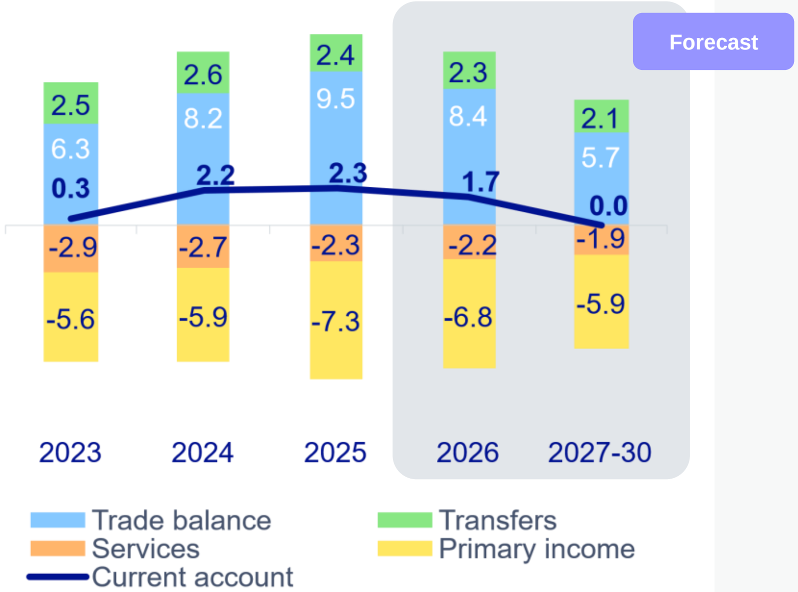


Source: BCRP and BBVA Research (forecasts).

The current account of the balance of payments will also continue to show a surplus for the next two years

- The surplus in the current account of the balance of payments will increase in 2025, but will begin to come down in 2026, mirroring the trend in the trade balance and also in earnings of foreign companies operating in the country (primary income).
- An improved performance by the balance of services in the coming years—largely due to a recovery of inbound tourism—will go some way to attenuating the slowdown in the external surplus.

CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS (% of GDP)



Source: BCRP and BBVA Research (forecasts).

The strength of the external accounts and the limited need for external financing will persist

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

NET INTERNATIONAL RESERVES
(% OF GDP)

- Current account surplus and lower interest rates imply that the economy will remain strong on the external side moving forward under the baseline scenario.
- Given the strength of the external accounts, medium- and long-term external liabilities will steadily fall as obligations are repaid in the absence of significant financing needs for 2025-2026.

NET INTERNATIONAL RESERVES

	2020	2021	2022	2023	2024	2025	2026
NIR/GDP (%)	35.6	34.2	28.9	26.1	26.8	27.5	28.5
NIR/Short-term external debt	7.5	8.1	7.4	6.0	8.2	8.8	9.4

Source: BCRP and BBVA Research (forecasts).

BBVA Research

2. Outlook for the Peruvian economy

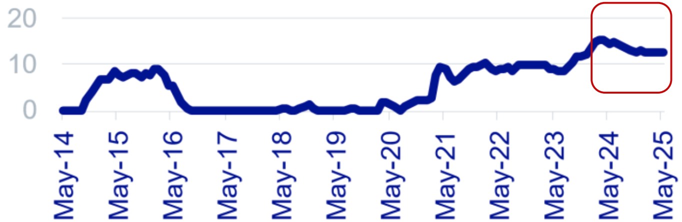
Exchange rate, inflation, and monetary policy

Exchange rate: strong PEN as trade tensions ease, further supported by high metal prices

EXCHANGE RATE
(SOLES PER USD)

BANKS: NET BALANCE NON-DELIVERABLE FORWARD (MILLIONS OF USD)

BCRP: BALANCE OF FOREIGN EXCHANGE SWAPS, PUT (USD BILLION)

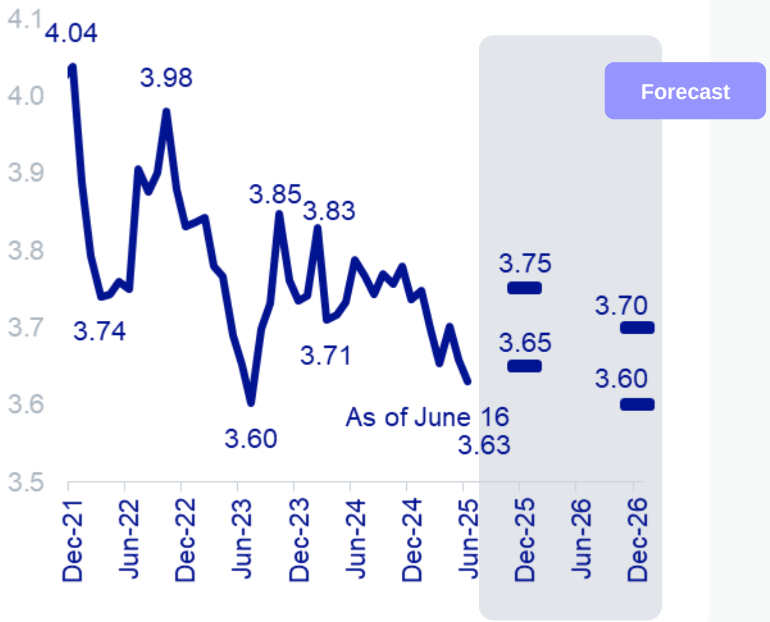


Source: BCRP.

Looking ahead, PEN showing some tendency to weaken as the electoral process draws closer

- External accounts will continue to support the PEN.
- Uncertainty over how trade policies will pan out (and their potential implications) will likely remain a source of volatility.
- Further ahead, with the general elections drawing closer, it is likely that somewhat more defensive positions will be taken in the foreign exchange market. Scale? It will depend on the leading polls. We expect USDPEN to close the year in a range of between 3.65 and 3.75 soles per dollar (daily average for December).
- This range is similar to that of the previous baseline scenario, although now the exchange rate would be located in the lower part of the range. It is a similar story with the forecast for the end of 2026.
- Once all the election hubbub has passed, under the baseline scenario the PEN will strengthen, supported by healthier external accounts and the normalization of the monetary position in the United States.

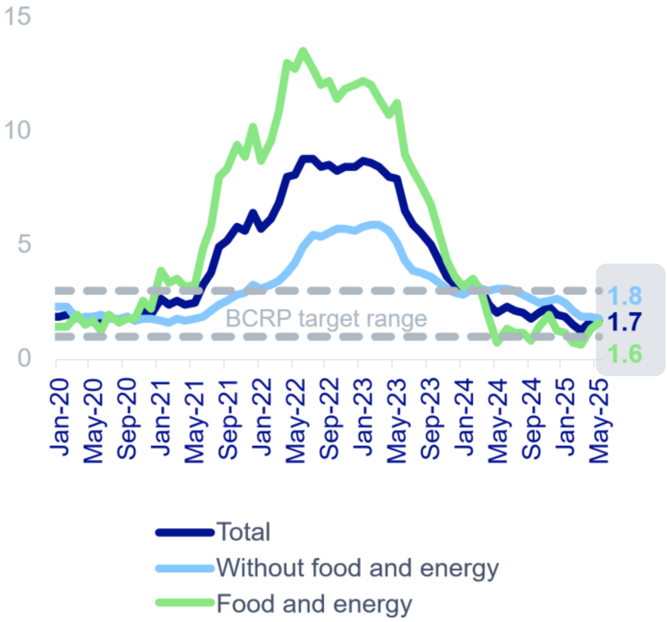
EXCHANGE RATE
(SOLES TO USD, DAILY AVERAGE IN THE MONTH)



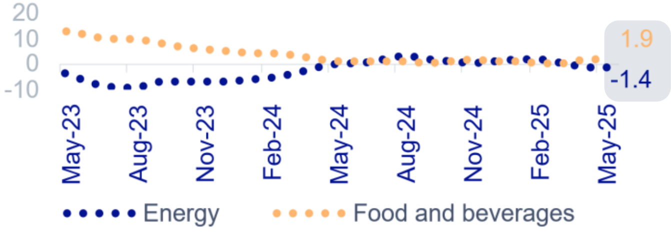
Source: BCRP and BBVA Research (forecasts).

Inflation: inflation measures remain comfortably within the central bank's target range…

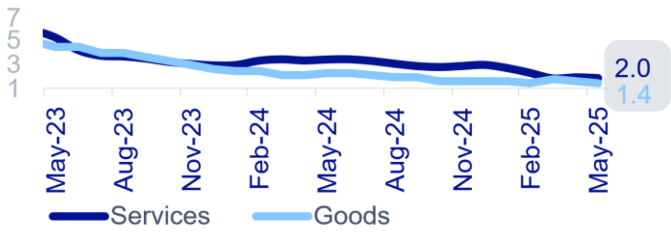
HEADLINE AND CORE INFLATION
(YoY % CHG. IN THE CPI)



INFLATION: FOOD AND ENERGY
(YoY % CHG.)



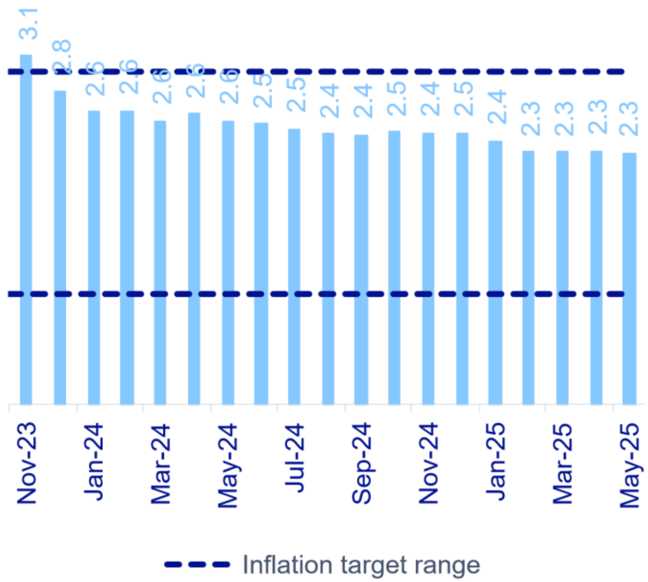
CORE INFLATION: GOODS AND SERVICES
(YoY % CHG.)



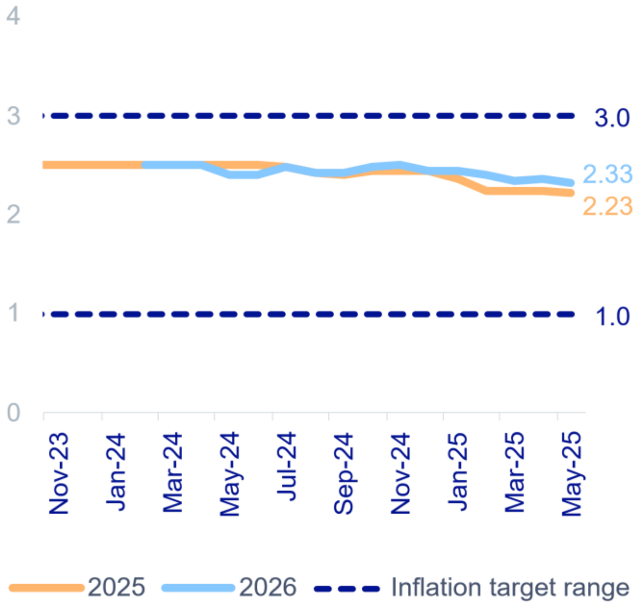
Source: INEI and BCRP.

… as well as inflationary expectations

12-MONTH INFLATION OUTLOOK
(EXPECTED YoY % CHG. FOR THE CPI)



INFLATION FORECASTS
(FOR YEAR-END, %)



Source: BCRP.

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

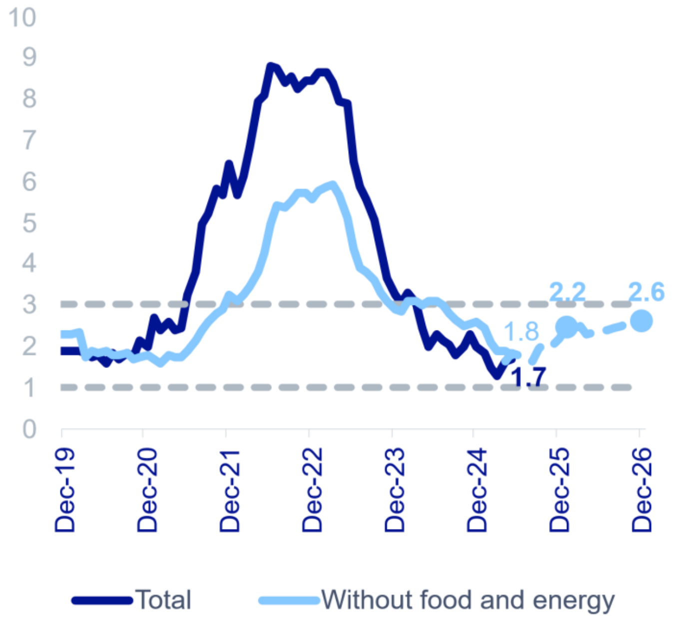
- Under the baseline scenario, inflation will remain between 1.5% and 2.0%, as a monthly average, in the third quarter. It will then increase due to a low year-on-year comparison base. It will close out the year at around 2.2%, within the central bank's target range (2%, +/- one percentage point).

- This performance mainly reflects (i) anchored inflationary expectations (currently at 2.3%); (ii) economic activity growing slightly above its potential rate; and (iii) a low year-on-year comparison basis in the last months of the year.

- The outlook for 2025 (2.2%) is somewhat lower than that made three months ago (2.5%), due to the downward revision in the price of oil.

- For 2026, we anticipate a normalization of the pace at which food prices are increasing and a slower decline in the price of oil, bringing inflation closer to its medium-term levels.

INFLATION
(YoY % CHANGE IN THE CPI)

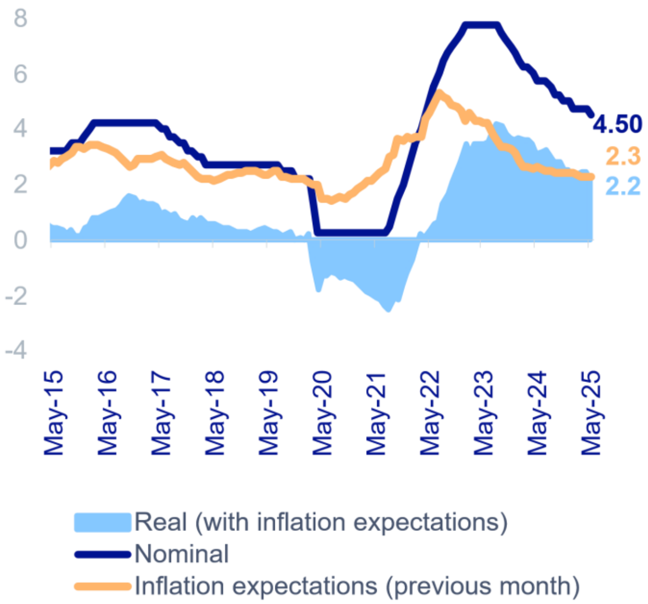


Source: INEI, BCRP, and BBVA Research (projections).

Monetary policy rate: the door remains ajar for a further cut

- The BCRP has been normalizing the monetary position since September 2023, albeit gradually: 13 reductions of 25bp each, bringing rates to 4.50% in June of this year.
- The statement that accompanied the BCRP's decision in June indicated that inflation is expected to remain in the lower part of the target range in the coming months and then remain around the center of that range. The tone is thus somewhat more bearish on the short-term inflation projection, given that last month it was anticipated that inflation would return to around the center of the target range over the next few months.
- The central bank's statement also chose to omit the reference to "the interest rate being close to the level estimated as neutral." Taken together, these two changes suggest that the door to a further cut in the benchmark interest rate could be open.

MONETARY POLICY INTEREST RATE (%)



Source: BCRP.

Under our baseline scenario, the current level of the policy rate is consistent with the cyclical position of the economy

- The reference rate is already around the nominal level that we estimate as neutral (2.0% real plus 2.5% medium-term inflation).
- The cyclical position of the Peruvian economy is consistent with a neutral monetary stance. We expect the rate to remain at 4.50% in the coming months.
- Further rate cuts? Inflation (headline and core) below the center of the target range and current appreciation pressures on the PEN open up space, meaning further cuts cannot be ruled out...
- … yet the strength of domestic demand (1Q25: +6.0%), the negative BCRP-Fed interest rate differential that would occur, the persistence of uncertainty over the tariff policy of the main trading partners, and the imminent start of the electoral campaign all reduce the probability of further cuts.

MONETARY POLICY RATE
(%)

Source: BCRP and BBVA Research (forecasts).

3. Main risks for forecasts of the Peruvian economy

Risks

Main risks to the growth forecasts of the Peruvian economy in 2025 and 2026

EXTERNAL RISKS

- Heightened uncertainty over U.S. trade policy, which affects spending decisions.
- Financial stress related, for example, to a further increase in the U.S. risk premium.
- Tariffs other than those considered under the baseline scenario.
- Geopolitical conflicts.
- Climatic shocks.

LOCAL RISKS

- Escalation of political and social unrest.
- Elections brought forward, which would generate instability.
- Electoral outcome adverse to the market economy.
- Heightened insecurity due to an increase in crime and the spread of illegal economies.
- New release of pension funds.
- Early start of construction on certain mining projects (e.g., Pampa de Pongo) and increased investment flows in some mining and infrastructure projects.

4. Outlook at a glance

Forecasts

Summary of macroeconomic forecasts

	2023	2024	2025 (f)	2026(f)
GDP (% chg.)	-0.4	3.3	3.1	2.7
Domestic demand (excluding inventories, % chg.)	-0.6	3.3	3.7	2.8
Private spending (% chg.)	-1.6	2.9	3.5	2.8
Private consumption (% chg.)	0.1	2.8	3	2.8
Private investment (% chg.)	-7.3	3.3	5.2	2.9
Public expenditure (% chg.)	4.1	5.3	4.6	2.8
Public consumption (% chg.)	4.6	2.1	3.5	2.2
Public investment (% chg.)	2.8	14.7	7.5	4.2
Exports (% chg.)	4.9	6.1	3.9	2.4
Imports (% chg.)	-1.3	8.4	6.8	2.8
Exchange rate (vs. USD, EOP)	3.74	3.74	3.65-3.75	3.60-3.70
Inflation (% YoY, EOP)	3.2	2	2.2	2.6
Monetary policy interest rate (%, EOP)	6.75	5	4.5	4.5
Fiscal balance (% of GDP)	-2.8	-3.5	-2.7	-2.5
Current account balance of payments (% of GDP)	0.8	2.2	2.3	1.7
Exports (USD billion)	67.5	76.2	84.9	83.9
Imports (USD billion)	49.8	52.1	54.5	56.3

(f) Forecast. Forecast closing date: June 9, 2025.
Source: BBVA Research.

Summary of macroeconomic forecasts

	2023	2024	2025 (f)	2026(f)
GDP (chg. %)	-0.4	3.3	3.1	2.7
Primary GDP (chg. %)	2.9	4.3	2.4	2.1
Agricultural	-2.3	5.6	3.2	2.9
Fishing	-21.2	24.9	9.9	1.1
Mining[1]	8.1	2.1	1.6	1.4
Primary manufacturing	-2.3	8.2	3.3	3.4
Non-primary GDP (chg. %)	-1.3	3.1	3.3	2.9
Non-primary manufacturing	-8	2.5	2.7	2.6
Construction	-8.2	3.6	4.1	2.5
Commerce	2.4	3	3	2.8
Other services	0.3	3.1	3.4	3.1

1/ Includes Metal mining and Hydrocarbons

(f) Forecast. Forecast closing date: June 9, 2025.
Source: BBVA Research.

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