MNI Peru Central Bank Preview – June 2025

Monetary policy decision and statement press release: 1900ET/1800Local - Thursday, June 12, 2025.

MNI POV: Rate Hold Seen As Global Tensions Ease

The BCRP is expected to keep its policy rate unchanged at 4.50% on Thursday, following a 25bp cut last month. Although CPI inflation came in below expectations in May, a de-escalation of the trade war and a pick-up in domestic growth reduces the urgency to cut further for now, especially with the policy rate already near a neutral level. That said, the benign inflation outlook and resilient PEN keeps the door open to further rate cuts this year, and the central bank is still seen easing a little more by some analysts in the coming months.

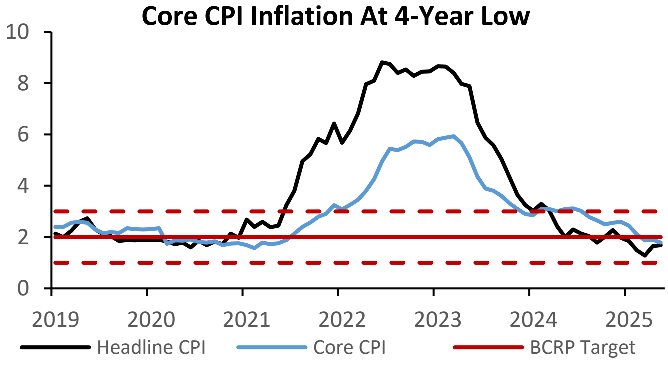
Inflation Pressures Still Well Contained

After cutting by 25bp last month, the Board noted that the policy rate is now approaching a neutral level. However, it continued to strike a dovish tone, leaving the door open to further easing ahead, dependent on the incoming data. Since then, CPI inflation figures surprised to the downside, while domestic economic activity rebounded in March. Meanwhile, the external backdrop has improved somewhat – although risks remain – as the global trade war has begun to de-escalate. Against this backdrop, the Board is under little pressure to ease further at this juncture, especially with eyes on the eliminated US rate differential. In April, Governor Velarde suggested some reluctance to continue easing before the Fed next moves – although that did not prevent a cut last month.

In May, headline consumer prices unexpectedly fell by 0.06% m/m, against consensus forecasts for a 0.13% m/m gain. As a result, annual inflation edged up to 1.69% y/y, from 1.65%, below the 1.87% consensus, still comfortably under the mid-point of the BCRP's 1-3% target range. Although lower food and energy prices drove most of the surprise, core inflation (ex-food and energy) remained well contained, with prices rising by just 0.05% m/m. In annual terms, core CPI inflation dipped by 12bp to 1.78% y/y, a four-year low. Meanwhile, analysts' 12-month inflation expectations also remain close to a four-year low, inching up to 2.29% in April, from 2.28% in March.

Looking ahead, the central bank expects headline inflation to return close to the 2% target in the coming months, with core inflation also around 2% ahead. Analysts also see inflation rising gradually through the second half of the year on the back of unhelpful base effects, with many expecting it to end the year slightly above the 2% target, which should be no barrier to further easing. A number of analysts still see scope for one to two further rate cuts this year, to a terminal rate just below the neutral level.

Core CPI Inflation At 4-Year Low



Source: MNI/Bloomberg

Economic Activity Rebounds in March

Meanwhile, latest activity data revealed a 4.7% y/y rebound in economic activity in March, improving from 2.8% in February. This took Q1 GDP growth to 3.9% y/y, moderating from 4.2% in Q4, but still around potential. On a quarterly basis, real GDP rose by 0.6% q/q (sa), a seventh consecutive gain, driven by further increases in private consumption and investment.

Looking ahead, the BCRP expects GDP growth to remain robust at 3.2% this year, driven by a further increase in investment, particularly in the mining sector. It noted last month that most domestic activity indicators remain in "optimistic territory", with risks coming from the deterioration in the external backdrop. The relative improvement in global trade tensions since then, including signs of progress in the US/China trade talks, should mitigate these concerns somewhat. On the other hand, domestic uncertainties have risen at the margin amid ongoing political instability, and the month-long mining ban in the Pataz province prompted by an increase in violence in the region. Ongoing risks to growth could therefore prompt the Board to maintain a cautious stance for now and keep the door open to further easing ahead, while it assesses the incoming data.

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Analyst Views (Alphabetical Order)

The majority of analysts (13/14) in the latest Bloomberg survey expect the reference rate to be left unchanged at 4.50%. The other analyst in the poll expects a 25bp cut to 4.25% this week.

BBVA: Real Rate Carry Remains Supportive for PEN

- BBVA expects the BCRP to hold its benchmark rate at 4.5% after the cut in May, although new easing cannot be ruled out entirely given lower prices and a steady PEN. With inflation remaining well contained, this is supportive of real rate carry and remains supportive for the PEN.

Deutsche Bank: No Change This Week, Next Cut in Late Q3

- Deutsche Bank thinks that the BCRP will keep its policy rate unchanged, despite the downside surprise of May CPI inflation. They believe that the typically transient nature of some of the drivers of this surprise may temper dovish impulses.
- They note that after the BCRP rate cut last month, tweaks to the communique signalled a pause, including the reference to the policy rate now being close to neutral and a tightening of the forward guidance.
- Nonetheless, DB continues to see space for further easing, with both headline and core inflation remaining within the target band ahead, ending the year at 2.5% and 2.1%, respectively.
- For now, they continue to pencil in 50bp in additional easing by year-end, which would take the policy rate to 4% by December. They project the next cut in late Q3, when they see headline and core inflation hovering close to the 2% target, and trade tensions either subsiding or their macro ramifications becoming clearer.

Goldman Sachs: Expect BCRP to Stay on Hold, Favour Policy Flexibility

- Goldman Sachs expects the BCRP to hold the policy rate at 4.5% on Thursday. While they are sympathetic to another 25bp rate cut in H2, they do not think that the communique will offer clear indications about this possibility and expect the messaging to be relatively unchanged.
- They expect the MPC to maintain the positive assessment of the inflation backdrop and moderating the downside risks stemming from global growth concerns.
- With only modest changes in domestic conditions since the last meeting, the external outlook has improved on the upgraded US growth prospects following the global tariff de-escalation. At the margin, this reduces the need for pre-emptive easing ahead of a diminished external impulse.
- This, along with a closed output gap, only a very mildly restrictive policy stance, and a zero interest rate differential may prompt the MPC to opt for policy flexibility, awaiting further clarity on the number of FOMC cuts and a better sense of their timeline.

Itaú: BCRP to Pause Near-Term, Before Cutting to 4%

- Inflation remains comfortably within the BCRP's target range of 2% +/- 1%. Headline inflation has stayed within the target range for fourteen consecutive months, while core inflation (excluding food and energy) is near a three-year low at 1.8% y/y.
- Itaú expects inflation to remain within the BCRP's inflation target range through 2025, reaching 2.3% by year-end. They believe that the BCRP is likely to pause in the near term and eventually, and cautiously, cut rates towards 4%.

JP Morgan: BCRP to Keep Policy Rate Stable

- Inflation has been well behaved in Peru for months, and the real monetary policy remains on the restrictive side. Last month, the BCRP decided to cut 25bp, a reduction explained by heightened global activity risks.

- Since then, the risks to global activity for the second half of the year have somewhat subsided, to the point that JP Morgan no longer calls for a global recession.
- On the domestic front, the fiscal deficit has narrowed on firmer growth and very supportive terms of trade, but the authorities signalled the intention to revise the fiscal rule for a wider deficit this year. JPM thus believes that the central bank will keep the policy rate stable this month.

Scotiabank: See Little Margin for Further Rate Cuts

- Scotiabank expects the BCRP to keep its reference rate at 4.50% on Thursday. The focus will fall squarely on what guidance the central bank may offer. In their view, there is little margin for further cuts, as the real reference rate is very near neutral, meaning that the downside risk to a possible additional 25bp reduction is limited. For now, 4.50% continues to be Scotia's terminal rate.