MNI Peru Central Bank Preview – October 2025

Monetary policy decision and statement press release: 1900ET/1800Local - Thursday, October 9, 2025.

MNI POV: Rate Hold Seen As Policy Near Neutral

The BCRP is widely expected to leave its policy rate unchanged at 4.25% this week, although latest softer-than-expected CPI inflation data still keep the door open to a possible further cut in the coming meetings. After delivering a 25bp reduction last month, the central bank said that the policy rate was now very close to neutral, and Governor Velarde has subsequently said that there is no need to be aggressive with rate cuts. With growth still around potential there is little urgency to move this week, but some analysts still see scope for one final cut later in the quarter.

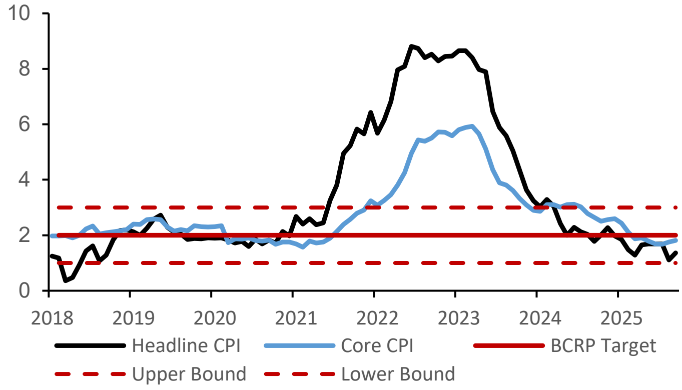
Little Need for Action as Growth Remains Around Potential

Last month's widely expected 25bp rate cut brought total easing in this cycle to 350bp and took the policy rate to its lowest level since March 2022. With one-year ahead inflation expectations currently sitting at 2.18%, the ex-ante real interest rate has fallen to 2.07%, just above the 2.0% neutral estimate. Given that the monetary policy committee emphasised this point last month - that the policy rate is now very close to neutral - and with growth continuing to hold up relatively well, there appears to be little urgency to cut again at this juncture. Nonetheless, the central bank maintains a data dependent stance, and with inflation still well below target and the Peruvian sol rising to fresh five-year highs against the dollar this month, the door to a possible final cut remains ajar.

In September, headline consumer prices rose by just 0.01% m/m, following a 0.29% m/m decline in August. Although unfavourable base effects meant that the annual rate of inflation picked up from August's seven-year low of 1.11% y/y to 1.36%, this kept it in the lower half of the 1-3% target range for a 10th consecutive month. The downside surprise was partly due to a decline in food prices over the month. Excluding food and energy, however, core inflation pressures also remained well contained, with prices there rising by just 0.06% m/m. On an annual basis, core inflation rose by 6bp to 1.81% y/y, keeping it below 2% for a seventh month running. Meanwhile, inflation expectations remain well anchored, with analysts' one-year ahead expectations at fresh four-year lows.

Looking ahead, inflation is expected to rise gradually in the coming months, partly on the back of unfavourable base effects. Nonetheless, it looks set to end the year below the 2% target, and ongoing FX strength on the back of copper and gold price gains means that if anything risks are skewed to the downside. Speaking recently, Governor Velarde said that he expected headline inflation to end the year at 1.7%, with core at 1.9%, before both return to 2% in 2026.

Inflation Pressures Remain Well Contained



Source: MNI/Bloomberg Finance L.P.

Velarde also said that he now expected the economy to grow by 3.2% this year, a slight improvement from 3.1% seen previously amid robust activity, which rose by 0.9% m/m (sa) in July (+3.4% y/y). Economy and Finance Minister Perez Reyes also sees the economy growing by 3.1-3.5% this year, driven by private investment and supportive fiscal policy. The eighth private pension fund withdrawal, which was recently approved by Congress, may support consumption ahead as well, although Velarde has expressed his concern that further withdrawals could create future problems. The withdrawals may also benefit the PEN near-term, unless the BCRP steps in. Meanwhile, Perez Reyes reiterated his determination to comply with the fiscal rule this year, noting that the deficit was on course to reach 2.3% of GDP in September, close to the 2.2% ceiling. For 2026, Perez Reyes sees the deficit narrowing to 1.8% of GDP, with the goal of it reaching 1% in 2028, consistent with the fiscal rule.

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Analyst Views (Alphabetical Order)

All 14 analysts in the latest Bloomberg survey believe that the BCRP will leave its policy rate unchanged at 4.25% this week.

BBVA: Expect BCRP to Remain on Hold

- The BCRP is set to hold the policy rate at 4.25% on Thursday after a 25bp cut in September. With the real rate just over 2.0%, the policy rate is virtually at neutral, with inflation well anchored and activity and domestic demand rising at a pace compatible with an economy close to potential. The PEN has continued to perform well, backed by higher copper and gold prices that keep trade terms very supportive.

BNY Mellon: Room to Keep Easing Bias, But Limited Capacity for Further Cuts

- There is very limited capacity for further rate cuts in Peru, although with Lima CPI running at 1.36% y/y and monthly sequential figures largely flat, there is room for the BCRP to maintain an easing bias. Current activity levels remain relatively robust, and the country is not at the forefront of tariff issues for now. The capital's unemployment fell to 6% in August, which is near cycle lows and warrants some caution on wages.

Goldman Sachs: Do Not Foresee Need for Easing Below Neutral

- Goldman Sachs expects the Monetary Policy Committee to keep the policy rate at 4.25% this week, reiterating a data-dependent approach with broadly unchanged messaging. The MPC is likely to maintain its benign assessment of the domestic inflation outlook and the neutral balance of risks for inflation.
- GS sees the MPC assessing that domestic activity is tracking around its potential level, while maintaining its focus on the downside risks to medium-term world growth stemming from global trade tensions.
- Following a 25bp cut at the September meeting, the MPC communicated that the policy stance had been brought "very close to neutrality," which GS interprets as a signal that the rate will remain on hold for the foreseeable future. With a largely closed output gap and well-anchored inflation expectations, there is limited urgency to either address inflationary pressures or stimulate growth.
- GS does not foresee the need for easing below the neutral rate, but they remain open to such a scenario should domestic activity weaken more than anticipated. A deterioration in political dynamics and business sentiment approaching the 2026 Presidential elections could also prompt a policy change.

Itaú: Anticipate Additional 25bp Cut Later this Year

- Itaú expects headline inflation to rise moderately in the coming months, partly due to base effects, reaching 2% by year-end. The balance of risks remains tilted to the downside, particularly if favourable exchange rate dynamics and lower oil prices persist.
- Given the benign inflation outlook, Itaú anticipates an additional 25bp rate cut this year, bringing the policy rate to 4%. With the output gap largely closed and the policy stance only slightly restrictive, there is limited urgency to continue easing at this week's meeting.

JP Morgan: Rates on Hold Amid Benign Inflation Backdrop

- The BCRP meets this week, following a benign inflation print in September. Headline posted a 0.01%m/m variation, and the 12-m inflation converged higher to 1.4%, yet below the 2% target. Against this backdrop, JP Morgan expects the central bank to maintain the policy rate at 4.25%.

Natixis: Expect Final Cut to 4.0% Later This Year or Early Next

- At the meeting on October 9, the BCRP will most likely keep its policy rate at 4.25%. The key point is that monetary policy is already very close to, or at, neutrality. While Natixis do expect an additional cut to bring the terminal rate down to 4.0%, they believe this will happen later in the year or in early 2026, once the Fed has lowered its policy rate by 50bp.
- Inflation remained below the 2% target in September but increased slightly compared to previous months. Meanwhile, inflation expectations continue to adjust downwards but have not stabilised around the target yet.

The economic activity index increased by 0.87% m/m sa in July, following two consecutive months of contraction. This puts the annual growth rate at 3.41%, which is broadly in line with the long-term average.

- In summary, although inflation remains below the target, it is accelerating, and economic activity is growing healthily. Therefore, an additional rate cut in October seems unlikely. Natixis continues to forecast a terminal rate of 4.00%.

Scotiabank: On Hold for the Foreseeable Future

- Given healthy GDP growth and the BCRP's closeness to the neutral rate, Scotiabank thinks the BCRP will hold rates this week and for the foreseeable future. The possible inflationary impact of the latest approval of pension withdrawals may also warrant some caution among policy makers.
- Data since the September rate cut revealed a mild acceleration of inflation to a still low 1.4% y/y and solid growth in a GDP proxy at 3.4% y/y.
- Given that the BCRP was sounding like it was close to being done last month, the recent data might reinforce such a bias this week. Recall that the September BCRP statement said "With this decision, the interest rate is very close to its estimated neutral level. We forecast that inflation will be close to the centre of its target range around the end of the year."