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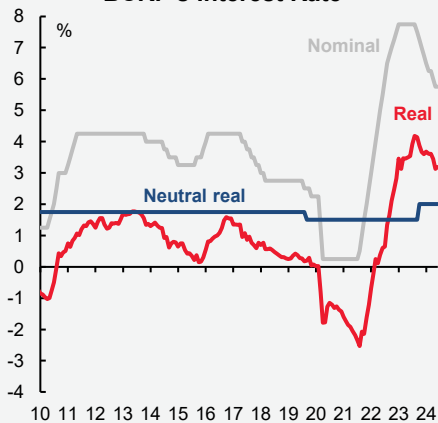
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Chart 1

Peru: Nominal, Real & Neutral BCRP's Interest Rate



Sources: Scotiabank Economics, BCRP.

Latam Daily: BCRP Surprises with a Hold, GDP Likely to Exceed Expectations

- **Peru: BCRP surprises with a hold; April GDP Flowers**

PERU: BCRP SURPRISES WITH A HOLD

The board of the Central Bank of Peru (BCRP) was not ready to put the PEN reference rate on par with the FED rate, and kept the local rate unchanged at 5.75%, surprising the market consensus.

Although headline inflation decreased from 2.4% in April to the mid-point of the target range (2.0%) in May, and prices that we track suggest that there could be negative monthly inflation once again in June, the BCRP emphasized in its statement that core inflation increased from 3.0% in April to 3.1% in May, mainly due to a certain persistence associated with some service sectors.

Another significant factor influencing the BCRP's decision was the outcome of its macroeconomic survey for May, which indicated a recovery in current economic conditions and mostly optimistic expectations for future indicators.

Finally, the statement highlights the persistent risk regarding the reduction of monetary policy interest rates in advanced economies. The forecasts of the Federal Reserve Board members would have influenced the BCRP's decision, especially considering that at their June meeting, they anticipated only a 25bps cut for 2024, contrasting with their earlier projection of three cuts three months ago.

By maintaining the reference rate at 5.75%, the spread with the Fed rate remains at 25bps and the real interest rate increases from 3.1% to 3.2%, still far from the 2.0% considered a neutral level, reflecting a still contractionary stance (chart 1).

—Ricardo Avila

APRIL GDP FLOWERS

Newly released, early figures suggest that April GDP growth will surpass our previous estimate of 3.4% YoY, and could very well break through the 4% YoY mark. These recently released figures include agriculture GDP growth, which was reported up a whopping 36%, YoY. We were expecting a double-digit figure, but the actual figure was over twice our forecast.

Industrial manufacturing rose 4.8%, YoY. This was a nearly two-year high, and also exceeded our expectations. Resource processing, namely the industrialization of fishing, mining and agricultural production, rose 32.6%, also ripping through our, already high, forecast. Add to this the already known 158% YoY increase in fishing GDP (table 1).

On the other hand, and quite surprisingly, mining GDP fell 4.3%, YoY. Thankfully, this was mostly one-off, reflecting a two-day plant closure for maintenance purposes at Antamina, and a partial interruption at Volcan due to permit issues at its tailings dam.

This is the actual official GDP sector data released so far. In addition, cement consumption suggests construction could have risen 7.0% (our estimate).

When you put all these figures into the model mix, the aggregate GDP growth number that emerges for April is 4.4%. We shall know for sure once the figure is released over the weekend.

Note that such high monthly growth is not representative, as April saw the benefit of two additional work days due to an Easter calendar shift. Luckily, weather is now playing a supporting role for growth, with those sectors that were affected by El Niño in 2023, most notably agriculture and fishing, now rebounding with conviction. At the same time, April does not say much about how much of the growth is organic and not related to weather-related rebounds or special events. For that we will need to wait for May.

—Guillermo Arbe

Table 1: Peru—April GDP Growth by Sector

Sectors	April y/y %
Agriculture	36.0
Fishing	158.4
Mining and Oil & Gas	-4.3
Mining	-4.5
Oil & Gas	-3.6
Industrial Manufacturing	4.8
Resource Processing	32.6

Sources: Scotiabank Economics, INEI.

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