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Latam Daily: Large Peru Inflation Surprise, Chile GDP Contracts

- **Peru: Inflation surprises, exiting the target range after two years**
- **Chile: GDP contracts 0.3% y/y in February**

PERU: INFLATION SURPRISES, EXITING THE TARGET RANGE AFTER TWO YEARS

Headline inflation in March rose by 2.4% m/m (chart 1), marking the highest monthly rate in the past 32 years. Several factors contributed to this surge: the Camisea gas pipeline incident during the first half of the month, the increase in international oil prices following the closure of the Strait of Hormuz, seasonal education-related costs in March, and adverse weather conditions that have been pushing food prices higher since January.

Annual inflation accelerated from 2.2% in February to 3.8% in March, well above Bloomberg’s consensus estimate (2.6%) and our own projection (3.0%). As a result, inflation has once again moved outside the target range of 1%–3% after two years (since March 2024). Core inflation also rose sharply, increasing 2.1% in March and lifting the annual rate from 2.2% in February to 3.7% in March.

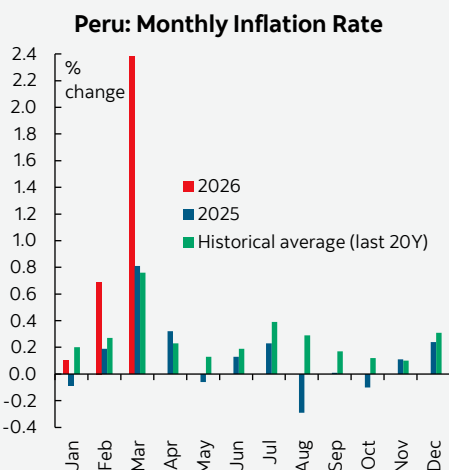
The components of the basic household basket that registered the largest increases were:

- **Transportation:** rose 9.1% month-on-month, a sharp jump compared to the maximum monthly increase of 3.2% observed during the Russia–Ukraine war. The reduced supply of domestic gas appears to have had a stronger-than-expected impact. A correction is expected in April, given the normalization of gas supply, although it would be partial since oil prices remain high.
- **Food:** increased 3.2% month-on-month, a level not seen since March 2022, with price hikes across nearly all categories.
- **Education:** rose 2.9% due to seasonal effects from the start of the school year, though below the levels recorded in previous years.

As we have previously noted, we do not expect the central bank (BCRP) to adjust its policy rate at the upcoming meeting on April 9th. Looking ahead, inflation may ease in April given that the supply of natural gas has normalized, some food prices should stabilize, and the high base effect from April 2025 (monthly inflation of 0.3%) comes into play.

—Ricardo Avila

Chart 1



Sources: Scotiabank Economics, INEI.

CHILE: GDP CONTRACTS 0.3% Y/Y IN FEBRUARY

- **Activity weakness suggests 2% growth as a ceiling for 2026**

GDP declined 0.3% y/y in February (chart 2), well below market expectations (consensus: +1.5%) and our forecast (+1.2%). In seasonally adjusted terms, activity fell 0.3% m/m, reflecting a broadly weaker performance across economic sectors and temporary supply-side factors. The downside surprise was compounded by a particularly negative calendar effect, which subtracted 1.3 ppts from annual growth, despite the absence of working-day differences in February. This effect could partially reverse in the coming months. Within non-mining GDP, which also fell 0.3% m/m SA, commerce stood out with a sharp 2.3% m/m contraction, marking its second consecutive monthly decline this year (chart 3).

Assuming no further deterioration in the external environment, we maintain our 2026 GDP growth forecast at 2%, while introducing a downside bias. Achieving this growth rate is becoming increasingly challenging and would require seasonally adjusted momentum in non-mining sectors above historical averages. The carry-over for the year is 0%, implying

that if activity remains flat over the rest of the year, the economy would post zero growth in 2026.

The probability of a policy rate hike this year has declined materially. Recent activity data reinforce the view that the economy is going through a period of low momentum, with marginal growth running below potential, alongside persistent capacity gaps and continued slack in the labour market. These conditions support the Central Bank’s decision to keep the policy rate on hold, pending further clarity on the external backdrop and its spillovers to the domestic economy.

The sharp contraction in the wholesale and retail trade sector suggests a seasonally adjusted decline in private consumption in Q1-26. The sector’s activity level has returned to mid-2025 levels, fully unwinding the rebound observed in Q4-25. That said, we expect consumption to partially recover as higher liquidity from the Pension Reform—including benefits linked to contribution years and the PGU adjustment—feeds through. Downside risks remain tied to the external scenario, its impact on domestic expectations, and tighter liquidity conditions stemming from higher fuel prices and peso depreciation.

Finally, in a context of cuts to public investment, deregulatory measures will be key to sustaining private investment. Our growth outlook assumes a gradual recovery in investment, supported by the Government’s deregulation agenda, particularly for the private sector. Risks to public investment remain skewed to the downside, given the 3% budget cut (around USD 400 mn) and the slow pace of budget execution, which reached 9.1% of the annual budget in February, below last year’s 10.7%.

—Aníbal Alarcón

Chart 2

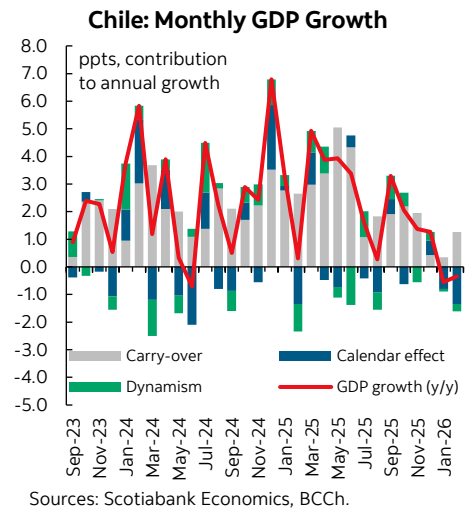
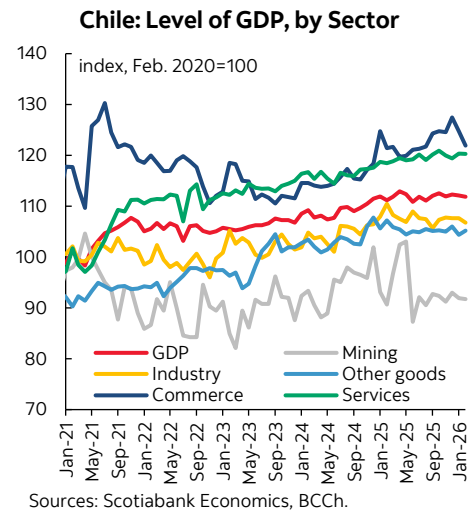


Chart 3



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