

7 External deficits in LatAm will linger on the high side yet remain sustainable

External deficits in the region will still be marked by the low prices of certain key export commodities

External accounts will continue to show deficits in almost all of the region's countries (except Chile and Paraguay), hit by the fall in commodity prices in the region. Specifically, we estimate that the external deficit will widen in Argentina and Colombia in 2015 (and Argentina again in 2016). What prompts this forecast of a higher deficit is, in Argentina's case, the implicit scenario of exchange controls being partly removed, leading to a surge of imports. With regard to Colombia and Mexico, as was mentioned in Section 4, they will be especially affected by the lower oil price, which will not be successfully offset by the rise in non-traditional exports in Colombia, or manufacturing exports in Mexico, even within the context of currency depreciation. Meanwhile we expect a lower deficit in Peru, Uruguay and Brazil⁹ (see Figure 4.6). This smaller expected deficit is associated with the expected depreciation of their currencies and the lower level of economic activity, which will imply lower imports over the year, and, in Peru's case, also factors-in the anticipated increase in mining production from 2Q. The only country in the region where we are standing by our forecast of a current account surplus is Chile, where it will be around 1%, and in this case, even though a slowdown in activity will lead to less imports, this effect will also be offset by lower copper prices.

These current account deficits will still be considerable in Colombia, Peru, Uruguay and Brazil in 2015, but they will have to begin to come down towards 2016, particularly in Colombia and Brazil. For the region as a whole it will be somewhat larger than in 2014, but then start to close up from 2016 as key projects come on-stream (such as the mines in Peru and those associated with the energy reform in Mexico) and world demand picks up, with the impact this will have on the regions products, even taking into account the fact that the slowdown in growth in China will persist.

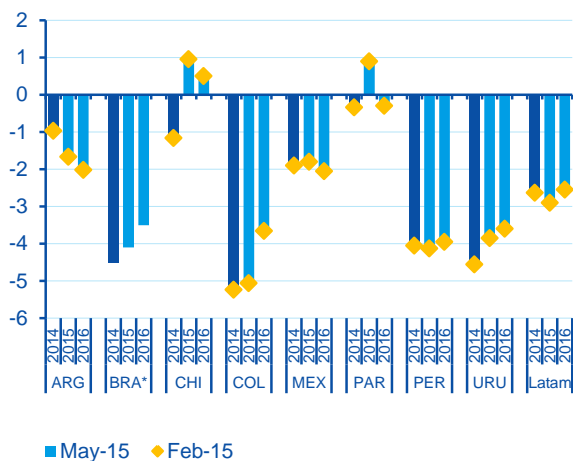
The region's vulnerability to the exterior remains limited, although there is a greater reliance on short-term funding

In spite of everything the region's level of vulnerability is still low: deficit financing continues to come mainly from FDI, although this is less ample than it was a few years ago. In 2012 and 2013 FDI was enough (with the exceptions of Mexico in 2012 and Brazil in 2013) to cover external deficits, even though, according to the latest available data, this has not been the case in Chile (see Figure 4.8). This lower proportion of FDI is associated with both the lower growth expected for the region and lower commodity prices, which accounted for a substantial part of FDI in the exporter countries.

For 2015 we estimate that this trend will continue in most countries. The lower proportion financed from FDI implies that it is now short-term capital which is financing the bulk of the deficit, which could represent a weak point in the medium term in any scenario of a sudden exit of capital. For the time being though, this vulnerability is manageable.

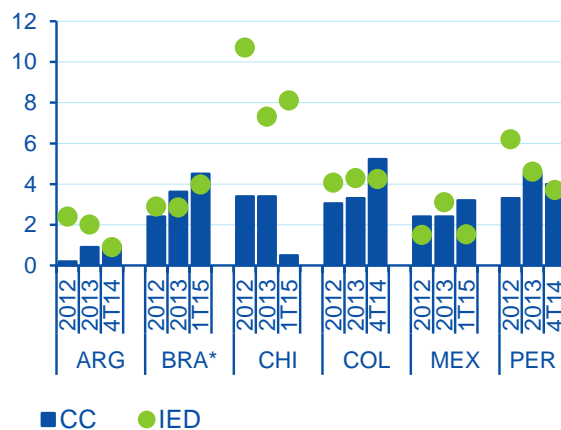
9: Here it is worth noting the situation in Brazil, where methodology has been revised, meaning that it is not possible to compare the previous series with the new set, nor, by extension, prior estimates with new ones either.

Figure 7.1
Current account (% of GDP)



* Change of series on account of a shift in methodology by the BCB: the new series is not comparable with the previous set.
Source: BBVA Research

Figure 7.2
Current account deficit and FDI,
(cumulative % of GDP over past four quarters)



Data available for 1Q15 for Brazil, Chile and Mexico. The statistics for Brazil for 2015 are not comparable with previous figures, given the change of methodology by the BCB.
Source: BBVA Research and national statistics.

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