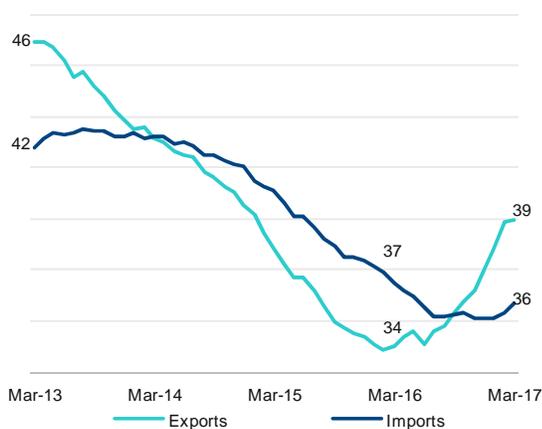


5. Trade improvement takes the balance of payments current account to sustainable levels

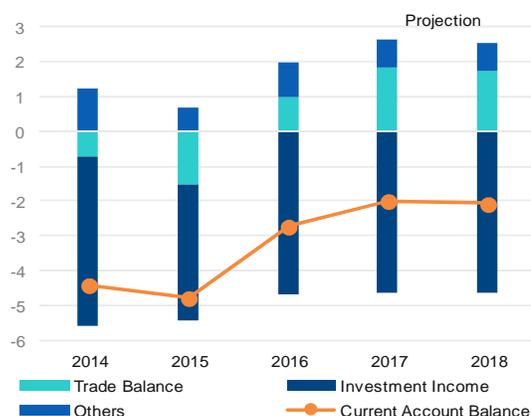
The trade balance has considerably improved in recent months. It has changed from a deficit (accumulated over the last twelve months) of USD 2.5 billion in March last year to a surplus of around USD 3 billion in March this year (see Figure 5.1). This improvement can be explained by the increase in the value of exported goods (increase in the volume of mining exports, particularly copper and higher metal prices), in addition to the drop in imports (a reflection of lower private investment and of the slowdown in household spending, as well as the increase in the price of oil).

Figure 5.1 Exports and imports (accum. over the last twelve months, USD thousands of millions)



Source: Central Reserve Bank of Peru and Peruvian Revenue and Customs Office (SUNAT)

Figure 5.2 Balance of payments current account (% of GDP)



Source: Central Reserve Bank of Peru and BBVA Research

It should be pointed out that the positive performance on the trade side exceeded the higher expenditure on the factor income side (which increased owing to the higher profit remittances, mainly in the mining and services sectors). We therefore forecast that the deficit in the balance of payments current account at the cost of the first quarter this year (accumulated in last four quarters) would have stood a little above the 2% GDP (4.7% a year ago, which represents a considerable adjustment to the external gap).

Finally, on the financial side, accumulated capital inflow in the last four quarters greatly aided the financing of the current account deficit. Since the third quarter of last year, this has translated into an accumulation of international reserves and an appreciation of the local currency (see the section on Financial Markets below).

Going forward, we expect that the favourable balance of trade trend will hold up, with the balance of trade current account deficit standing at around 2% of the GDP in 2017 and 2018 (see Figure 5.2).

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