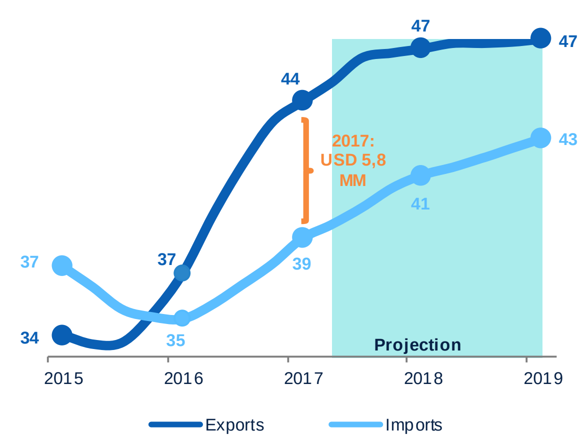
5. Small current account deficit: strength in an environment of moderating capital inflows

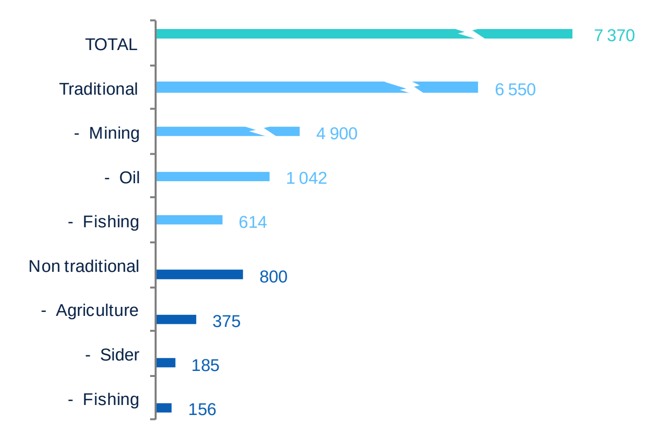
The balance of trade improved in 2017 due to the sharp increase in export values (see Figure 5.1). Higher export prices and improved world demand (including from within Latin America) were the two main factors favourably affecting this performance. The former meant that exports of traditional products, especially mining products (see Figure 5.2), increased strongly, while the latter was more pertinent for non-traditional exports, which improved, albeit to a more limited extent. We estimate than in this context Peru's trade surplus was around US$5.8 billion in 2017, the biggest since 2012. The higher export prices however also meant more profit for mining companies and consequently, at the macroeconomic level, more repatriation of profits and dividend payments. Our balance of greater trade surplus but also greater payments of dividends and profit remittances leads us to a current account deficit that will have further decreased in 2017, to around 1.3% of GDP.

Figure 5.1 Trade balance (USD billions)



Source: Central Reserve Bank of Peru, SUNAT and BBVA Research

Figure 5.2 Annual increase in exports in 2017 (US$ millions; estimated)



Source: Central Reserve Bank of Peru and BBVA Research

For 2018 we foresee some deterioration in the external deficit to a level equivalent to 1.8% of GDP. This will come about in a context in which the greater dynamism of domestic demand will boost imports and the average price of oil will rise, both of which will be attenuated by the higher average prices of the metals that Peru exports. Later on, despite the small- and medium-size mining projects starting to produce from 2021, the downward correction in metal prices and the consolidation of domestic demand will take the current account deficit of the balance of payments to around 2% of GDP.

These external deficits are relatively small, which limits external financing requirements. This places the Peruvian economy in a relatively strong position to face the decline in capital inflows to emerging economies, which is worth highlighting given the trend towards a less accommodative monetary policy stance in the most developed economies (leading to a narrowing of the relative profitability differential in favour of emerging market assets) and the tax measures to be implemented by the Trump administration in the US (the sharp cut in income tax and the incentives to repatriate capital may lead to greater American and foreign investment in the US).

DISCLAIMER

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