

Contributors

**Guillermo Arbe**, Head Economist, Peru  
+51.1.211.6052 (Peru)  
[guillermo.arbe@scotiabank.com.pe](mailto:guillermo.arbe@scotiabank.com.pe)

**Sergio Olarte**, Head Economist, Colombia  
+57.1.745.6300 Ext. 9166 (Colombia)  
[sergio.olarte@scotiabankcolpatria.com](mailto:sergio.olarte@scotiabankcolpatria.com)

**Jorge Selaive**, Head Economist, Chile  
+56.2.2619.5435 (Chile)  
[jorge.selaive@scotiabank.cl](mailto:jorge.selaive@scotiabank.cl)

**Eduardo Suárez**, VP, Latin America Economics  
+52.55.9179.5174 (Mexico)  
[esuarezm@scotiabank.com.mx](mailto:esuarezm@scotiabank.com.mx)

## Latam Daily: Peru's External Accounts

- **Peru: The best may be over for Peru's robust external accounts**

### PERU: THE BEST MAY BE OVER FOR PERU'S ROBUST EXTERNAL ACCOUNTS

**Alarms went off when the BCRP published the second quarter 2022 balance of payments results, which showed the current account deficit remaining at a very high 4.6% of GDP, signalling that the 6.3% of GDP in Q1 was not an outlier.** Both figures were higher than the 2.3% of GDP deficit for 2021.

**However, if one takes a deeper look at the accounts, one can breathe a little bit easier.** It was all the fault (yes, fault) of high metal prices and strong earnings by foreign companies operating in Peru.

**BoP accounting treats total earnings of foreign companies as a current account outflow, regardless of whether an actual outflow occurs or not.** Retained/reinvested earnings—earnings that do not actually leave the country—are then treated as a financial account inflow. This, of course, includes the mining companies themselves.

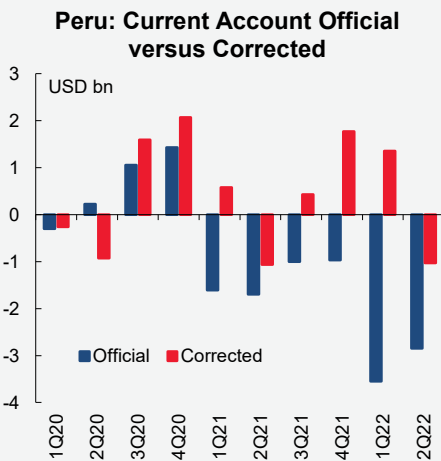
**In Peru, mining and oil & gas accounted for 64% of total earnings registered in the current accounts.** Thus, there is a direct correlation between foreign earnings and commodity prices. As a result, it is not unusual for Peru's current account to worsen, counterintuitively, worsen when metal prices rise, and improve when they prices fall.

**Most of these earnings are retained and never actually leave the country.** In Q2, retained earnings amounted to USD 1.8 bn (2.9% of GDP). If these retained earnings are excluded, the current account deficit for the quarter would be USD 1.0 bn (1.7%) of GDP rather than USD 2.8 bn (4.6%) (chart 1).

**Even so, a 1.7% corrected current account deficit is still a deficit, and does denote a certain deterioration from the past.** The net overall result of the BoP tells a similar story, declining by USD 1.3 bn in Q2 (table 1). This came after an even greater decline of USD 2.5 bn decline in Q1.

**A large factor behind this, rather modest, deterioration in external accounts was the sharp decline in the trade surplus, from USD 4.2 bn in Q1, to USD 1.5 bn in Q2.** At the same time, the capital account saw a net inflow of USD 2.3 bn, which was not quite enough to compensate for the current account deficit. The main positive in the details was that the strong hemorrhage of short-term capital of the previous quarters was stemmed. In 2021, capital outflows had left the country at a net pace of over USD 4 bn per quarter.

Chart 1



Sources: Scotiabank Economics, BCRP.

Table 1: Peru—Balance of Payments

USD mn	H1-2021	H2-2021	2021 full-year	Q1-2022	Q2-2022	H1-2022
Current account balance	-3,303	-1,970	-5,273	-3,551	-2,849	-6,400
Trade balance	5,356	9,477	14,833	4,198	1,526	5,725
Exports	28,213	34,938	63,151	17,048	16,186	33,233
Imports	-22,857	-25,461	-48,317	-12,849	-14,659	-27,508
Services	-3,173	-4,174	-7,347	-2,168	-1,925	-4,093
Investment income	-8,116	-10,011	-18,127	-6,878	-3,787	-10,664
Remittances	2,629	2,738	5,367	1,296	1,336	2,632
Capital account balance	2,279	13,348	15,627	904	1,586	2,490
Private sector	7,329	9,346	16,675	5,428	2,343	7,772
Public sector	5,037	10,554	15,590	-417	178	-239
Short-term capital	-10,086	-6,552	-16,638	-4,108	-935	-5,043
Financial	859	12	871	-1,741	393	-1,348
Non-financial	-10,945	-6,564	-17,509	-2,366	-1,329	-3,695
Errors and omissions	-1,468	-4,475	-5,944	100	-54	46
Total balance of payments	-2,493	6,903	4,410	-2,547	-1,317	-3,864

Sources: Scotiabank Economics, BCRP.

---

August 25, 2022

This was repeated by a similar USD 4.1 bn in Q1 2022. In contrast, the net outflow in Q2 2022 was only USD 0.9 mn. Furthermore, there was very little inflow either to the public or to the private sector.

**It is true that the BoP has taken a bit of a turn for the worst, but not to the extent that the headline current account figures might suggest.** Although we expect external accounts to continue weakening, or at least not improving very much, in future quarters, this weakening will be off a position of strength.

—Guillermo Arbe

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

**This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.**

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.