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Latam Daily: Peru's Record Trade Surplus; Congress Acts to Offset High Inflation

- Peru: Record trade surplus recorded; tax exemptions to offset inflation

PERU: RECORD TRADE SURPLUS RECORDED; TAX EXEMPTIONS TO OFFSET INFLATION

I. Record trade surplus

Peru's trade balance registered a record USD 15.3 bn 12-month surplus to February, surpassing the USD 14.8 bn surplus, also a record, for the full-year 2021. The trend is slightly above our forecast of USD 15.6 bn for full-year 2022. In the month of February alone, the surplus reached USD 1.7 bn, the second highest monthly surplus ever (chart 1).

The surplus came with both exports and imports rising, with commodity prices rising faster than volumes (chart 2). Exports reached USD 5.7 bn in February, up 26% y/y, driven mainly by metals, but also natural gas, as the conflict in Ukraine pushed already-elevated prices higher. The increase in the value of natural gas exports stood out, as they nearly quintupled in year-on-year terms. Likewise, copper and gold exports continued to benefit from rising global prices.

Agro-industrial exports, which are currently Peru's second largest export sector after mining, rose a strong 23% y/y, this time on volume more than prices, which also increased, led by blueberries, grapes, and avocados. In the case of agro-industrial goods, currently in the high-yield phase of their multi-year cycle, higher prices are tied to cost increases such as fertilizers. Textile goods also performed well, up 24% y/y, benefiting mainly from greater demand from the US, which has been reducing its imports from China as consequence of the ban on cotton products imported from the province of Xinjiang due to accusations of labor forced taxes on the Uyghur ethnic minority.

The other side of the equation, imports, amounted to USD 4.0 bn in the month of February. Although this represented a 14% y/y increase, it was the lowest monthly import value since June 2021. Higher fuel purchases, up 73% y/y, was the main driver, evidently the result of an accelerated rise in the price of global fuels in the wake of the Ukraine conflict. Industrial supplies rose 25% y/y, reflecting before the higher prices of steel and fertilizers. In contrast, capital goods imports dropped 8%. This is worrisome, as it ratifies our concerns over declining private investment due to the domestic political turbulence.

—Pablo Nano

Chart 1

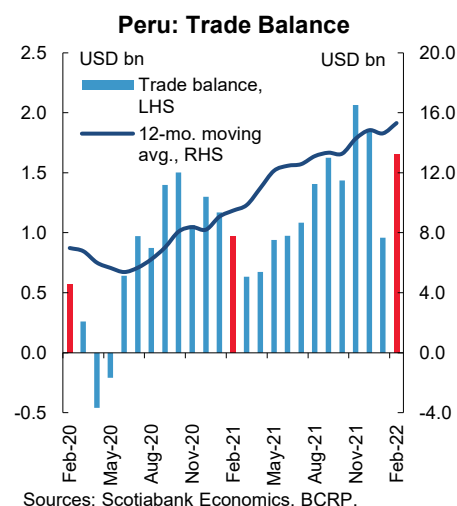
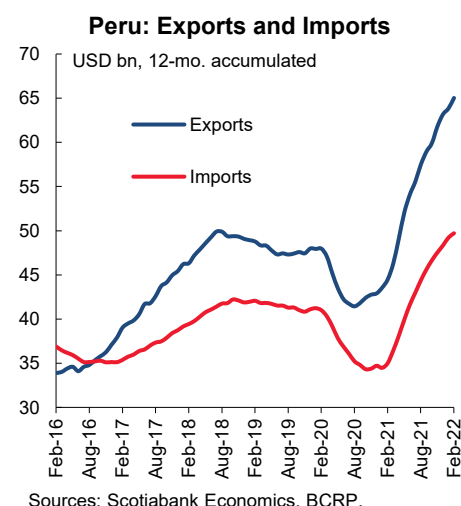


Chart 2



April 11, 2022

II. Authorities seek to counter inflation through tax exemptions

Congress approved legislation on April 7 to exempt a number of key staple goods from paying the 18% sales tax. The legislation mirrors a similar bill sent by the Executive, so should get the government go-ahead in short order. Goods that will be exempt when the law goes into effect on May 1, include chicken, eggs, milk, meat, wheat, pasta, and sugar. Although the measure is temporary in principle, lasting only until year-end, one wonders just how easy it will be to reinstate the tax later, as it will entail an unpopular jump in prices. Based on government figures, we estimate that the fiscal impact from lower revenue will be in the vicinity of 0.3% of GDP for 2022.

—Guillermo Arbe

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