

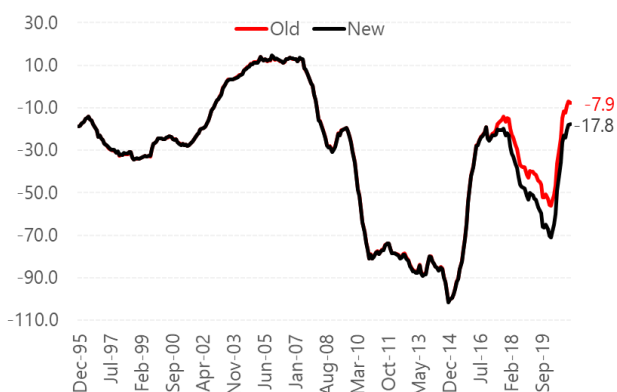
SAME SONG, DIFFERENT KEY

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- **The USD4.0 billion deficit registered by the Brazilian current account in March 2021 topped our estimate (USD2.2 billion deficit) as well as the market’s median projection (USD2.7 billion deficit) on the heels of a methodological change in the trade balance statistics.** Indeed, there has been a downward shift in the current account balance since mid-2017 on a 12M-to-date basis, stemming from an upward review in imports in the period, **but the fact remains that the current account balance continues to improve.**
- Regarding the financial account, although the volume of direct investments in the country (DIC) fell a tad short of our estimate (USD6.9 billion versus USD7.5 billion, respectively), it still shows that the country should not face problems in meeting its external financing needs.
- **All in all, we continue see the sturdiness of the Brazilian balance of payments as an insulating factor against uncertainties stemming from the fiscal front.**

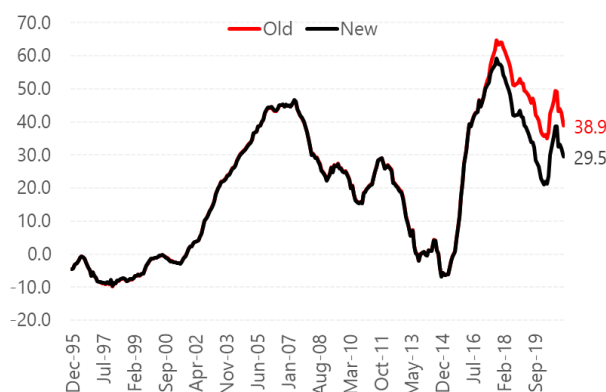
In early April 2021, the Foreign Trade Secretariat announced methodological enhancements in foreign trade data, resulting in a larger/smaller volume of imports/exports than previously thought. Consequently, the trade balance got thinner, which was the main reason behind the negative surprise related to the current account deficit in March 2021. While we had forecast that it would have reached USD2.2 billion last month, the actual imbalance was nearly twice as high (USD4.0 billion), thus leading to USD17.8 billion deficit on a 12M-to-date basis. The level is nearly USD10.0 billion lower than it would be in the previous time series. However, we think the dynamics of improvement will not be altered, especially given the constructive outlook for exports.

Figure 1: Current Account Balance (USD billion, 12M-to-date)



Sources: Brazilian Central Bank, Santander

Figure 2: Trade Balance (USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

There were no changes in other important components of the current account balance (services and primary income accounts), which came in line with our expectation. More importantly, these have continued to shrink on a 12M-to-date basis, underpinning Brazil’s current account balance pro-cyclical nature. That is, given our expectation for a gradual economic recovery in the coming years, we do not anticipate severe deterioration in the current account balance anytime soon.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE ATTACHED.

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Figure 3: Services account (USD billion, 12M-to-date)

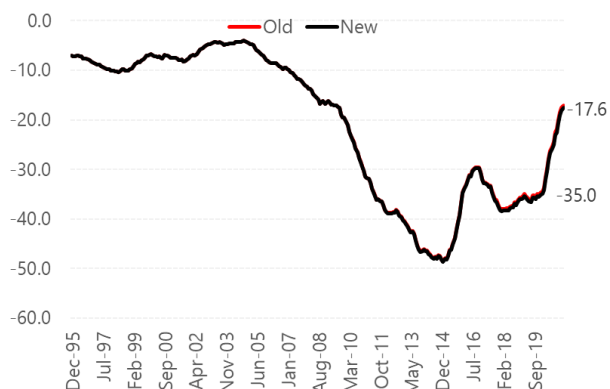
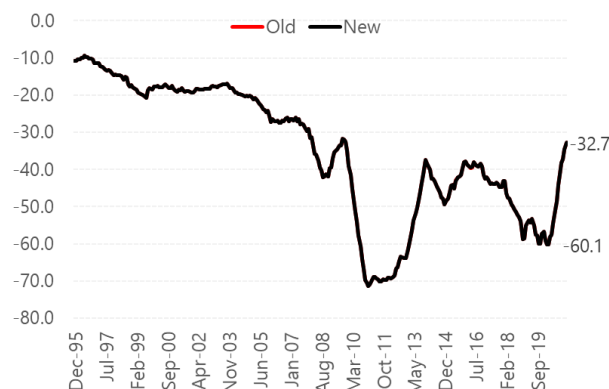


Figure 4: Primary income account (USD billion, 12M-to-date)



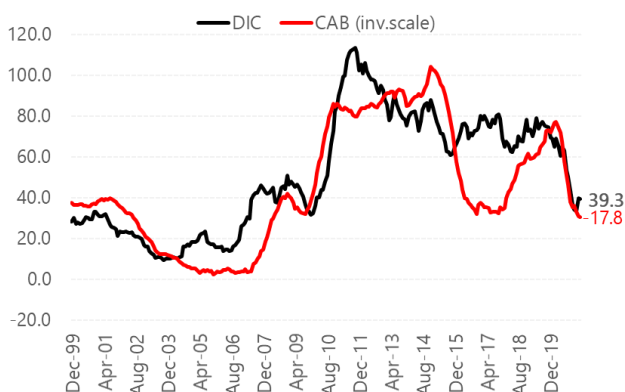
Sources: Brazilian Central Bank, Santander.

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In addition to the current account balance's favorable signs, we also saw continued improvement in key resources that fund Brazil's external financing needs. Although lower than our estimate (USD6.9 billion versus USD7.5 billion), the volume of direct investments in the country (DIC) continued to recover, thus buttressing the perception that the Brazilian balance of payments has lately played an insulating role. Incidentally, that was a counterweight for the deceleration we observed in foreigners' acquisitions of Brazilian financial assets in the domestic market. For the first time since June 2020, we witnessed an outflow in this item, which coincided with the uncertainties stemming from the budget approval last month. Preliminary data indicate that we should see a balanced result in April 2021, as this stalemate has been solved.

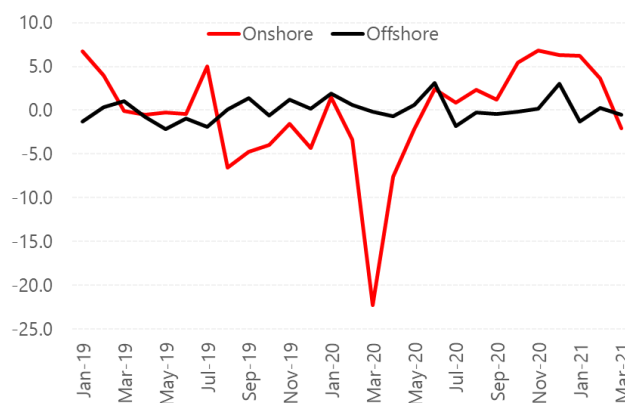
All in all, despite the initially negative impression spurred by today's release, we believe that the dynamics of the Brazilian balance of payments remain fairly constructive.

Figure 5: Current account balance vs. Direct investment in the country (USD billion, 12M-to-date)



Sources: Brazilian Central Bank, Santander.

Figure 6: Foreigners' acquisition of Brazilian financial assets (USD billion, monthly flows)



Sources: Brazilian Central Bank, Santander.



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