# MACRO BRAZIL

February 24, 2023

## DATA ANALYSIS – BALANCE OF PAYMENTS

## SAME OLD, SAME OLD

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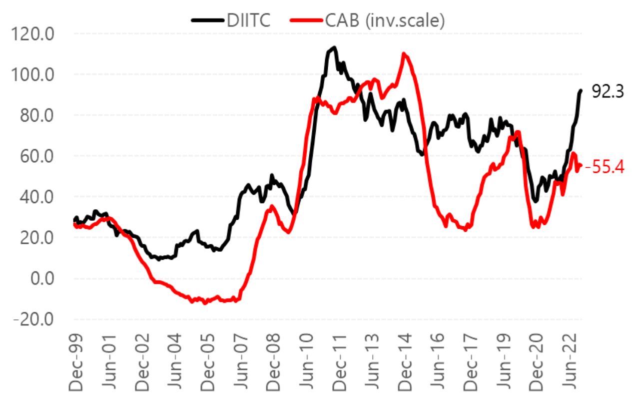
- **The Brazilian Central Bank (BCB) today released January balance-of-payments (BoP) data, which revealed a monthly current account deficit of USD8.8 billion, a figure worse than the market median estimate, but close to our projection (deficits of USD8.2 billion and USD9.0 billion, respectively). As a result, we calculate the 3MMA-saar gauge improved to -USD54.7 billion from -USD63.8 billion in December. The January figure, which was also better than the one registered a year ago (-USD9.4 billion), led the 12-month current account deficit to reach USD55.4 billion compared with -USD56.0 billion in December's release.**
- **Remittances of profits and dividends in January 2023 topped our estimate, coming in much higher than suggested by preliminary figures provided by the BCB last month, but the deficit in the services account fell short of what we expected and offset that influence (the trade surplus was in line with our estimate).**
- **In turn, we saw the volume of direct investments in the country reaching USD6.9 billion last month, a reading lower than what we anticipated (USD8.0 billion) based upon preliminary figures provided by the BCB. Nonetheless, the figure was better than a year ago (USD5.1 billion), thus keeping 12-month rolling volume on an upward trend, reaching USD92.3 billion last month. In other words, the country continued to comfortably meet its external financing needs.**
- **In addition to direct investment inflows, we witnessed foreigners purchasing a sizeable amount of assets in the domestic market (USD4.2 billion) for the fourth consecutive month, which also reinforces our perception that the Brazilian external position is not among markets' list of concerns. In addition, Brazilian investors repatriated money from abroad, thus ending a three-month streak of outflows, which could indicate, in our opinion, more local confidence regarding the outlook for the policies of the new administration.**
- **All in all, we think that the January BoP data reinforces our assessment that the current account deficit is running at manageable levels and that the financial account has a favorable outlook. Hence, we think a constructive view of the Brazilian external position is likely to continue offering partial insulation from international jitters.**

The release of the figures for Brazilian balance-of-payments data for January showed a current account deficit in line with our estimate, as the actual number stood at -USD8.8 billion and we were anticipating a USD9.0 billion gap (market median estimate was -USD8.2 billion). As a result, the current account gap receded to USD55.4 billion in 12-month terms (or -2.8% of GDP). Although the headline figure nearly matched our estimate, we saw larger remittances of profits and dividends than we had calculated based upon preliminary figures provided by the BCB in the middle of last month. In our view, the high volume of remittances is still linked to fears of potential changes in tax rules regarding these operations. However, we believe remittances are likely to lose steam this year due to the economic slowdown that we expect to materialize soon owing to the lagged effects of prior interest rate hikes.

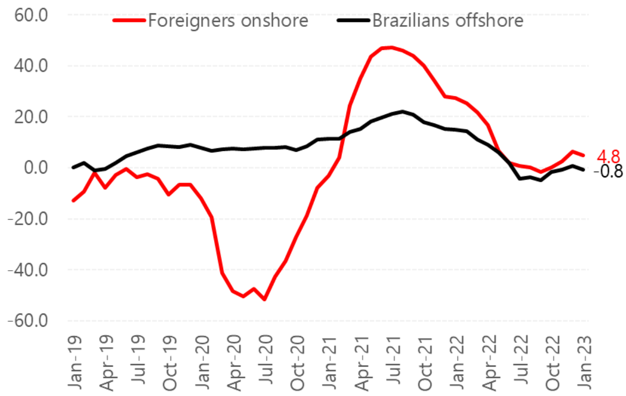
In contrast with the sizeable remittances, we witnessed a smaller deficit in the services account, stemming chiefly from positive results in deals related to construction and architecture assistance — which had been negative in the previous reading— but also from marginally better results in other of its components. Finally, the trade surplus registered last month matched what we anticipated. The expected economic slowdown we mentioned before is likely to weigh on domestic income growth and curb imports ahead, in our opinion. Moreover, given our expectations that commodity prices will remain at historically favorable levels and that external demand for Brazilian products will be robust, we expect sizeable trade surpluses in the coming years, which will likely contribute positively to the current account balance. In other words, we continue to see favorable prospects for the Brazilian current account balance.

**Figure 1. Current Account Balance vs. Direct Investment in the Country (USD billion, 12m)**




Sources: Brazilian Central Bank, Santander.

**Figure 2. Portfolio Investments – Selected Items (USD billion, 12m)**




Sources: Brazilian Central Bank, Santander.

In addition to the constructive backdrop for the current account balance, it is also important to note that direct investments in the country have continued to flow fairly freely. Although the USD6.9 billion recorded last month fell short of what we calculated (USD9.0 billion) based upon preliminary figures provided by the BCB, the amount amassed in 12-month terms climbed to USD92.3 billion (4.8% of GDP), thus extending its upward trend and reaching the highest level observed since 2012. We also highlight that the volume of foreign portfolio investments in the domestic market was positive in January (for the fourth month in a row), with net inflows in fixed income and the equity market.

In our view, this is a sign of foreigners' eagerness to take advantage of depressed prices of Brazilian financial assets, which have been hit by uncertainties regarding the future of economic policy from 2023 onward. In addition, we saw the resumption of the repatriation of money to the country, putting an end to a three-month streak of outflows, as Brazilian portfolio investments abroad declined by USD0.9 billion in the period. We think the foreign inflows continue to indicate an appetite for Brazilian financial assets at the current levels, which we believe has begun to lure Brazilian capital that was parked abroad. Hence, in our view, data indicates the Brazilian economy continues to be in a comfortable situation regarding its external source of funding, which we expect will keep the Brazilian balance of payments off the radar of market concerns.

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