Brazil Flash

Trade balance deterioration weakens the current account

The current account deficit was equal to USD 7.1bn in January (17%m/m; 27%y/y), the biggest monthly deficit ever. The increase in the deficit was driven by a sharp worsening of the trade balance and by very significant deficits in both service and income accounts. On the other hand, external funding continued to be very favourable: FDI remained strong and portfolio inflows picked up in January.

- **The current account deficit reached 2.2% of GDP, the highest since May of 2011, …**

  Imports outperformed exports in January (18%y/y versus 6%y/y) and the trade balance displayed a deficit of USD 1.2bn, the largest since 1998. The income and services deficits, together, amounted to USD 5.9bn (below the USD 7.0bn average observed last year). The current account deficit, therefore, reached USD 7.1bn in January. In yearly terms, the current account deficit increased to USD 54bn, or 2.2% of GDP. The (expected) deterioration of the current account was accompanied by the expansion of capital inflows. FDI inflows reached USD 5.4bn in January and now accumulate USD 69bn –or 2.8% of GDP- in the last 12 months. In addition, portfolio inflows benefited from a reduction in global risk aversion and climbed to USD 5.0bn in the month, significantly more than the USD 2.1bn average of 2011, and in sharp contrast to the series of outflows observed in the end of the year. The strength of portfolio inflows in January is, actually, one of the factors behind the appreciation of the real in the period (from 1.86 reais per dollar in the end of December to 1.75 in the end of January).

- **… and it should continue trending up till it breaks the 3.0% mark by the end of the year**

  Even though we expect trade balance to revive along the year, trade balance will not repeat 2011 performance, when exports were USD 29bn higher than imports. More precisely, we expect trade surplus to reach not much more than USD 10bn this year due to a decline in the terms of exchange. The trade deterioration will take some support off external accounts and will pave the way for the current account deficit to reach more than 3.0% of GDP by the end of the year. As the data for January suggests, foreign capital should continue flowing into the country, which would provide more than enough funding for current account deficits, but also would add appreciatory pressures on the real.

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