Balance of Payments Projections

The projections for the 2004 balance of payments published in this Inflation Report were updated in relation to those issued in the previous Report, incorporating the results registered up to August and the effects of the calculation of the stock of external indebtedness, based on the June position. This box presents the first projections for the results of external accounts in 2005.

The forecast for the current account surplus in 2004 was expanded to US$6.7, or 1.2% of GDP, compared to the previous projection of US$2.5 billion. Basically, this increase was a consequence of strong growth in exports, which is expected to continue through the final months of the year.

Foreign sales accumulated in the year up to August came to US$61.4 billion, with a daily average of US$365.2 million or 33.2% more than that registered in the same period of 2003. When one analyzes this result together with the partial results for September, in light of settlements of export-related exchange contracting operations and the seasonal nature of the series, the value projected for exports in the year was revised upward from US$83 billion to US$90 billion. Imports accumulated up to August came to US$39.4 billion, with a daily average of US$234.5 million or 28.1% more than in the same period of 2003. The projection for imports in 2004 was also revised upward from US$57 billion to US$60 billion. Consequently, the trade surplus is expected to close at US$30 billion or US$4 billion more than forecast in the June Report.

Net payments of interest and net remittances of profits and dividends projected for the year were maintained at US$13.6 billion and US$7.2 billion. In

Uses and sources

US$ billion

Itemization	2003 Aug	2003 Jan-Aug	2003 Year	2004 Aug	2004 Jan-Aug	2004 Year[1/]	2005 Year[1/]
Uses	-2.8	-15.5	-23.1	-0.6	-14.3	-28.1	-30.1
Current account	1.2	2.5	4.1	1.8	8.0	6.7	0.1
Amortizations ML-term[2/]	-4.1	-18.0	-27.2	-2.4	-22.3	-34.8	-30.2
Securities	-3.2	-6.9	-10.3	-1.5	-11.3	-18.9	-16.9
Paid	-2.0	-5.3	-7.9	-1.1	-10.7	-18.3	-16.0
Refinanced	-1.2	-1.2	-1.2	0.0	0.0	0.0	0.0
FDI conversions	0.0	-0.4	-1.1	-0.3	-0.6	-0.6	-0.9
Suppliers' credits	-0.1	-1.2	-2.0	-0.2	-1.5	-2.3	-2.1
Direct loans[3/]	-0.7	-9.9	-15.0	-0.7	-9.4	-13.6	-11.2
Sources	2.8	15.5	23.1	0.6	14.3	28.1	30.1
Capital account	0.0	0.3	0.5	0.1	0.5	0.7	0.0
FDI	1.0	5.7	10.1	6.1	11.7	17.0	14.0
Domestic securities[4/]	0.3	1.1	3.1	-0.3	0.4	1.0	3.0
ML-term disbursem.[5/]	2.7	14.2	23.0	0.9	12.6	21.6	24.4
Securities	1.7	6.7	11.8	0.2	6.4	11.5	13.7
Supliers' credits	0.1	0.7	1.1	0.1	0.6	1.0	1.3
Loans[6/]	1.0	6.7	10.1	0.6	5.6	9.1	9.4
Brazilian assets abroad	0.8	-2.1	-7.2	-7.0	-8.2	-10.6	-14.4
Loans to Bacen	0.0	8.2	4.8	0.0	-2.7	-4.3	-6.7
Other[7/]	-1.6	-2.3	-2.7	0.4	0.9	0.2	0.0
Reserve assets	-0.4	-9.5	-8.5	0.5	-1.0	2.5	9.8

1/ Forecast.
2/ Registers amortization of medium and long term supliers' credit, loans and securities placed abroad minus refinancing and discounts. Excludes amortizations referring to loans to Banco Central and intercompany loans.
3/ Registers amortizations loans borrowed from foreign banks, buyers, agencies and multilateral organizations.
4/ Includes foreign investment in equity and debt securities traded in the domestic market.
5/ Excludes intercompany loans disbursements.
6/ Includes multilateral and bilateral financing and buyers' credits.
7/ Registers net values of bond swaps, short-term securities, short-term trade credit, financial derivatives, nonresident deposits, other liabilites and errors & omissions.

the same way, net outlays in the service account were held to US$5.8 billion. Current unrequited transfers, in their turn, were revised to a net inflow of US$3.2 billion, compared to US$3 billion in the previous projection.

The annual updated projection for the net result of the balance of payments financial account, US$9.9 billion, foresees remittances greater than forecast in the June Report. This result reflects the revision of the rates of rolling over the private sector medium and long-term external debt and lesser net investments in stocks.

Foreign direct investments accumulated a total of US$11.7 billion in the first eight months of the year, 105% more than in the same period of 2003. Basically, the revision of this projection from US$12 billion to US$17 billion incorporates the result registered in the month of August, US$6.1 billion, resulting from the operation of an international stock swap by the food and beverage sector.

Private sector rollover rates were revised to 70% in the year, with 60% for papers and 100% for direct loans. The review of the medium and long-term external debt amortization schedule for 2004, based on the new stock calculated as the June position, resulted in a reduction of US$1.9 billion in previously programmed commitments, closing at US$34.8 billion. Calculation of the rate of rolling also includes the forecast that put/call options worth US$1 billion will be exercised. Of this total, US$587 million occurred in the period from January to August. Since demand for external financing will be less, even when one views net amortizations, the indebtedness of the private sector is not expected to exert pressures on balance of payments financing in 2004. In contrast to this, these net amortizations will result in a reduction of the private external debt stock and thereby contribute to continued sharp improvement in external vulnerability indicators.

Balance of payments projections for 2004 also include net inflows of US$1 billion in portfolio investments; constitution of assets abroad by banks in the amount of US$0.9 billion, with repercussions on the exchange position of banks, which is expected to close the year in a short position of US$1.9 billion; inflows of US$4 billion in bonds of the Republic; amortizations of

US$4.3 billion with the International Monetary Fund (IMF); and equilibrium in short-term capital flows. The overall result of the balance will close with a positive US$2.5 billion result.

In this scenario, viewed in the context of the international liquidity concept, the year is expected to close with reserves of US$45.9 billion, representing a reduction of US$3.4 billion compared to the volume at the end of 2003. Net reserves, not affected by amortizations with the IMF, are expected to expand. Viewed under the prism of the Banco Central concept, reserves are estimated at US$22.5 billion, with growth of US$2 billion compared to 2003. According to what is determined in the MTE, net adjusted reserves – IMF concept – are expected to reach US$20.6 billion, with growth of US$3.3 billion in relation to December 31, 2003.

For 2005, the Banco Central projection points to a state of equilibrium in current transactions, as a result of a small trade surplus. Thus, exports are to expand by 5%, compared to the result expected for 2004, closing at US$94.5 billion and imports are forecast to increase by 16.7% to US$70 billion. The service account should generate net remittances of US$6.9 billion, compared to US$5.8 billion in 2004, primarily as a result of larger outflows in the transportation, financial services and equipment rental accounts. Net remittances of interest and profits and dividends are to remain stable, at the same time in which a slight alteration is expected in the revenues of current unrequited transfers, shifting from US$3.2 billion in 2004 to US$3 billion in the coming year.

The balance of payments financial account will continue in a deficit position in 2005, reflecting the rolling of 70% of private medium and long-term loans, compared to total medium and long-term amortizations of US$30.2 billion, with US$1 billion in exercises of put/call options and amortizations of US$6.7 billion with the IMF.

In 2005, net inflows of foreign direct investments are projected at US$14 billion, representing a reduction compared to 2004 and recovery when viewed against the 2003 figure of US$10.1 billion. In their turn, stock investments are expected to register net inflows of US$3 billion, a level higher than the amount projected for 2004. At the same time, the projection for issues of bonds of the Republic totals US$6 billion.

In this scenario, the 2005 balance of payments is fully financed, with the banking sector constituting assets worth US$10 billion abroad, in contrast to an exchange surplus registered in the period. The overall result of the balance of payments should remain positive, at a level of US$9.8 billion.

In the liquidity concept, international reserves are expected to decline in 2005, mainly as a result of payments to the IMF, closing at about US$36.1 billion. Following the Banco Central concept, net reserves should come to US$19.4 billion at the end of 2005, reflecting a reduction of US$3.1 billion compared to 2004. Net adjusted reserves, viewed under the IMF concept, are expected to reach US$18.3 billion, corresponding to a decline of US$2.3 billion using the same basis of comparison. It is important to underscore the fact that this projection regarding the reserve position does not take account of possible exchange market interventions by Banco Central while, in the same period, the balance of payments indicates a surplus of approximately US$10 billion in terms of the exchange market result.