Balance of Payments Projections

Table 1 – Uses and sources

US$ billion

	2007			2008		
	May	Jan-May	Year	May	Jan-May	Year[1/]
Uses	-2.0	-18.9	-36.6	-1.7	-23.0	-51.6
Current account	-0.2	1.9	1.5	-0.6	-14.7	-21.0
Amortizations ML-term[2/]	-1.9	-20.8	-38.1	-1.0	-8.3	-30.6
Securities	-1.3	-9.0	-20.6	-0.3	-5.1	-17.1
Paid	-1.3	-8.8	-19.9	-0.3	-5.1	-17.1
Refinancing	0.0	0.0	0.0	0.0	0.0	0.0
FDI conversions	0.0	-0.2	-0.7	0.0	0.0	0.0
Suppliers' credits	-0.1	-0.6	-1.5	-0.1	-0.7	-1.9
Direct loans[3/]	-0.5	-11.2	-16.1	-0.6	-2.5	-11.6
Sources	2.0	18.9	36.6	1.7	23.0	51.6
Capital account	0.1	0.4	0.8	0.1	0.3	0.9
FDI	0.5	10.5	34.6	1.3	14.0	35.0
Domestic securities[4/]	3.8	13.3	39.8	1.4	12.7	25.0
ML-term disbursem.[5/]	1.8	12.7	36.0	3.1	14.8	34.7
Securities	1.0	8.8	18.3	1.2	4.5	12.7
Supliers' credits	0.1	0.4	1.6	0.2	1.1	4.2
Loans[6/]	0.7	3.4	16.1	1.6	9.2	17.8
Brazilian assets abroad	-2.3	-9.8	-25.4	-0.1	-11.6	-39.7
Other[7/]	13.6	42.7	38.4	0.0	9.4	17.0
Reserve assets	-15.5	-50.9	-87.5	-4.0	-16.6	-21.3

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 IMF 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.

Projections for the external accounts published in the March Inflation Report have been updated by taking into account recent statistics and the impact of the new stock of external debt calculated for the month of March, including the new schedule for amortization and interest payments.

The forecast for the current account deficit in 2008 moved upward from US$12 billion to US$21 billion, in view of the worse than expected results observed in the first months of the year, the decrease of US$2 billion in the expected trade surplus and the increase of US$7 billion in the forecast deficit for the services and income account.

With regard to the balance of trade, the estimated annual growth of exports was maintained at 13.3%, while the rise in imports, in line with the upward trend observed in domestic demand, was revised to 30.2%. Thus, the trade surplus estimate was revised to US$25 billion, as compared to US$27 billion in the March Inflation Report.

The deficit in the services account is estimated at US$16.3 billion for 2008, for a US$1.9 growth compared to the previous estimate. This result is due to an expected increase in the deficit in the transportation account, to US$6.5 billion, as a consequence of expected enhanced dynamics in the foreign trade and a rising in sea freight on a global scale. The forecast for the deficit on international travel was also raised from US$4 billion to US$5 billion, based on the expansion of net outflows occurred so far, a movement consistent with the increase in available income and the nominal exchange rate.

The forecast for 2008 net interest payments was slightly raised, to US$4.9 billion, reflecting the new scheme for payments of interest on foreign debt and the expected trajectory for interest rates and for Brazilian assets abroad. Interest revenues are expected to mount to US$11.9 billion, of which US$7.8 billion related to earnings on international reserves, while expenditures are forecast at US$16.7 billion, based on the profile of the stock of external debt calculated in March 2008.

The most significant revisions in the current account occurred under the heading profits and dividends. By analyzing its performance in the year, one may observe that the additional flows of US$7.5 billion are due mainly to remittances of direct investment income, US$5.8 billion. Nearly two thirds of this expansion was concentrated on the financial, automotive vehicles and metallurgy sectors. The estimated value for net remittances of profits and dividends has been revised from US$24 billion to US$29 billion, the same level reached by the 12-month accumulated net outflows in the month of May, reflecting the expected of stabilization of these flows at current levels. The performance of expenditures continues to be influenced by the growth in the stock of foreign investments in the country, by the business profitability, in contrast to that observed in mature economies, and by the trajectory of the exchange rate. It is reasonable to attribute a pro-cyclical nature to this component of the current accounts, since remittances tend to intensify at periods of economic heating and to diminish in periods of economic accommodation, thus establishing an endogenous adjustment factor for the current account in relation to the domestic economic cycle.

The balance of payments financial account is expected to register a surplus of US$41.4 billion, US$17 billion higher than the March forecast, reflecting the improvements observed in the first five months of the year and the expected rise in the inflows of foreign direct and portfolio investments, the occurrence of net disbursements in other investments and expansion of the commercial banks' assets abroad. International reserves should close the year at US$202.6 billion, an increment of US$22.3 billion as compared to the end of 2007.

Table 2 – Balance of payments – Market

US$ billion

Itemization	2007			2008		
	May	Jan-May	Year	May	Jan-May	Year[1/]
Current account	-0.6	0.6	-4.8	-1.3	-17.8	-28.8
Capital (net)	17.8	54.4	94.1	2.2	33.2	58.8
Foreign direct investment	0.5	10.5	34.6	1.3	14.0	35.0
Portfolio investment	3.8	13.3	39.8	1.4	12.7	25.0
Medium and long term loans	-0.5	-10.4	-9.8	0.4	1.6	-3.7
Trade credits – Short, medium and long term	12.2	37.1	36.1	-0.1	11.8	24.1
Banks	9.5	23.6	18.6	1.6	3.0	1.8
Other	2.7	13.6	17.5	-1.7	8.8	22.3
Brazilian investment abroad	0.2	-3.1	-14.8	-1.7	-9.3	-22.9
Other	1.6	6.9	8.3	0.8	2.5	1.3
Financial gap	17.2	54.3	89.3	0.9	15.4	30.0
Banco Central net intervent.	-14.6	-47.5	-78.6	-2.5	-13.2	-13.2
Bank deposits	-2.5	-6.8	-10.7	1.6	-2.2	-16.8

1/ Forecast.

As a result of the process of internationalization of Brazilian companies, which has accelerated in 2008, the forecast for the remittances of Brazilian direct investments abroad was raised from US$10 billion to US$18 billion, while foreign direct investment inflows are estimated at US$35 billion for the entire year, a result slightly higher than the record set in 2007 and higher than the forecast of US$32 billion calculated in the March 2008 Inflation Report.

The forecasts for medium and long-term external debt repayments were revised upward from US$28.7 billion to US$30.6 billion, reflecting the March profile of the stock of external debt, the forecast performance for the exercise of put/call options and the incorporation of the impact of repurchase operations carried out by the Treasury in the first four months of the year.

Projected medium and long-term investments in domestic stocks and papers were revised upward to US$25 billion, an increase consistent with the changes occurred in the first five months of the year and the expectations of investment grade ratings to be granted by two of the three largest international risk assessment agencies. Rollover rates for the medium and long-term private debt were maintained at 100%.

The total banking sector assets abroad are expected to increase US$16.8 billion in 2008, compared to US$5.6 billion estimated in March, primarily as a result of the rise in direct and foreign portfolio investments. Therefore, the balance of payments is expected to register a surplus of US$21.3 billion in 2008, compared to the US$13.4 billion March estimate. This result is consequent upon the incorporation of net purchases of foreign currency carried out by the Central Bank on the market in the first five months of the year and supposes that the Central Bank will no longer carry out additional currency purchases on the market and that the Treasury will fully serve its foreign debt by raising funds in the market. Therefore, the performance of the external accounts is expected to permit an adequate financing of the balance of payments in 2008.

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