

Balance of Payments Forecasts

The balance of payments forecasts for 2008 and 2009 were revised in relation to those in the September Inflation Report. This was due to the repercussions of a deepening crisis of the financial markets both in terms of world economic activity level, impacting the balance of payments result, and of liquidity conditions, affecting the prospects concerning its financing conditions. Besides incorporating the new international outlook, revised forecasts mirror the external results observed in the latest months and the modifications in the external debt service compatible with its stock in September. Additionally, Central Bank interventions in the foreign exchange market and repurchases of sovereign external debt by the National Treasury, carried out up to November.

The current transactions deficit in 2008 was revised upward from US\$28.8 billion, in the previous “Inflation Report”, to US\$29.6 billion. One should also highlight the revision of the trade surplus forecast, from US\$25 billion to US\$23.5 billion. Additionally, the forecasts for net expenditures with interest and international travel were reduced.

Forecasts for the debt in current transactions in 2009 were reduced from US\$33.1 billion to US\$25 billion.

The balance of trade surplus reflected a 3.5% decrease in exports and a 1.4% growth in imports, dropping from US\$23.5 billion, in 2008, to US\$14 billion, a forecast US\$3 billion lower than that indicated in the previous report and consistent with the expectations of recession in mature economies, reduction in commodity prices and decline in the Gross Domestic Product (GDP).

Forecasts for net interest expenditures next year expanded from US\$6.7 billion, in the previous

Table 1 – Uses and sources

	US\$ billion						
	2007			2008			2009
	Nov	Jan- Nov	Year	Nov	Jan- Nov	Year ^{1/}	Year ^{1/}
Uses	-3.3	-33.1	-36.6	-3.9	-45.1	-53.0	-51.9
Current account	-1.3	1.9	1.5	-1.0	-25.8	-29.6	-25.0
Amortizations ML-term ^{2/}	-2.0	-35.0	-38.1	-2.9	-19.3	-23.3	-26.9
Securities	-1.1	-18.1	-20.6	-1.6	-10.0	-12.8	-11.1
Paid	-1.1	-17.6	-19.9	-1.6	-10.0	-12.8	-11.1
FDI conversions	0.0	-0.5	-0.7	0.0	0.0	0.0	0.0
Suppliers' credits	-0.2	-1.3	-1.5	-0.2	-1.6	-1.7	-3.1
Direct loans ^{3/}	-0.7	-15.5	-16.1	-1.1	-7.7	-8.8	-12.7
Sources	3.3	33.1	36.6	3.9	45.1	53.0	51.9
Capital account	0.1	0.7	0.8	0.1	1.0	1.1	1.0
FDI	2.5	33.7	34.6	2.2	36.9	40.0	30.0
Domestic securities ^{4/}	-0.5	31.0	39.8	-2.0	6.8	5.5	-3.0
ML-term disbursements ^{5/}	3.8	32.9	36.0	1.2	29.2	30.8	26.5
Securities	0.7	17.0	18.3	0.3	7.2	7.8	6.2
Suppliers' credits	0.2	1.4	1.6	0.1	2.1	2.4	4.1
Loans ^{6/}	2.9	14.5	16.1	0.7	19.9	20.5	16.3
Brazilian assets abroad	0.9	-24.3	-25.4	-1.3	-27.7	-22.9	15.2
Other ^{7/}	2.9	43.4	38.4	-3.1	7.3	6.1	0.0
Reserve assets	-6.4	-84.4	-87.5	6.8	-8.5	-7.5	-17.9

1/ Forecast.

2/ Registers amortization of medium and long-term suppliers' credit, loans and securities placed abroad minus refinancing and discounts. Excludes amortization referring to loans to IMF and intercompany loans.

3/ Registers amortizations of loans from foreign banks, buyers, bilateral agencies and multilateral organizations.

4/ Includes foreign investment in equity and debt securities traded in the domestic market.

5/ Excludes disbursements of intercompany loans.

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, deposits of non-residents, other liabilities and errors & omissions.

report, to US\$9 billion, mirroring the decrease, from US\$9.1 billion to US\$7.1 billion – of which US\$5.2 billion refer to interest earning on the country's international reserves, on interest revenues over Brazilian assets abroad, a decrease that evinces the decline in the international interest rates and the reduction of these assets. The expenditures, translating the debt stock position in September, fell from US\$17.6 billion to US\$16.1 billion.

Forecasts for the result in current transactions for 2009 considers the revision, from US\$30 billion to US\$20 billion, in the estimate concerning net remittances of profits and dividends, a drop consistent with the scenario of depreciation of the real, reduction of companies' profitability and strong losses experienced by foreign portfolio investors, which are mirrored in the reduction of the investment stock. In this context, one should mention that the position of foreign investors at the São Paulo Stock Exchange Index (Ibovespa) fell from US\$200.1 billion in May to US\$70.6 billion at the end of November. The unilateral transfers for 2009 were lowered from US\$4 billion, forecasted in September, to US\$2.5 billion, as a result of the recession in mature economies, main suppliers of these resources.

The performance of the financial account in the next year mirrors a scenario which considers reduction of the net inflows of Foreign Direct Investments (FDI). Additionally, it is forecasted net remittances of foreign portfolio investments in 2009. Also significant to these scenarios the assumption of 75% rollover rate of the medium- and long-term private sector external indebtedness leading to a net amortization of the external debt.

The internationalization process of the Brazilian companies should be impacted by the international crisis's effects. In this context, there will not be net remittances of Brazilian direct investments abroad, and after registering the record level of US\$28.2 billion, in 2006, the stock should remain stable in 2009. Foreign direct investments should total US\$40 billion in 2008; a record for annual values. For 2009, the forecast was reduced to US\$30 billion.

The external debt amortizations of medium- and long-term in 2008 were reduced from US\$25.7 billion

Table 2 – Balance of payments – Market

Itemization	US\$ billion						
	2007			2008			2009
	Oct	Jan- Oct	Year	Oct	Jan- Oct	Year ^{1/}	Year ^{1/}
Current account	-1.9	-2.7	-4.6	-1.6	-32.4	-36.1	-30.2
Capital (net)	5.7	89.6	93.9	-6.6	37.0	32.2	26.8
Foreign direct investment	2.5	33.7	34.6	2.2	36.9	40.0	30.0
Portfolio investment	-0.5	31.0	39.8	-2.0	6.8	5.5	-3.0
Med. and long term loans	0.4	-9.2	-9.9	-1.8	2.7	-0.7	-4.9
Trade credits – Short, medium and long term	5.2	39.4	35.8	-1.8	17.1	16.9	4.6
Banks	3.5	21.7	18.6	-2.6	8.2	11.7	3.6
Other	1.8	17.8	17.2	0.7	8.8	5.2	1.0
Brazilian invest. abroad	-1.0	-14.4	-14.7	-2.0	-23.7	-26.5	-0.9
Other	-1.1	9.1	8.3	-1.2	-2.7	-3.0	1.0
Financial gap	3.8	86.2	89.3	-8.2	4.6	-3.9	-3.4
Banco Central net interv.	-5.7	-76.3	-78.6	7.5	-0.7	0.3	-12.7
Bank deposits	1.9	-9.9	-10.7	0.7	-4.0	3.6	16.1

1/ Forecast.

to US\$23.3 billion. For 2009, the forecast was revised to US\$26.9 billion. Additionally, the assumption of rollover rates for the external indebtedness was reduced from 100% to, as already mentioned, 75%, showing net amortization of external loans.

The forecast for 2008, related to foreign investment net inflows of medium- and long-term domestic securities was reduced, significantly, from US\$22 billion, in the September Inflation Report, to US\$5.5 billion, in line with the results recently registered and with the assumption of maintenance of the financial stress scenario. For 2009, in line with the prospects of persistent risk aversion and of maintenance of the other macroeconomic conditions, these net flows were revised from net inflow of US\$15 billion to net outflow of US\$3 billion.

The banking sector's assets abroad should decrease by US\$3.6 billion in 2008, against US\$0.6 billion forecasted in the September Inflation Report, having as forecasted, for 2009, returns of US\$16.1 billion, as compared to US\$7.4 billion in the previous forecast. The reduction of the banking sector's assets abroad shows the behavior of the foreign direct and portfolio investments and of the forecasted balance for the current transactions, evincing the banking sector's performance as foreign currency supplier to the non-financial private sector.

Regarding the international reserves, considering the liquidity concept, their position up to the end of 2008 should show growth of US\$26.5 billion as compared to the previous year, topping US\$206.8 billion. For 2009, it is forecasted an additional expansion of US\$5.2 billion as a result of the reserve earnings, with additional interventions not being forecasted. Considering the international reserves, in the cash concept, which incorporates the effects of the recent measures adopted by the Central Bank to supply liquidity in foreign currency, the reserves continue to turn in expansion in the year. The forecast presented in this Inflation Report shows the international reserves, in the cash concept, at US\$194.1 billion, to the end of 2008, expansion of US\$13.8 billion in relation to 2007. Towards the end of the following year, already repurchased all the lines and foreign currency loans, both concepts will even, reaching US\$212 billion.