Balance of Payments Forecasts

The impacts of the crisis endured by the world economy on the financial markets and on the international trade flows, have been more accentuated as of the final quarter of last year, are reflected on the recent performance of several accounts of Brazil's balance of payments. These adjustments, caused both by the world recession and the external credit restriction, result in sharp reduction of the current trade and of the net remittances of profits and dividends, indicating a declining trajectory of the deficit in current transactions as well as of net inflows of the financial account, with lesser FDI flows and net outflows related to the external debt service. Notwithstanding the intensity of the crisis and its effects, the conditions for financing the country's balance of payments remain adequate.

This box shows the forecasts for the 2009 balance of payments, which have been revised in relation to those shown in the December Inflation Report. Besides the impacts of the aggravating economic crisis, this new forecast considers the results observed in the latest months, the modifications to the external debt service consistent with its stock in December, the Central Bank's interventions in the exchange market already carried out and the repurchases of the sovereign external debt by the National Treasury, carried out up to February.

The deficit in current transactions for 2009 was revised from US$25 billion, in the previous report, to US$16 billion. The forecast for the trade surplus was upgraded by US$3 billion, totaling US$17 billion, reflecting respective reductions of 20.2% and 18.6% in the export and import forecasts, which came to total, in the order, US$158 billion and US$17 billion, in the year. These alterations are consistent with the

Table 1 – Uses and sources

US$ billion

	2008			2009		
	Feb	Jan-Feb	Year	Feb	Jan-Feb	Year[1/]
Uses	-3.1	-8.5	-50.7	-1.7	-6.4	-40.6
Current account	-1.9	-5.9	-28.3	-0.6	-3.3	-16.0
Amortizations ML-term[2/]	-1.2	-2.6	-22.4	-1.1	-3.0	-24.6
Securities	-0.8	-1.6	-12.4	-0.3	-1.4	-11.3
Paid	-0.8	-1.6	-12.4	-0.3	-1.4	-11.3
FDI conversions	0.0	0.0	0.0	0.0	0.0	-0,0
Suppliers' credits	-0.1	-0.2	-1.7	-0.2	-0.4	-1.1
Direct loans[3/]	-0.3	-0.7	-8.3	-0.5	-1.2	-12.2
Sources	3.1	8.5	50.7	1.7	6.4	40.6
Capital account	0.1	0.1	1.1	0.1	0.2	1.0
FDI	0.9	5.7	45.1	2.0	3.9	25.0
Domestic securities[4/]	1.8	-0.2	6.3	-0.8	-2.5	-10.0
ML-term disbursem.[5/]	2.7	5.9	31.6	1.2	3.4	24.4
Securities	0.6	2.0	7.8	0.1	1.4	6.8
Supliers' credits	0.2	0.5	2.2	0.1	0.3	3.2
Loans[6/]	1.9	3.4	21.6	1.0	1.7	14.3
Brazilian assets abroad	-1.9	-1.6	-22.4	-1.3	-1.3	12.9
Other[7/]	3.1	5.6	-8.0	0.6	0.6	0.0
Reserve assets	-3.6	-6.9	-3.0	-0.1	2.1	-12.7

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 liabilites and errors & omissions.

prospects of economic recession in the country's main trading partners, to the performance of commodity prices and to the deceleration of Brazil's GDP growth.

The service account should display a US$13.4 billion deficit in 2009, against the US$13 billion previous forecast, with emphasis on increases on net outflows under international travel, US$1 billion; other services, US$1 billion; and equipment lease, US$0.9 billion, partly offset by the improvement of US$2.5 billion forecasted for the transportation account. The new forecast for the annual deficit in services represent a reduction of US$3.3 billion compared to the previous year, as a result, especially, of cutbacks in deficits of international travel accounts, US$2.7 billion, and transportation, US$0.4 billion.

The forecast for net expenditures with interests reaches US$8.2 billion, against US$9 billion in the previous report. Estimated gross expenditures, based on the debt stock position in December and including the impact of declining international interest rates (Libor) on the share of the debt with floating charges, were lowered by US$0.8 billion, to US$15.3 billion, while revenues remained at US$7.1 billion, including US$5.2 billion related to the interest earnings on the country's international reserves.

Estimates on net remittances of profits and dividends, reflecting a scenario of declining companies' profitability in the country, exchange depreciation and reduction of the foreign investors' portfolio stocks, were revised from US$20 billion to US$15 billion. One should highlight that the stock of foreign investments at Bovespa dropped from the record level of US$200.9 billion, in May 2008, to US$70.6 billion, in November of that year, the end of 2009, closing at US$82.6 billion in the end of 2009.

The unilateral transfers were raised to US$3 billion, from a previous US$2.5 billion, estimated in December, a movement consistent with the account's performance in the latest months.

The forecast for a financial account surplus, estimated at US$42.3 billion, in December, was reduced to US$27.7 billion in this report. The performance of this account reflects, especially, the reduction of US$5 billion, in relation to the previous forecast, in the net inflows of Foreign Direct Investments (FDI), which after reaching the historical record of US$45.1 billion in 2008, should total US$25 billion in 2009.

The amortizations of the medium and long-term external debt, added with the expected amortizations of the new scheme of the external debt in December 2008, were reduced, from US$26.9 billion, in the previous forecast, to US$24.6 billion. For 2009, the forecast for the 75% rollover rate for the private sector's medium and long-term indebtedness has been maintained, highlighting that this forecast, at a level above the percentage observed in the latest months, considers a more stable scenario in the international financial markets in the second half-year.

The hypothesis that the process of internationalization of Brazilian companies should be impacted by the effects of the international crisis has been maintained. In this context, after registering a US$28.2 billion record in 2006, and US$20.5 billion in 2008, the Brazilian Direct Investments Abroad (BDIA) should face stability this year, with no modification imposed to this heading of last December Inflation Report. As a consequence, the net result between the FDI and IDB should top US$25 billion this year, against US$24.6 billion in 2008.

Table 2 – Balance of payments – Market

US$ billion

Itemization	2008			2009		
	Feb	Jan-Feb	Year	Feb	Jan-Feb	Year[1/]
Current account	-2.5	-7.2	-35.4	-1.5	-4.8	-21.2
Capital (net)	4.4	9.9	24.7	2.9	4.0	15.0
Foreign direct investment	0.9	5.7	45.1	2.0	3.9	25.0
Portfolio investment	1.8	-0.2	6.3	-0.8	-2.5	-10.0
Med. and long term loans	0.9	2.1	1.6	0.1	0.1	-4.4
Trade credits – Short, medium and long term	2.7	8.0	5.0	1.1	2.2	4.1
Banks	1.6	4.2	0.5	0.0	0.1	2.0
Other	1.1	3.8	4.5	1.2	2.1	2.1
Brazilian invest. abroad	-2.9	-4.4	-27.7	0.5	0.8	-0.9
Other	1.2	-1.2	-5.6	0.1	-0.5	1.1
Financial gap	2.0	2.8	-10.7	1.4	-0.8	-6.2
Banco Central net interv.	-3.0	-5.5	5.4	0.4	2.9	-7.6
Bank deposits	1.1	2.8	5.3	-1.8	-2.1	13.8

1/ Forecast.

For 2009, observing the trajectory of the latest months, an increase is forecasted in the net remittances of foreign portfolio investments in the country, from US$3 billion, in the last forecast, to US$10 billion in this Report.

The cutback in the assets of the banking sector abroad, which translates the behavior of the FDI and in portfolio and of the balance foreseen for the current transactions, evincing the banking sector performance as a supplier of foreign currency to the nonfinancial private sector, is forecasted at US$13.8 billion in 2009, against US$16.1 billion in the previous forecast. One should highlight that these returns on banking assets abroad are impacted by the repurchases of already contracted lines, which sum up to US$10.7 billion from April to December this year.

With reference to international reserves, considered in the concept of liquidity, their position at the end of 2009 should show a cutback of US$3.1 billion, compared to the previous year, coming to US$203.7 billion, against US$212 billion in the previous report. The principal alterations in the forecast result from the incorporation of cash sales, US$3.4 billion, from the performance of the heading "other", formed mainly by variations of prices and parities, – US$4.9 billion. In 2009, the forecast for interest revenues of US$5.2 billion as function of interest earnings on reserves is maintained, without any further interventions being forecasted. The international reserves on the cash basis, which disregard the stock of repurchase lines and foreign currency loans, should post expansion this year, US$7.9 billion, among other factors, given the returns on these lines. Thus, international reserves, on the cash basis, should close 2009 at US$201.7 billion.