External sector

5

The Brazilian economy's main external indicators, even evincing the importance of macroeconomic adjustment achieved in the latest years, especially the strengthening of the country's external position, with the objective to meet the turmoil in the international markets, moved on to reflect the adverse conditions of the world economy.

The country-risk which, in early 2008, closed at 221 b.p., reached 179 b.p. at the beginning of June, the lowest level in the year, turning to represent a growing trajectory as of the third quarter. After reaching the maximum level, in the year, from 688 b.p. on October 23, the indicator started reflecting the relative accommodation on the markets, closing 2008 at 428 b.p., a level similar to the one registered in mid-March 2009.

The foreign exchange domestic market, following the US$17.2 billion surplus verified during the three first quarters, began making explicit the external liquidity restriction and the foreign investors' necessity to cover losses incurred in other economies. The sharp remittances registered in the last quarter of the year conditioned, therefore, the exchange deficit of US$983 million observed in 2008.

Even with the deterioration occurred in the last quarter, the balance of payments showed, in 2008, the eighth consecutive positive result, registering surpluses of external financing, defined as the sum of the result in current transactions and of the net inflows of Foreign Direct Investments (FDI), of US$16.8 billion in the year, against US$36.1 billion, in 2007.

The current transactions, after registering surpluses for five consecutive years, turned to show deficits in 2008. This reversal, initiated in mid-2007, evinced the impact of the expansion trajectory of the Brazilian economy on the growth in imports, at a level significantly higher than that of exports, and the increase in the net remittances of services and income, mainly those related to profits and dividends.

The performance of the financial account of the balance of payments continued translating significant net IED inflows, which achieved a record level in 2008, contrasting with the outflows of foreign capital in portfolio investments, especially shares; short-term loans; and reduction in the medium and long-term external debt rollover rate;

The international reserves, following the process of strengthening of the Brazilian external position, registered continuous growth up to September 2008, period in which the external public debt showed a downward trajectory. The strategy of accumulation of reserves and of improvement in the public debt profile proved to be an efficient tool to confront the external crisis, ensuring that its impacts on the external accounts were less intense than those events observed in the recent past.

In this environment, expectations for 2009 consider the maintenance of financing conditions of the balance of payments and the reduced deficit in current transactions. The alterations registered in the forecasts for the year, in relation to the previous Inflation Report, detailed in the specific box, incorporate the new international scenario; the results observed up to February, including net interventions on the market carried out by the Central Bank; and the new position of external indebtedness, related to last December.

5.1 Exchange operations

The foreign exchange market, after registering record net inflows of US$87.5 billion in 2007, showed net outflows of US$983 million in 2008, the first negative result since 2002. The net inflows in the trading sector, reflecting respective expansions of 1.7% and 29.7% in contracting export and import contracting operations, reached US$47.9 billion, dropping 37.6% in the year. The financial sector registered net outflows of US$48.9 billion, against net inflows of US$10.7 billion in 2007, reflecting increases of 21% in purchases, and of 39.3% in sales of foreign currency.

The shortage of external financing to foreign trade, as of the fourth quarter of 2008, translated in the reduction of funding for ACC lines, which began experiencing, as of October, negative variation rates in relation to equal periods of the previous year. In this scenario, the Central Bank began to offer loans in foreign currency, aimed at financing export lines, highlighting that this modality was responsible, from October 2008 to February 2009, for 74.5% of the contracting of exports supported by ACC operations.

Table 5.1 – Foreign exchange flows

US& billion

Itemization	2008			2009	
	Feb	Jan-Feb	Ano	Feb	Jan-Feb
Trade operations	2.7	6.8	47.9	2.9	3.4
Exports	12.3	27.7	188.0	10.5	20.7
Imports	9.7	20.8	140.1	7.6	17.3
Financial operations[1/]	0.6	-5.9	-48.9	-2.0	-5.6
Purchases	28.7	61.3	421.2	16.4	34.8
Sales	28.1	67.2	470.1	18.4	40.4
Net flows	3.2	0.9	-1.0	0.8	-2.2

1/ Excluding interbank operations and Central Bank foreign operations.

The foreign exchange market, if the wariness to risk persists on the part of investors on the international financial market, registered net outflows of US$2.2 billion in the first two-month period of 2009, against net inflows of US$889 million in the same period of the previous year. The trading segment registered a surplus of US$3.4 billion, against US$6.8 billion in the first two months of 2008, result of respective reductions of 25% and 16.7% in the contracting for exports and imports, while the financial segment accumulated net outflows of US$5.6 billion, against -US$5.9 billion in the equivalent period of the previous year, evincing reductions in the purchases (43.2%) and in sales (40%) of foreign currency.

Central Bank's interventions in the domestic exchange market, in 2008, resulted in net purchases of US$6.7 billion, against US$78.6 billion in 2007. The results of the exchange market, added with net interventions from the Central Bank determined the reduction of US$6.3 billion in the banks' short position, which topped US$1 billion at the end of 2008. At the end of February, the banks held short position at a level similar to that of the closure of the previous year, US$954 million.

5.2 Trade in goods

In the first two months of 2009, the balance of trade results confirmed the effects of the international crisis on the international trade flows. In this sense, the Brazilian exports reached US$19.4 billion and imports, US$18.1 billion, falling, in the order, 25.7% and 25.4%, in relation to the same period of 2008. The trade surplus and the current trade registered respective reductions of 29.9% and 25.6%, in the period.

Table 5.2 – Trade balance – FOB

US$ million

Period	Exports	Imports	Balance	Total trade
Jan-Feb 2009	19 368	18 127	1 242	37 495
Jan-Feb 2008	26 077	24 306	1 771	50 382
% change	-25.7	-25.4	-29.9	-25.6

Source: MDIC/Secex

The monthly analysis reveals that the average daily value of imports fell off 30.9% in February, as compared to the same month of 2008 while in the context of exports, the cutback reached 20.9%. In this scenario, although there is sharp drop in the current trade, the trade surplus in the month, totaling US$1.8 billion, revealed 119.4% above that registered in the same period of 2008.

Table 5.3 – Exports by aggregate factor – FOB
Daily average – January-February

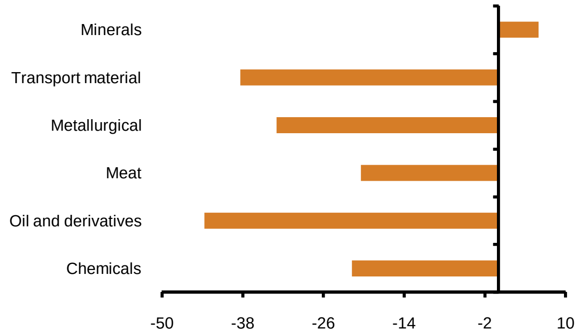
US$ million

Itemization	2008	2009	% change
Total	636.0	496.6	-21.9
Primary products	189.9	180.7	-4.8
Industrial products	426.7	305.6	-28.4
Semimanufactured goods	96.1	76.0	-20.9
Manufactured goods	330.6	229.6	-30.5
Special operations	19.5	10.3	-47.1

Source: MDIC/Secex

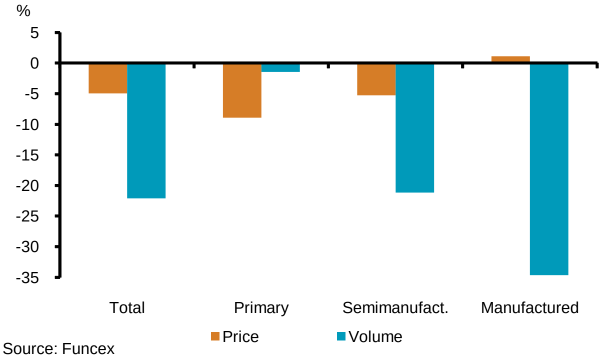
The evolution of external sales in the first two months of the year, in relation to the same period of 2008, derived from reductions in the daily averages exported in all of the categories of aggregated factor, with emphasis on the decrease observed in the segments of manufactured goods, 30.5%, and semi-manufactured goods, 20.9%. The shipping of basic products reduced by 4.8%, in the period, causing an

Figure 5.1 – Main exports
January-February – 2009/2008 – % growth



Source: MDIC/Secex

Figure 5.2 – Exports – Price and volume index
January - February – 2009/2008



Source: Funcex

Table 5.4 – Imports by end-use category – FOB
Daily average – January-February

US$ million

Itemization	2008	2009	% change
Total	592.8	464.8	-21.6
Capital goods	127.9	114.2	-10.7
Raw materials	304.6	221.2	-27.4
Naphtha	11.3	3.0	-73.7
Consumer goods	73.1	70.8	-3.1
Durable	38.7	35.9	-7.4
Passenger vehicles	13.9	13.0	-6.4
Nondurable	34.4	34.9	1.7
Fuels	87.3	58.6	-32.8
Crude oil	49.6	27.3	-44.9

Source: MDIC/Secex

increase of 6.5 p.p. of its participation in the total exported, whereas those of manufactured goods decreased from 52% to 46.2% and those of semi-manufactured remained stable, at 15.3%.

With reference to basic products, one should highlight, in the two month-period, the declines observed in the average daily sales of beef, 39.9%; petroleum, 28.7%; and chicken 17.2%, contrasting with respective increases of 24.4% and 12.9% registered in the exports of soybeans and iron ore. The cutback in the shipping of semi-manufactured goods was associated, in part, to the reductions in exports of leather and furs, 57%; semi-manufactured products of iron and steel, 53.8%; and cast iron, 12.7%; while those of sugar and aluminum registered respective increases of 98% and 18.8%. Concerning manufactured items, one should highlight the reductions in the sales of fuel oils, 53.3%; automobiles, 46.9%; and automotive spares, 43.3%.

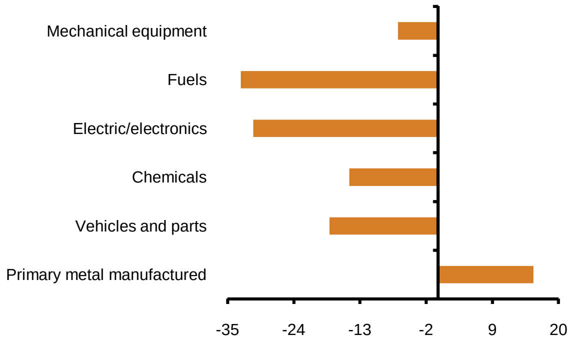
The external sales of the six major industrial sectors represented 53.8% of the total exported in the two-month period ended in February. The 27.6% downturn in relation to the same period of 2008 reflected cutbacks in exports of petroleum and derivatives, 43.7%; transportation materials, 38.4%; iron and steel, 33%; chemicals, 21.8%; and meats, 20.4%. The external sales of ores, stimulated by the ongoing demand from China, expanded 6% in the two-month period.

According to the Foreign Trade Studies Center Foundation (Funcex), the cutback of 25.7% registered by exports in the first two-month period, compared to equivalent period of 2008 translated, in particular, the decrease of 22.1% observed in the quantities exported; resultant from an overall decline in all aggregated factor categories, reaching 34.7% in manufactured goods, 21.2% in semi-manufactured goods, and 1.5% in basic products. Exports prices dropped 5% in the period, registering respective decreases of 8.9% and of 5.3% in those of basic and semi-manufactured goods, and an increase of 1.1% in the segment of manufactured goods.

The process of deceleration of imports, initiated in September 2008, was intensified in the two-month period ended in February, when the daily average of external purchases dropped 21.6% in relation to the same period of 2008. This movement reflected the occurrence of generalized reductions in acquisitions of all use categories, excepting that related to nondurable consumer goods, which registered expansion of 1.7%, in the period.

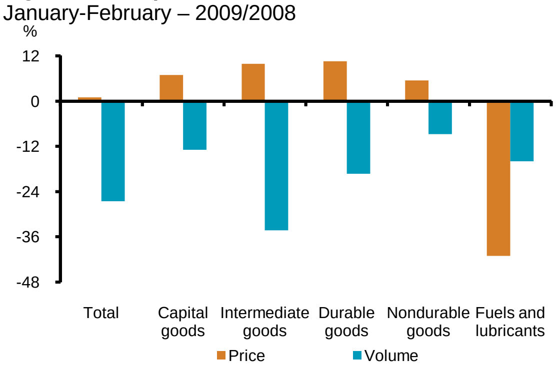
The imports of fuels and lubricants decreased 32.8% in the two-month period, reflecting, particularly, the evolution of

Figure 5.3 – Imports by main products
January-February – 2009/2008 – % change



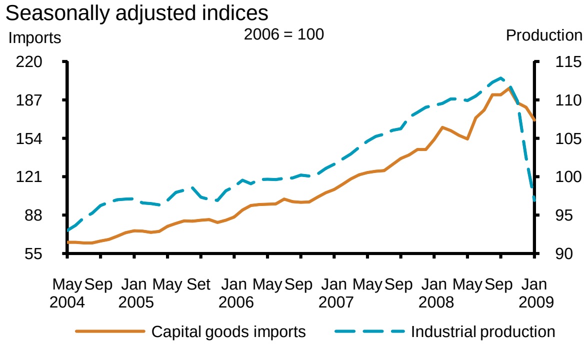
Source: MDIC/Secex

Figure 5.4 – Imports – Price and volume index
January-February – 2009/2008



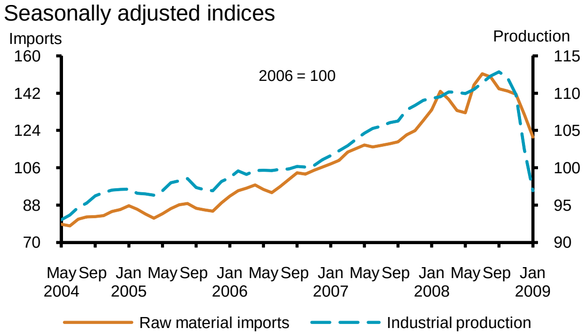
Source: Funcex

Figure 5.5 – Capital goods imports x industrial production – 3-month moving average
Seasonally adjusted indices



Sources: Funcex and IBGE

Figure 5.6 – Raw material imports x industrial production – 3-month moving average
Seasonally adjusted indices



Sources: Funcex and IBGE

international petroleum prices, which led to the reduction of 44.9% in their imported value.

The purchases of raw materials and intermediate products, representing 47.6% of the total imported, dropped 27.4%, impacted by the retractions in imports of chemical and pharmaceutical goods, 15.6%; transportation equipment accessories, 14%; mining products, which include fertilizers and naphtha, 34.5%; parts and spares of intermediate products, 27.9%; and non-food farming products, 25.3%. The behavior of external purchases of this category is closely correlated to the industrial output level, which registered, equally, a significant decline in the period.

The average daily acquisitions of capital goods dropped 10.7% in the two-month period, with emphasis on reductions of purchases of machinery and office and scientific service apparatuses, 27.7%; parts and spares for industrial capital goods, 27,9%; and industrial machinery accessories, 4.2%. Conversely, there has been an expansion of 65.9% on imports of movable transportation equipment, due to planned imports of two aircrafts, by a national air carrier.

The cutback, in the two-month period, of 7.4% registered in the external purchases of consumer durables, reflected the decreases in the acquisitions of machinery and household appliances, 26.8%, and of automobiles, 6.4%, the latter accounting for 36.2% of imports of the category. The purchases of articles of personal adornment expanded 6.2% in the two-month period ended in February, as compared to equal period of 2008.

The acquisition from the six principal importing sectors dropped 18.9% in the two-month period ended in February, compared to the same period in 2008, representing 61.6% of imports in the period. Reductions in purchases of five sectors: fuels and lubricants, 32.8%; electric and electronic products, 30.8%; automotive vehicles and parts, 18.1%; organic and inorganic chemicals, 14.7%; and mechanical equipment, 6.7%, contrasting with the expansion of 15.8% in imports of steel products.

According to Funcex, the reduction of 25.4% observed in the value of imports in the two first months of 2009, in relation to the same period of the previous year reflected, especially, the downturn of 26.6% registered in the volume of imports, with an average increase of 1% registered in prices. Considering use categories, the imports of fuels and lubricants registered respective reductions of 16% in the volume and of 41% in prices. In the other categories, there has been reductions in volume and an increase in prices, reaching, in the order, 12.9% and 6.9% in capital goods; 34.3% and 9.9% in raw materials and intermediate products; 19.3% and 10.5% in durable consumer goods; and 8.7 and 5.5% in nondurable consumer goods. The impact of the recent evolution on the prices of intermediate commodities has shown to be more representative on the structure of export prices than on the Brazilian imports, reducing, therefore, the swap terms for the country, which registered, in February 2009, accumulated reduction of 11.4% since the peak reached in October 2008.

The country's current trade, considering the daily average flows, registered reduction of 21.8% in the first two months of 2009, as compared to the same period of the previous year, result of generalized falloffs in the trade relations among the leading blocs and regions.

The European Union was the largest bloc to purchase Brazilian products in the two-month period, absorbing 24% of the country's total exports, followed by Latin America and the Caribbean, 22.8%. The USA, destination of 12% of the Brazilian external sales, against 15% in the first two-month period of 2008, remained as the leading individual buyer. Sales to Asia expanded 8.2% in the period, boosted by the expansion of 23.3% in the shipping directed to China, which purchased 8.6% of Brazilian exports, becoming the second main individual buyer. The daily average of exports to Mercosur dropped 44.1%, with emphasis on the reduction of 46.5% registered in sales to Argentina, which, in the period, received 6.9% of Brazilian sales.

Table 5.5 – Exports and imports by area – FOB

Daily average – January-february

US$ million

Itemization	Exports			Imports			Balance	
	2008	2009	% change	2008	2009	% change	2008	2009
Total	636	497	-21.9	593	465	-21.6	43	32
L.A. and Caribe	173	113	-34.4	108	70	-35.0	65	43
Mercosur	78	43	-44.1	63	38	-38.6	15	5
Argentina	64	34	-46.5	55	33	-41.1	8	2
Other	14	9	-32.8	7	6	-19.4	7	3
Other	95	70	-26.4	45	32	-30.1	50	38
USA[1/]	96	59	-38.0	88	91	3.4	8	-32
EU	155	119	-23.1	131	100	-23.3	24	19
E. Europe	15	11	-27.3	16	5	-66.6	-1	5
Asia	99	107	8.2	159	139	-12.6	-60	-32
China	34	43	23.3	70	61	-12.4	-35	-19
Other	64	64	0.1	89	78	-12.8	-25	-14
Others	99	87	-12.1	91	59	-35.1	8	28

Source: MDIC/Secex

1/ Includes Puerto Rico.

Brazilian imports originating in the principal blocs and regions registered significant reduction in the first two-month period of 2009, highlighting the cutbacks observed in the purchases from Eastern Europe, 66.6%; Latin America and the Caribbean, 35%; and European Union, 23.3%. The acquisition of products from the USA, Brazil's leading supplier, expanded 3.4% in the period, turning to represent 19.5% of Brazilian external purchases. Asia has consolidated its position as the major regional supplier to Brazil, with an expansion of 3.1 p.p. on the market-share, which reached 29.9% of the total, followed by the European Union, 21.6%, and Latin America and the Caribbean, 15.1%.

5.3 Services and income

Current transactions registered a US$3.3 billion a deficit in the two-month period ended in February, against US$5.9 billion in the same period of 2008. The net expenses of the income account reached US$3.7 billion; net remittances of the service account, US$1.4 billion; and the trade surplus, US$1.2 billion, representing respective reductions of 38.6%, 35.9% and 29.9%, in the period. The unilateral transfers registered net revenues of US$585 million, 9.3% lower than those registered in the first two months of 2008.

The current transactions deficit topped US$25.7 billion in the twelve- month period ended in February, reverting the trajectory of deterioration since mid-2007, with a peak of US$28.3 billion in December 2008. The net expenditures of the income account totaled US$38.2 billion and the net remittances on the service account, US$15.9 billion, representing respective reductions of US$2.3 billion and US$806 million in relation to the deficits observed in the twelve-month period ended in December. The trade surplus came to US$24.2 billion and unilateral transfers, US$4.1 billion

In 2008, the international travel account showed the highest annual values of the historical series, since records begun 0in 1947, related to revenues, expenses and deficit, an evolution consistent with the environment of increase of available income and appreciation of the real observed up to the aggravation of the international crisis, in the final quarter of the year. Considering periods of twelve months, the account showed net outflows of US$4.9 billion in February, registering cutbacks of 6.3% in relation to December and of 16.6% compared to the peak of the series, in September. Net outflows reached US$371 million in the first two months of the year, dropping 46.7%, when compared to the same 2008 period.

The transportation account, which responds to the performance of the trade balance and the international travel account, registered cumulative net outflows of US$4.7 billion in the twelve-month period ended in February, a result 5.8% lower than in 2008. N-et expenditures with transportation reached US$335 million in the two-month period ended in February, dropping 46.3% in relation to the same period of the previous year.

Net remittances related to equipment lease, accumulated in twelve months, totaled US$8 billion in February, expanding 3.1% in relation to December, a result which confirms the lesser capacity of response of that heading to the international scenario, as a consequence of the rigidity of prevailing contracts. In the two-month period ended in February, the net expenditures associated to this account summed up US$1.2 billion, rising 23.9% in relation to the corresponding period of 2008.

Net payments abroad related to royalties and licenses, a heading which includes technology supply services, copyrights, licenses and registries for use of trademarks and of exploration of patents, franchises, among others, reached US$2.1 billion in the twelve-month period ended in February. Net outflows came to US$255 million in the two-month period ended in February, falling 32.7% in relation the same period in 2008.

Table 5.6 – Current account

US$ billion

Itemization	2008			2009		
	Feb	Jan-Feb	Year	Feb	Jan-Feb	Year[1/]
Current account	-1.9	-5.9	-28.3	-0.6	-3.3	-16.0
Trade balance	0.8	1.8	24.7	1.8	1.2	17.0
Exports	12.8	26.1	197.9	9.6	19.4	158.0
Imports	12.0	24.3	173.2	7.8	18.1	141.0
Services	-1.2	-2.2	-16.7	-0.9	-1.4	-13.4
Transportation	-0.3	-0.6	-4.9	-0.2	-0.3	-4.5
International travel	-0.3	-0.7	-5.2	-0.1	-0.4	-2.5
Computer and informat.	-0.3	-0.5	-2.6	-0.1	-0.3	-2.7
Operational leasing	-0.4	-1.0	-7.8	-0.6	-1.2	-7.7
Other	0.2	0.6	3.9	0.2	0.8	4.1
Income	-1.8	-6.1	-40.6	-1.7	-3.7	-22.6
Interest	-0.6	-1.8	-7.2	-0.7	-2.0	-8.2
Profits and dividends	-1.3	-4.3	-33.9	-1.1	-1.8	-15.0
Compensation of employees	0.0	0.1	0.5	0.1	0.1	0.6
Current transfers	0.3	0.6	4.2	0.3	0.6	3.0

1/ Forecast.

The income account deficit accumulated in the twelve-month period ended in February reached US$38.2 billion. As observed since 2006, the result of this account has been significantly impacted by the remittances of income from direct investment. Additionally, as a consequence of the reduction in external indebtedness, the net remittances of profits and dividends surpassed the net expenses with interests for the third consecutive year. This behavior reflects the alterations in the country's total external liabilities, in which the stocks of direct and portfolio foreign investments began to predominate.

In this scenario, net remittances of profits and dividends totaled US$31.4 billion in the twelve-month period ended in February. The cutback of US$2.5 billion compared to the result observed in 2008 evinces the celerity of the adjustment derived from the deceleration of the domestic growth and of exchange depreciation – these net remittances reached US$1.8 billion, in the two-month period, reducing by 58.3% in relation to the same period of 2008.

Net remittances of interests totaled US$7.4 billion in the twelve-month period ended in February, showing stability in relation to the result accumulated from January to December 2008. Expenditures with payments of interests abroad fell by 2.2%, to US$17.1 billion, while interest revenues dropped 5.9%, to US$9.6 billion. One should highlight that interest earnings on reserves, the main determinant of interest revenues, has been conditioned, in the latest months, to the measures of monetary easing adopted by the leading industrialized economies, as a response to the international crisis. In this scenario, the revenues with reserve remuneration, accumulated in twelve months, after showing an upward trajectory up to July 2008, when they summed up the record value of US$7.5 billion, totaled US$6.9 billion in February. One should highlight that the net remittances of interests reached US$2 billion in the two-month period ended in February, rising 11.7%, in relation to the same period of 2008, with emphasis on the 32.7% reduction registered in revenues.

Net remittances of direct investment income accumulated in twelve months up to February came to US$25.1 billion. The net expenditures with profits and dividends reduced by 7.3%, compared to the corresponding period of 2008, while the net remittances related to interests of intercompany loans expanded 14.8%, totaling, in that order, US$23.5 billion and US$1.6 billion. Net remittances related to portfolio investment income totaled US$7.9 billion, falling 6.3% in the period, with highlight to the drop of 7.7% in the remittances of profits and dividends.

Income from other investments, which includes interests on suppliers' credits, loans, deposits and other assets and liabilities, totaled net remittances of US$5.8 billion in the twelve-month period ended in February, reducing by 2.1% in relation to the level registered in December 2008.

The companies of the industrial sector and those from the services sector accounted for, in the order, the remittance of 66.2% and 31.5% of the gross remittances of profits and FDI dividends in 2008, highlighting the representativeness of the relative remittances related to the segments manufacturing and assembling of automotive vehicles, 21.6%; iron and steel, 14.7%; and financial intermediation, 11.8%.

The unilateral transfers summed up net inflows of US$4.1 billion in the twelve-month period ended in February, practically stable in relation to the accumulated result in 2008. In the first two months of the year, the unilateral transfers made possible net inflows of US$585 million, 9.3% lower than that registered in the same period of 2008.

5.4 Financial account

The capital and financial accounts indicated a positive result of US$1.1 billion in the two-month period ended in February, registering twelve month accumulated surplus of US$19.3 billion. The performance of the financial account continues to show the significant net inflows of FDI, which reached a record volume in 2008, contrasting with the recent outflows of external capital related to portfolio investments, especially in shares; short-term loans; and with the reduction, as of the last quarter of 2008, on the rollover rate of the medium and long-term external debt.

The financial account of the balance of payments accumulated net inflows of US$18.1 billion in the twelve-month period ended in February, against US$87.3 billion in the same period of 2008, a reduction associated, to a large extent,

Table 5.7 – Financial account

US$ billion

Itemization	2008			2009		
	Feb	Jan-Feb	Year	Feb	Jan-Feb	Year[1/]
Capital account	5.5	14.6	31.9	0.5	0.8	27.7
Direct investments	-0.1	3.4	24.6	2.6	4.6	25.0
Abroad	-1.0	-2.4	-20.5	0.7	0.7	0.0
In Brazil	0.9	5.7	45.1	2.0	3.9	25.0
Equity capital	0.6	4.3	30.1	1.0	1.9	25.0
Intercompany loans	0.3	1.4	15.0	1.0	2.0	0.0
Portfolio investments	2.2	0.5	1.1	-1.9	-4.3	-14.5
Assets	-0.4	-0.4	1.9	-0.2	-0.2	0.0
Liabilities	2.6	0.8	-0.8	-1.7	-4.0	-14.5
Derivatives	-0.2	-0.2	-0.3	0.1	0.2	0.0
Other investments	3.6	11.0	6.5	-0.4	0.3	17.2
Assets	-0.3	1.2	-4.2	-1.9	-2.0	12.9
Liabilities	4.0	9.7	10.6	1.5	2.3	4.2

1/ Forecast.

to the reversals observed in the flows related to portfolio investments, of net inflows of US$20.8 billion to net outflows of US$4.2 billion. The financial account of the balance of payments showed net inflows of US$842 million in the two-month period ended in February, against US$14.6 billion in the corresponding period of 2008.

The adverse condition on the international financial markets impacted the flows of Brazilian direct investments abroad at the beginning of the year, which, after summing up US$20.5 billion in 2008, totaled returns of US$682 million in the two-month period ended in February.

Net inflows of FDI totaled US$43.2 billion in the twelve-month period ended in February, against US$36.5 billion in the same period of 2008. In the two-month period ended in February, FDI inflows totaled US$3.9 billion, 31.8% lower than the result of the same period in the previous year.

Foreign portfolio investments totaled net outflows of US$5.6 billion in the twelve-month period ended in February, against net inflows of US$43.6 billion in the same period of 2008. Net foreign investments in stock of Brazilian companies reduced from net inflows of US$19.1 billion, down to net outflows of US$8.3 billion, on the same basis of comparison.

Foreign investments in fixed-income securities totaled net outflows of US$527 million, in the twelve-month period ended in February, against net inflows of US$23.4 billion in equivalent period of 2008, with emphasis on the reduction, from US$23.7 billion to US$8.2 billion, in the net inflows of securities negotiated in the country.

The sovereign bond market registered net remittances of US$1.7 billion in the twelve-month period ended in February, a result not only of the original schedule of maturities, but mainly, in view of the anticipated debt redemptions, which totaled US$3.3 billion. In the period, the new issuances summed up US$1.6 billion, of which US$1 billion related to the launch, in January, of the Global 19N bonds, and US$525 million related to the reopening of Global 17 bonds. Considering the two-month period ended in February, there have been net outflows of US$789 million in this segment.

Operations with notes and commercial papers showed net amortizations of US$3.2 billion in the twelve-month period ended in February, against net disbursements of US$5.4 billion in the corresponding period of 2008. The short-term securities registered net amortizations of US$3.8 billion

Table 5.8 – BP financing sources
Selected items

US$ billion

Itemization	2008 Feb	2008 Jan-Feb	2008 Year	2009 Feb	2009 Jan-Feb	2009 Year[1/]
Medium and long-term funds	1.0	4.2	13.5	0.3	1.9	10.7
Public bonds	0.0	1.2	0.5	0.0	1.0	1.0
Private debt securities	0.6	2.5	7.3	0.1	0.4	5.8
Direct loans	0.5	0.5	5.7	0.2	0.5	3.9
Short-term loans (net)[2/]	1.1	7.0	-6.0	-0.2	-0.3	0.0
Short-term sec. (net)	0.0	0.8	-3.9	-0.3	-0.7	0.0
Portfolio (net)	2.8	1.4	4.4	-1.1	-3.2	-10.0
Roll-over rates (%)						
Private sector:	156%	299%	109%	63%	54%	75%
Debt securit.	104%	230%	83%	32%	33%	75%
Direct loans	410%	688%	183%	96%	120%	75%

1/ Forecast.
2/ Includes direct loans and trade credits transferred by banks.

Table 5.9 – Statement of international reserves

US$ billion

Itemization	2008 Jan-Feb	2008 Year	2009 Jan-Feb	2009 Year[1/]
Reserve position in previous period	180.3	180.3	193.8	193.8
Net Banco Central purchases	5.5	-5.4	-2.9	7.6
Spot	5.5	7.6	-3.4	-3.4
Repo lines of credit	-	-8.3	2.7	8.3
Foreign currency loans	-	-4.7	-2.2	2.7
Debt servicing (net)	-0.6	-0.4	-0.6	-0.7
Interest	-0.2	2.8	-0.4	1.3
Credit	1.3	7.2	1.0	5.2
Debit	-1.5	-4.4	-1.4	-3.9
Amortization	-0.4	-3.2	-0.2	-2.0
Disbursements	-	1.3	-	-
Multilateral organizations	-	0.8	-	-
Sovereign bonds	-	0.5	-	-
Others[2/]	5.8	10.4	-4.9	-4.9
Treasury's purchases	1.8	7.6	1.6	5.9
Change in assets	12.6	13.4	-6.9	7.9
Gross reserve position	192.9	193.8	186.9	201.7
Repo lines of credit position	-	8.3	5.7	-
Foreign currency loans position	-	4.7	6.8	2.0
Reserves position - liquidity	192.9	206.8	199.4	203.7

1/ Forecast.
2/ Includes payments/receipts in the framework of the Reciprocal Credits and Payments Agreement (CCR), fluctuations in prices of securities, exchange parities and price of gold, discounts and premiums, duty fees and release of collaterals.

and net inflows of US$1.9 billion in the periods under consideration, an inversion deriving, especially, from the decline of 62.9% registered in gross inflows, mirroring the credit restrictions on the international market.

The other investments, encompassing direct loans with banks and with international organizations, commercial credits and constitution of assets in the form of deposits, registered net outflows of US$4.2 billion in the twelve-month period ended in February, against net disbursements of US$20.8 billion in the same period of 2008. The other Brazilian investments, demonstrating net granting of medium and long-term loans of US$4.4 billion, showed net outflows of US$7.4 billion, against US$15.5 billion in the twelve-month period ended in February 2008. Other foreign investments registered respective net inflows of US$3.2 billion and US$36.3 billion, in the same periods. In the two-month period ended in February, the other foreign investments were positive by US$2.3 billion, basically as consequence of the performance of short-term commercial credits.

The rollover of the medium and long-term external debt of the private sector, the rate of which reflects new disbursements in relation to observed amortizations, stood at 111% in 2008, when the percentages related to the rollover of bonuses and direct medium and long-term loans were, respectively, at 85% and 193%. One should highlight that this rate was affected, in the final quarter of 2008, by the escalation of the economic crisis, coming down to percentages lower than 50%. The rollover rate of the private sector medium and long-term external debt, still mirroring the international market credit squeeze, came down to 58% in the two-month period ended in February.

The international reserves, in the liquidity concept, which include lines with repurchase and foreign currency loan operations, dropped by US$7.4 billion in the first two-month period of 2009, totaling US$199.4 billion. In the period, there were US$2.9 billion net sales by the Central Bank on the exchange market, result of cash sales of US$3.4 billion; repurchases of lines sales of US$2.7 billion; and US$2.2 billion outflows related to loan operations in foreign currency. Interest earnings on reserves accumulated US$950 million. The other operations reduced their stock by US$4.9 billion. The stock of foreign currency sales operations with repurchase commitment totaled US$5.7 billion, and that related to foreign currency loan operations, US$6.8 billion. At the end of February, the international reserves, on the cash basis, reached US$186.9 billion, falling off US$6.9 billion, when compared to December 2008.

It is estimated that the international reserves total US$203.7 billion, in the liquidity concept, at the end of 2009, falling by US$3.1 billion in the year. Including in the first two months of the year, sales liquidations are foreseen. already occurred, of US$3.4 billion in the spot market; purchases of US$8.3 billion in repurchase lines;; and purchases of US$2.7 billion in foreign currency loan operations. Additionally, interest earnings on reserves should accumulate US$5.2 billion in the year.

5.5 External sustainability indicators

Most indicators of the country's external sustainability evinced the deterioration of the international financial markets, when comparing the results of February 2009 to those of December 2008. There were reductions in exports, in GDP denominated in dollars, in international reserves and in the surplus position of the total net external debt, besides the increase of the external debt service. Even so, it is worth highlighting the changes observed, albeit modest in view of the serious international crisis; attest to the increased resilience of the Brazilian economy's external position.

In the period in question, the external debt service expanded US$0.2 billion, while the exports decreased US$6.7 billion, raising the participation of the debt service in exports from 19% to 19.8%. In this same sense, the total external debt total dropped 1.3%, while the surplus position of the total net external debt reduced from -US$27.6 billion to -US$22.7 billion. Incorporating the of 5.2% registered at the nominal GDP, measured in dollars, the ratio between total debt and GDP increased from 12.6% to 13.1%, while the surplus ratio between the total net debt and GDP moved from -1.8% to -1.5%.

The coefficient of total debt over exports remained at 1, while the ratio total net debt over exports maintained its surplus position at -0.1. Both indicators remained at the best historical level, since the beginning of the series, in 1970.

Still in the same period, international reserves in the liquidity concept decreased by US$7.4 billion, coming to US$199.4 billion. Taking into account the reduction of US$2.5 billion registered by the total external debt, the ratio between international reserves/total external debt dropped 2.4 p.p., to 101.8%.

Table 5.10 – Sustainability indicators[1/]

US$ billion

Itemization	2006	2007	2008			2009
	Dec	Dec	Jun	Sep	Dec	Feb[2/]
Exports of goods	137.8	160.6	178.1	194.9	197.9	191.2
Exports of goods and services	157.3	184.6	205.1	224.3	228.4	221.5
Debt service	56.9	52.0	40.5	38.9	37.6	37.8
Total external debt	172.6	193.2	205.5	211.4	198.4	195.8
Net external debt	74.8	-11.9	-19.2	-20.6	-27.6	-22.7
International reserves						
Cash concept	85.8	180.3	200.8	206.5	193.8	186.9
Liquidity concept	85.8	180.3	200.8	206.5	206.8	199.4
GDP	1 089	1 334	1 458	1 526	1 573	1 491
Indicators						
Total external debt/GDP (%)	15.8	14.5	14.1	13.9	12.6	13.1
Net external debt/GDP (%)	6.9	-0.9	-1.3	-1.4	-1.8	-1.5
Total external debt/exports	1.3	1.2	1.2	1.1	1.0	1.0
Total external debt/exports of goods and services	1.1	1.0	1.0	0.9	0.9	0.9
Net external debt/exports	0.5	-0.1	-0.1	-0.1	-0.1	-0.1
Net external debt/exports of goods and services	0.5	-0.1	-0.1	-0.1	-0.1	-0.1
Debt service/exports (%)	41.3	32.4	22.8	19.9	19.0	19.8
Debt service/exports of goods and services (%)	36.2	28.2	19.8	17.3	16.5	17.1
Reserves – cash concept/ total external debt (%)	49.7	93.3	97.7	97.7	97.7	95.4
Reserves – liquidity concept/ total external debt (%)	49.7	93.3	97.7	97.7	104.3	101.8

1/ Excludes stock of principal, amortizations and interests concerning intercompany loans.
2/ Estimated data.

5.6 Conclusion

The positive results registered by the external sector during the latest years reinforced the country's external position and the introduction of important modifications in its external liabilities. In this sense, noteworthy is the strengthening of international reserves and their stability, six months after the aggravation of the international financial market crisis; and the reduction in participation of the external debt in the total of the country's liabilities, on behalf of investments, both direct and portfolio, which respond to the economic cycle. In this way, the process of strengthening of the balance of payments has been maintained and, consequently, the external sector's resilience to the global financial crisis.

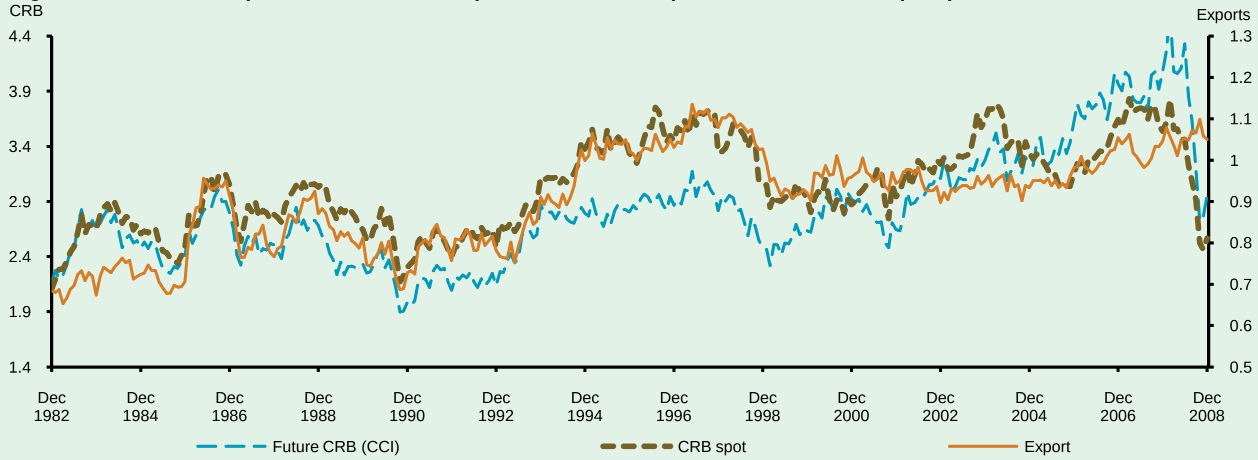
The prospects for growth in the world economy continue unclear, with the uncertainties in the international environment, which may impact the forecasted outlook concerning commodities international prices, capital flows and growth rates of exports and world outputs. Expectations on the US economy and other industrialized countries were revised downwards after the release of new statistics for the fourth quarter. More recent indicators show consumers' expenses in significant decrease, companies reducing their stocks and exports declining abruptly, with the consequent impacts on production and employment.

The year 2009 should register reduction in the current transactions deficit, mirroring the adjustment of the Brazilian economy to the international crisis. This result, impacted by the reduced balance of trade and of net remittances of services and income, should be financed with net inflows of the financial account, with emphasis to the FDI flows.

Correlation between the Terms of Trade and the International Prices of Commodities

In foreign trade, terms of trade are defined as the ratio between the prices of exports and imports of a given country. The improvement in the terms of trade means more favorable conditions for imports, stimulating the domestic production of goods to be exported. To this real effect it should be added the positive monetary effect that increases the balance of trade, even if the quantum of traded goods remains unchanged. In addition, changes in the terms of trade generate potentially important income-effects in producing regions or countries. In the case of Brazil, evidence shows a decisive impact of international prices of commodities on the terms of trade. This box analyses the terms of trade in view of its importance for the balance of trade and the allocation of resources in the economy. In addition, the box also examines the likely effects of the sharp reduction in the international prices of commodities occurred in the final quarter of 2008.

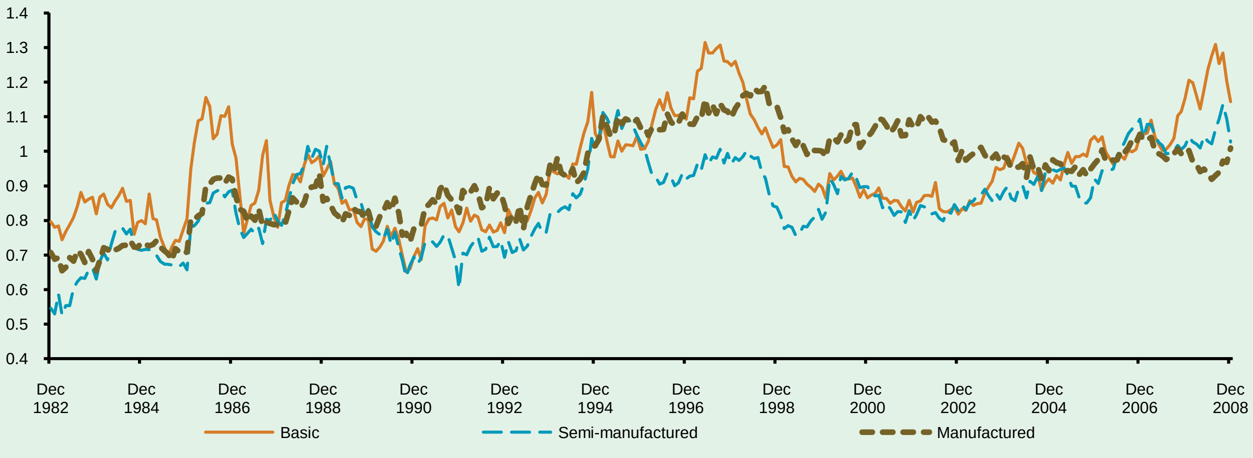
Figure 1 – Indices of export and commodities prices, both in comparison to Brazilian import prices



The dynamic ratio between the Brazilian export prices and the international prices of commodities, both expressed in terms of prices for imported goods, is shown on Figure 1, with monthly data from January 1982 to December 2008. The prices of commodities are based on the Commodity Research Bureau's (CRB) indices, while the prices of Brazilian exports and imports are based on the Foreign Trade Studies Center Foundation (Funcex) indices. By analogy to the terms of trade, the ratio of these indicators and prices of imports is a measure of the incentives for an economy to specialize in commodities.

By analyzing Figure 1, it may be observed that the selected price indices present a series of cyclical movements, especially when longer periods are taken into account. By taking the most recent cyclical movement, which refers to the commodities boom initiated in 2002, more significant impacts on the terms of trade seem to have occurred only after 2006. Notwithstanding this could question whether the empirical correlation between the variables is relevant, the breakdown of export prices by aggregated factor, as illustrated on Figure 2, reveals a significant improvement in the terms of trade for basic and semimanufactured goods. And, at least up to 2006, this trend is smoothened by the manufactured goods only. This points to a greater concentration, over the latest years, of the real and nominal effects of the terms of trade of basic and semimanufactured goods.

Figure 2 – Export price indices by aggregating factor, all in comparison to Brazilian import prices



As shown in Figures 1 and 2, evidence points to the improvement in all indicators of the terms of trade and relative commodity prices in the period under analysis. In fact, despite occasional downward movements, the upward trend prevails on average. Formally, in all series there is a component responsible for the consistent

Table 1 – Average growth rate of price indices
Annual rate, 1982-2008

Indice		%
Brazilian exports		
	Total	1.54
	Basic	1.60
	Semi-manufactured	1.63
	Manufactured	1.25
Commodities		
	CRB spot	1.60
	CRB future	1.99

1/ Price indices related to Brazilian import prices.

improvement in the Brazilian terms of trade in the last quarter of the century. Table 1 quantifies the constant tendency through the average rate of annual growth of the variables. The relative decrease in the price of imports reflects structural changes – initiated in response to the external debt crisis of the 1980's, complemented by the opening of the economy in the 1990's and deepened by the search for petroleum self-sufficiency –, which tend to align the economy with its comparative advantages.

Therefore, this is the most relevant trend for the variables in the long-term. Thus, the forecast should be careful with regard to the level of the most recent figures, impacted by the shorter cycle. This is especially relevant for the analysis of the recent period, in which a sharp contraction of the international prices of commodities was observed at the end of 2008. Since these indicators generally reflect the markets in which commodities are negotiated as financial assets, it is reasonable to assume that the strong shock may result from high volatility and overshooting. Therefore, the price level relevant for carrying out extrapolations of the trend may not be as low as that observed at the end of last year. By comparison, the Brazilian terms of trade are more dependent on the price rigidity in the commodity market, which minimizes the transmission of shocks from the asset market and indicates a long-term trend that starts from a not so unfavorable level.

The analysis of the correlation between the terms of trade and the international commodity prices took into consideration the medium and long-term cyclical

Figure 3 – Export price indices in comparison to import prices; medium and long-term cyclical components

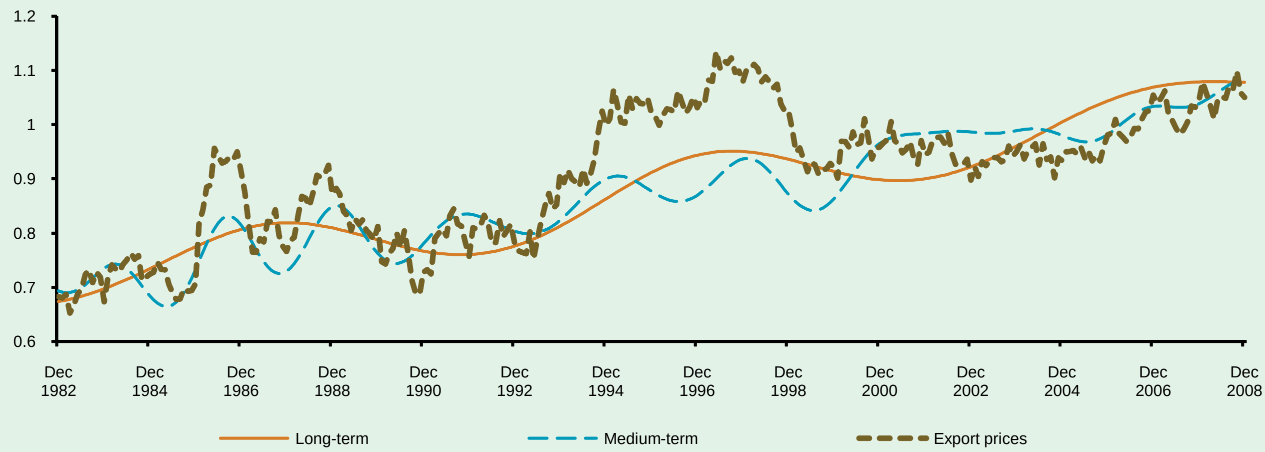


Figure 4 – Commodities current prices (CRB spot) in comparison to import prices: medium and long-term cyclical components

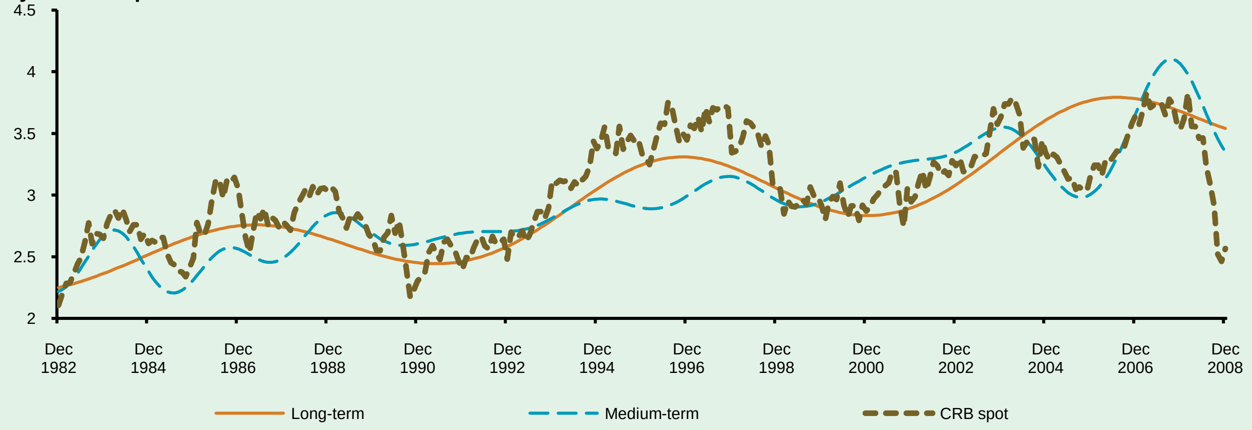
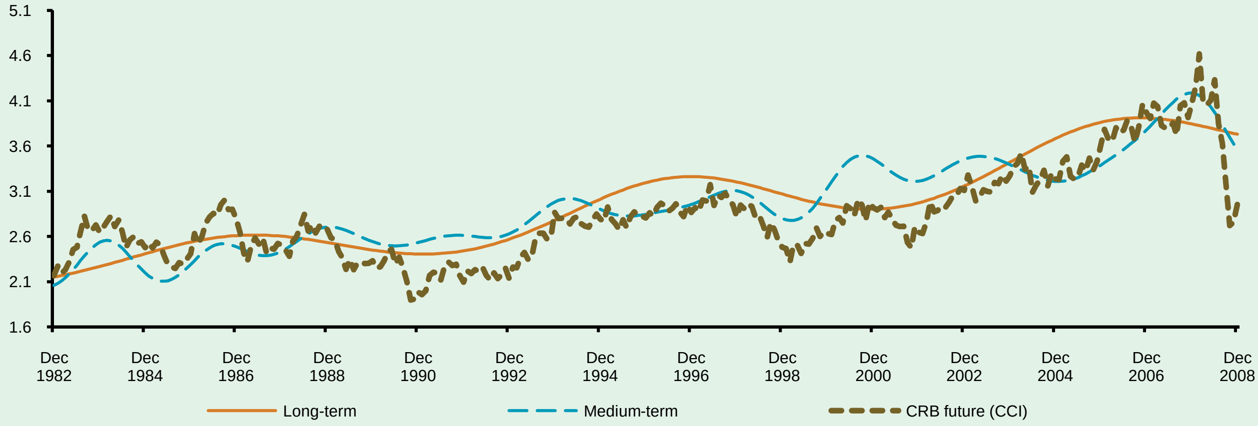


Figure 5 – Commodities future prices (CCI) in comparison to import prices: medium and long-term cyclical components



components, revolving around the growth trend[1]. The breakdown of the series in cyclical movements of different periodicities is appropriate to the context, since it permits to associate the index movements to commodity booms or business cycles in the world economy. The breakdown of terms of trade and commodity prices according to their cyclical components is shown on Figures 3, 4 and 5. Medium-term cycles may be understood as those with periods from 2 to 8 years for its conclusion, and long-term cycles, those with periods from 8 to 12 years.

In all figures, the long-term cycles sustained commodity booms starting around 1982, 1992, and 2002. With regard to the most recent cycle, evidence

1/ A formal definition of correlation between cyclical components may be found in Croux, Forni & Reichlin, 2001, A Measure of Comovement for Economic Variables: Theory and Empirics, The Review of Economics and Statistics, 83-2. The medium and long-term components were extracted by a band pass filter approximately optimum in finite samples. Formal definition may be found in Christian & Fitzgerald, 2003. The Band Pass Filter. International Economic Review, 44-2.

shows that the peak was reached in 2006, despite the break in the two following years due to the medium-term business cycle. In a broader sense, the business cycles are responsible for the fluctuations of the series around the curve drawn by the long-term cycles, and their quantitative influence is more accentuated at the beginning and at the end of the sample. The breakdown does not attribute to the medium and long-term components the sudden drop in the commodity indices, which are better adjusted to a shorter-term development. Therefore, this reinforces the argument that the reduction in international prices, at the levels currently observed, should not be permanent.

The dynamic correlation of the series, that is, the correlation between the respective cyclical components, is shown on Table 2. The first lines of the table report to the contemporary correlation, in which case the current and future commodity indices do not show significant differences. In both cases, it may be observed a greater correlation for the long-term cycles. The terms of trade for manufactured goods show the lowest correlation with the relative price of commodities in all the periodicities, while the semimanufactured goods exhibit the greatest correlation registered for the medium-term cycles. With regard to the basics, they are more relevant in the long-term, periodicity in which they show greater correlation with commodity indices.

Table 2 – Correlation between commodities price indices and export price indices[1/] for medium and long-term cycles[2/]

Commodities prices	cycle	Brazil's export prices			
		Total	Basic	Semi-manufactured	Manufactured
CRB spot	medium	0.54	0.47	0.57	0.36
	long	0.88	0.93	0.89	0.77
CRB future – CCI	medium	0.51	0.45	0.58	0.27
	long	0.86	0.92	0.87	0.73
CRB future – CCI (-3)	medium	0.57	0.48	0.67	0.34
	long	0.92	0.97	0.92	0.81
CRB future – CCI (-9)	medium	0.25	0.11	0.41	0.17
	long	0.97	0.98	0.97	0.92

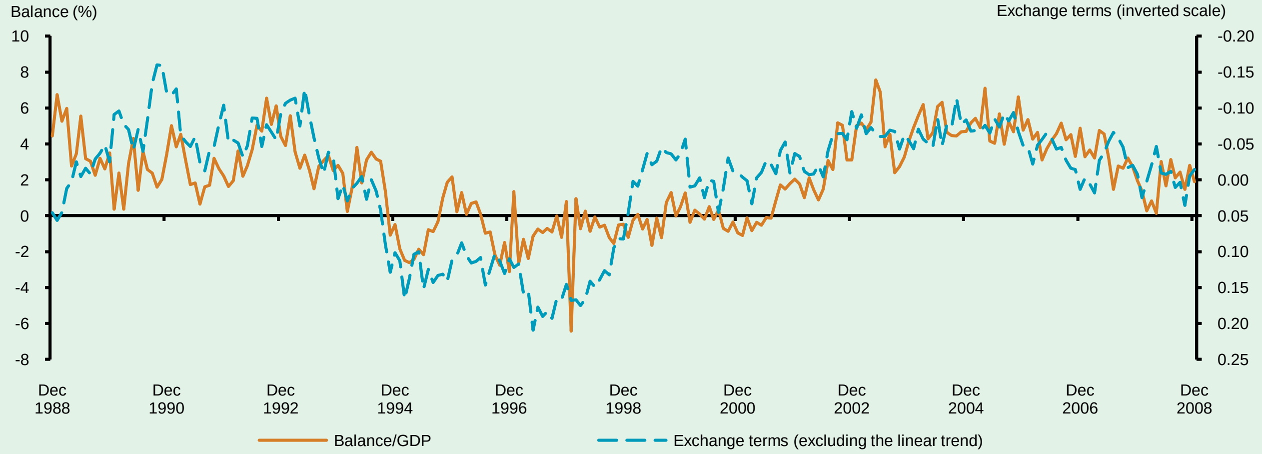
1/ Price indices referring to Brazil's export prices.
2/ The expected duration of medium cycles is from 2 to 8 years and of long cycles is from 8 to 12 years.

In order to examine the potential of the commodity indices as leading indicators of terms of trade, correlations were calculated for up to twelve months in advance. The current prices index, CRB spot, does not show any correlation improvement with any antecedent. In the comparison, the future prices index, future CRB (CCI), shows a significant improvement, thus showing a good antecedent indicator. In fact, the greater correlation of future CRB with the export prices occurs, in the medium cycle, in the 3-month period; and, in the long cycle, in the nine-month period. It may be observed that the improvement over contemporary correlation is more important for long cycles. Extrapolating the information of the future CBR for the terms of trade, one may expect the beginning of recovery, in relation to recent floors, of the long-term cycle by the end of 2010 and, of the medium term, in 2009.

In addition to the information contained in the historic series of relative prices, the foundations of the commodity markets also indicate a downward cycle, with later recovery at levels lower than those observed in 2008. In fact, a World Bank study[2] identifies as the origin of the last commodity boom a strong positive demand shock, especially in emerging countries, reinforced by favorable international liquidity conditions. Moreover, the study points to the lack of investments on petroleum prospecting and metal extractive industries as a limiting factor to the capacity of supply to respond to the demand shock. The hike in the prices of agricultural inputs, strongly affected by petroleum, coupled with the increased demand for foodstuffs and alternative energy sources, also contributed to the increase in the prices of agricultural commodities, especially in the last two years. Currently, the scenario is completely diverse. On the one hand, demand pressures have been completely reversed by the international liquidity crisis and, on the other, maturing of productive investments and technological initiatives consequent upon higher prices, expanded the supply response capacity. In this framework, expectation point to a scenario of slow recovery in the prices of commodities.

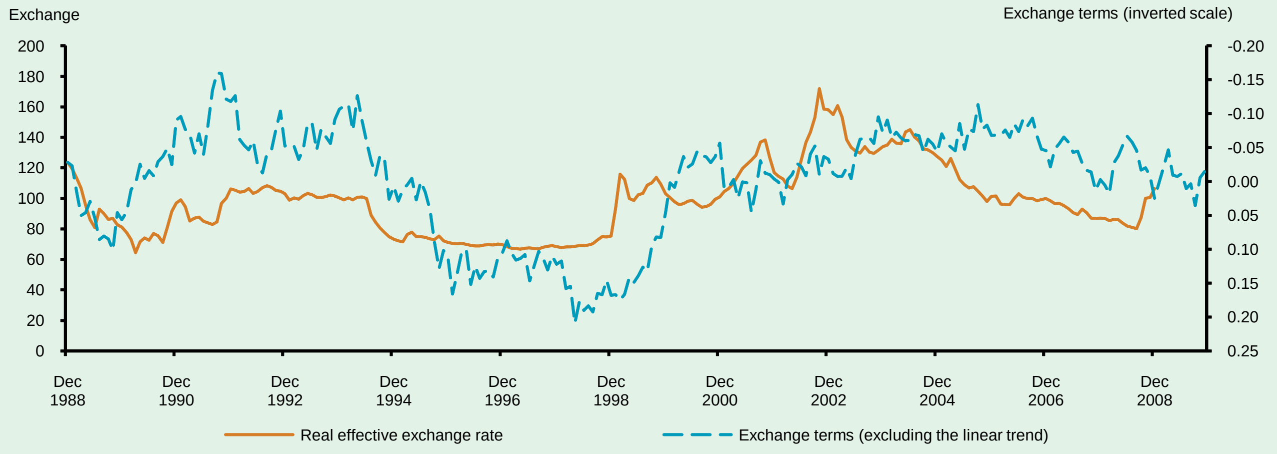
Both medium and long-term trends have relevant consequences on the trade balance. The immediate impact is the negative incentive to produce goods to be exported, which tends to reduce prices and,

Figure 6 – Exchange terms and the account trade balance in comparison to GDP



2/ World Bank Global Economic Prospects 2009: Commodities at the Crossroads. http://go.worldbank.org/TYAM73LY40.

Figure 7 – Exchange terms and effective real exchange rate



consequently, the aggregated income. However, the negative income shock and the release of productive inputs by the exporting sector tend to appreciate the imported goods in relation to nontradable goods, negatively stimulating imports. The total effect on the balance of trade depends on the relative dimension of the opposite channels of exports and imports. As illustrated on Figure 6, the negative correlation of terms of trade and balance of trade suggests the predominance of the imports channel. In fact, Figure 7 shows the negative correlation between the terms of trade and the price of importable goods, measured by the effective real exchange rate, a condition necessary to affect imports[3]. Therefore, in the absence of other impacts on the real exchange rate and imports, the forecasted reduction in the terms of trade tends to improve the balance of trade when it is measured in relation to the aggregated product. Thus, it is possible that the reduction in comparison to that observed in the previous year is not so significant as the median of the market forecasts for the latest months.

3/ Notes about the variables shown in the graphs: (i) the terms of trade exclude the growth trend; (ii) the trade balance was calculated by dividing the annual product by 12: (iii) the real exchange rate is an approximate indicator for the relative price of imported goods.

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.

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

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.

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.