Balance of Payments Projections

The international crisis and the uncertainties inherent to this process, even considered the improvement indicators observed in recent months, expressed by net flows of foreign investment, by the return of surpluses of foreign exchange market and by the behavior of risk indicators, remained conditioning the accounts of the balance of payments. The global recession and external credit crunch led to adjustments, expressed as reductions in trade flows and net remittances of profits and dividends, and as the downward trend of deficit in current accounts. Additionally, there was a decline in net inflows of the financial account, with lower flows of Foreign Direct Investment (FDI) and net outflows related to external debt amortizations. Despite the seriousness of the crisis and its consequences, the conditions for financing the balance of payments remain adequate.

This box records the projections for the balance of payments in 2009, revised in comparison to those in the March Inflation Report. This new projection considers the most favorable results observed in recent months, changes in external debt service consistent with its stock in March, the Central Bank intervention in foreign exchange and foreign sovereign debt repurchases of Treasury, to take effect up to May.

The deficit projected for the current accounts for 2009 was reduced from US$16 billion in the previous Inflation Report, to US$15 billion. The annual projection for the trade surplus was raised, from US$17 billion to US$20 billion, reflecting the stability in the estimate for exports, at US$158 billion, and reduced to US$138 billion in those estimates regarding imports. Estimates are consistent with increases recorded in accumulated

Table 1 – Uses and sources

US$ billion

	2008			2009		
	May	Jan-May	Year	May	Jan-May	Year 1/
Uses	-1.8	-22.7	-50.6	-4.2	-16.5	-41.2
Current account	-0.8	-14.1	-28.2	-1.7	-6.6	-15.0
Amortizations ML-term 2/	-1.0	-8.6	-22.4	-2.5	-9.9	-26.2
Securities	-0.3	-5.1	-12.4	-0.8	-4.5	-11.6
Paid	-0.3	-5.1	-12.4	-0.8	-4.5	-11.6
FDI conversions	0.0	0.0	0.0	0.0	0.0	0.0
Suppliers' credits	-0.1	-0.7	-1.7	-0.2	-1.1	-2.2
Direct loans 3/	-0.6	-2.9	-8.3	-1.4	-4.2	-12.3
Sources	1.8	22.7	50.6	4.2	16.5	41.2
Capital account	0.1	0.3	1.1	0.1	0.5	1.0
FDI	1.3	14.0	45.1	2.5	11.2	25.0
Domestic securities 4/	1.4	12.7	6.3	3.4	3.1	3.0
ML-term disbursem. 5/	3.1	14.9	31.6	2.9	10.6	25.1
Securities	1.2	4.5	7.8	1.2	4.0	7.8
Supliers' credits	0.2	1.1	2.2	0.2	1.1	3.2
Loans 6/	1.6	9.3	21.6	1.5	5.5	14.2
Brazilian assets abroad	-0.3	-8.8	-23.5	-3.0	-8.9	1.0
Other 7/	0.2	6.3	-6.9	2.1	4.4	0.0
Reserve assets	-4.0	-16.6	-3.0	-3.7	-4.4	-14.0

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.

surplus up to May, compared to the same period of 2008, with the recession in the global economy, with the prospect of gradual recovery of commodity prices, and with the slowdown of the Brazilian Gross Domestic Product (GDP).

The services accounts should present a deficit of US$13 billion in 2009. The expansion of US$400 million over the previous projection reflects, in particular, the projected increase in the deficit in the international travel item, from US$2.5 billion to US$3 billion, driven by currency appreciation in the second quarter of 2009. The projection of net spending on equipment rentals increased to US$8.5 billion, considered the existing deals, which involve rigidity in expenditures, and the results of this heading in recent months.

The projection for net interest expenses in 2009 reaches US$8.6 billion, slightly higher than the one of the previous Inflation Report. Gross expenditure, estimated from the position of the March debt stock, highlighting the impact of the reduction of international interest rates (Libor) on part of the debt subject to floating charges, came to US$15.4 billion. Revenues are forecast at US$6.8 billion, of which US$5.2 billion relate to the remuneration of the country's international reserves.

The estimate for net remittances of profits and dividends has been revised from US$15 billion to US$17 billion, a move consistent with the impact of some improvements in the domestic scenario, with the return of foreign investors and with the recent currency appreciation. It is worth mentioning that the stock of foreign investment in the Sao Paulo Stock Exchange (Bovespa), which had declined from the record level of US$200.9 billion in May 2008 to US$70.7 billion in November that year, amounted to US$121.7 billion by the end of April 2009.

Unilateral transfers were maintained at US$3 billion predicted in March, as reflected on the behavior of this account in recent months.

The financial account surplus, estimated at US$27.7 billion in March, dropped to US$28 billion, with emphasis on the reversal of the projection related to foreign portfolio investments in the country, medium and long term, on the remittances of US$10 billion in net inflows of US$3 billion in this report. The performance of the financial account also reflects the maintenance of net FDI inflows at US$25 billion, after the historical record of US$45 billion recorded in 2008.

Amortization of medium- and long-term external debt were revised up from US$24.6 billion to US$26.2 billion, due to depreciation foreseen in the new scheme of the external debt in March 2009. Payments to suppliers should total US$2.2 billion, compared TO US$1.1 billion in the previous forecast, and those regarding securities (bonds, notes and commercial papers), US$11.6 billion, compared to US$11.3 billion in March. The projection for direct loans increased slightly to US$12.3 billion.

The projection for the rollover rate of medium- and long-term foreign indebtedness of the private sector was maintained at 75%, resulting in net repayments of foreign debt. It should be noted that this projection for the average rollover rate for the year implies an improvement on the percentage observed in recent months.

In this scenario, the balance of payments – market will record a surplus of US$6.9 billion. The Central Bank will absorb US$8.8 billion of that amount, due to repurchases of lines and loans in foreign currency while the assets of commercial banks abroad will decrease by US$1.9 billion, against US$13.8 billion in the previous projection.

International reserves, when viewed in the liquidity concept, are expected to total US$208.4 billion at the end of 2009, increasing US$1.6 billion compared to the previous year. For the year, the projection for the interest revenue of US$5.2 billion has been maintained due to reserve earnings. Considering the cash concept, which incorporates the effects of the measures adopted by the Central Bank to provide liquidity in foreign currency, reserves should rise to US$11 billion in the year, reaching US$204.8 billion by the end of 2009, with emphasis on returns of lines and loans and in the spot market interventions held in May.

Table 2 – Balance of payments – Market

US$ billion

Itemization	2008			2009		
	May	Jan-May	Year	May	Jan-May	Year[1/]
Current account	-1.4	-17.2	-35.3	-2.2	-9.0	-20.2
Capital (net)	2.3	29.7	26.5	5.9	11.3	27.1
Foreign direct investment	1.3	14.0	45.1	2.5	11.2	25.0
Portfolio investment	1.4	12.7	6.3	3.4	3.1	3.0
Medium and long term loans	0.4	1.7	1.6	-0.4	-0.6	-3.6
Trade credits – Short, medium and long term	0.9	13.7	2.8	2.8	7.5	2.5
Banks	2.3	4.8	-1.6	0.9	-1.6	1.6
Other	-1.3	8.9	4.5	1.9	9.1	1.0
Brazilian investment abroad	-1.9	-9.5	-27.0	-2.6	-8.6	-0.9
Other	0.1	-2.9	-2.3	0.1	-1.3	1.0
Financial gap	0.9	12.5	-8.9	3.7	2.3	6.9
Banco Central net intervent.	-2.5	-13.2	5.4	-3.2	-2.0	-8.8
Bank deposits	1.6	0.7	3.4	-0.4	-0.3	1.9

1/ Forecast.