External sector

5

The performance of the country's external accounts during the year has been more favorable than suggested by the macroeconomic environment that followed the intensification of the crisis in financial markets, with an emphasis on the adjustment capacity of the current account. The trade balance, while registering a significant reduction intrade flow, remains above the surplus from the same period of 2008, while the income account, which accounts for a significant portion of the adjustment, posted results most linked to domestic economic cycle. There was a return of the net inflow of foreign investors in the financial account in fixed income securities and stocks, while FDI flows continued to show relevant and sufficient flows for full funding of current transactions.

The reduction of stress in international financial markets observed in recent months, evidenced in retractions in risk aversion and volatility indicators, led to the recovery of the domestic foreign exchange surpluses, allowing the central bank to resume the reserve accumulation policy as of May. The nominal exchange rate appreciation recorded in the last month and the indicator of country risk, which had reached 688 bp on October 23 of 2008, returned to levels prior to the aggravation of the international financial crisis, reaching 285 points on June 19.

The projections for the balance of payments presented in this report are expected to maintain suitable conditions for financing the external accounts for the year. The changes registered in these projections (detailed in the specificboxe) arose from the incorporation of results that occurred up to May, including net interventions carried out by the Central Bank in the market, and the new external indebtedness position, referring to March.

5.1 Exchange

The foreign exchange contract, after recording net outflows of US$3 billion for the quarter ended March, generated net inflows of US$4.6 billion in the two months ended in May, resulting in a surplus of US$1.6 billion in the first five months of the year compared with US$15.8 billion in same period of 2008.

Table 5.1 – Foreign exchange flows

US& billion

Itemization	2008			2009	
	May	Jan-May	Ano	May	Jan-May
Trade operations	2.9	24.9	47.9	1.6	13.0
Exports	14.7	78.5	188.0	12.4	59.1
Imports	11.8	53.7	140.1	10.8	46.2
Financial operations[1/]	-2.8	-9.0	-48.9	1.6	-11.4
Purchases	33.9	166.6	421.2	27.5	105.6
Sales	36.7	175.6	470.1	26.0	117.0
Net flows	0.1	15.8	-1.0	3.1	1.6

1/ Excluding interbank operations and Central Bank foreign operations.

Net inflows in the commercial segment, reflecting respective reductions of 24.7% and 14% in contracts of exports and imports, reached US$13 billion, decreasing 47.8% in the period. The financial segment recorded net outflows of US$11.4 billion from US$9 billion in the first five months of 2008, showing reductions in foreign currency purchases 36.6%, and sales of 33.4%.

In May, the Central Bank resumed purchases of foreign exchange in the spot market with the aim of strengthening international reserves, which had discontinued operations in September last year due to the aggravation of the international financial crisis. For the month, there were settlements of purchase interventions of US$2.7 billion. During the year, the Central Bank made net sales of US$693 million in the spot market.

The banks' foreign exchange long position, which dropped US$1 billion in December 2008 to US$145 million in March, reached US$1.3 billion in the end of May.

5.2 Trade in goods

Table 5.2 – Trade balance – FOB

US$ million

Period	Exports	Imports	Balance	Total trade
Jan-May 2009	55 484	46 111	9 373	101 595
Jan-May 2008	72 051	63 478	8 573	135 529
% change	-23.0	-27.4	9.3	-25.0

Source: MDIC/Secex

In the first five months of the year, the results of the trade balance reflected the impact of the recession experienced by the world economy on external trade flows. In this environment, exports totaled US$55.5 billion and imports US$46.1 billion, representing respective decreases of 23% and 27.4% over the same period of 2008, which resulted in an increase of 9.3 % in the trade balance. Total external trade declined 25% in the period.

The trade surplus reached US$2.6 billion in May. The decrease of 34.9% recorded over the same month last year reflected retractions of 38.7% and 37.9% in average daily values of purchases and sales abroad. It should be mentioned that these percentages are skewed by the effect of regularization, in May 2008, of the records relative to operations carried out in March and April of that year, a period in which customs tax inspectors underwent standard operation.

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

US$ million

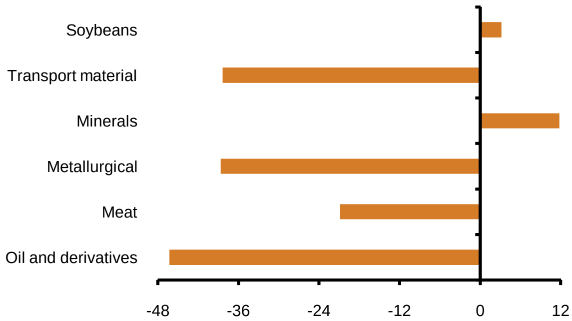
Itemization	2008	2009	% change
Total	706.4	549.3	-22.2
Primary products	239.4	223.9	-6.5
Industrial products	448.0	314.2	-29.9
Semimanufactured goods	98.1	71.0	-27.7
Manufactured goods	349.9	243.2	-30.5
Special operations	19.0	11.3	-40.6

Source: MDIC/Secex

Considering cumulative data from January to May and, thus, eliminates the mentioned distortion, the average of exports recorded a reduction in all categories of aggregate factor over the same period in 2008. Shipments of basic products showed the smallest decline in the period of 6.5%, resulting in an increase of 6.9 percentage points to 40.8% of its share in exports, while manufactured showed a decrease of 30, 5% in these shipments, a decrease of 5.3 percentage points to 44.3%. Additionally, exports of semi-manufactured decreased 27.7% while its share in total foreign sales fell by 1 percentage point, reaching 12.9%.

Regarding basic products in the period, there was a growth in average daily value of shipments of iron ore of 21.3%, tobacco leaves of 19.3%, and soybeans of 12.8%, while those for oil, beef and chicken recorded respective decreases of 40.2%, 31.4% and 19.7%. The average sales performance of semi-manufactured goods reflected, in particular, decreases in shipments of manufactured iron and steel of 57.6%, hides and skins of 55.3%, and casted iron of 38.5%, contrasting with an increase of 83.6% in raw sugar, benefiting from reduced production of the commodity in India, Australia and China.

Figure 5.1 – Main exports
January-May – 2009/2008[1/] – % growth



Source: MDIC/Secex
1/ Change in value over the same period of the previous year.

The performance of exports of manufactured goods was associated with the impact of decreases observed in average daily sales of fuel oil of 58.8%, freight vehicles of 47.8%, flat rolled iron and steel of 41.2%, and auto parts of 40%, offset in part by a 23% growth in shipments of refined sugar.

Average daily exports of the six most representative sectors of the export basket were responsible altogether for 56.4% of foreign sales in the first five months of the year, registering reductions over the same period in 2008, in shipments for the sectors of oil and oil products, 46.3; meat, 20.9%; metallurgical products, 38.7%; and transportation equipment, 38.4%; as well as increases in the sectors of ore, 11.8%; and soybeans of 3 2%.

The import daily average fell 26.6% in the first five months of the year over the same period of 2008, reflecting the impact of the observed declines in fuel and lubricants of 48.7%, indicating a decrease of 528% recorded in international oil prices during the period, raw materials and intermediate goods of 31.3%, durable consumer goods of 14.6% and capital goods of 10.5%. Conversely, the average daily purchases of consumer nondurables rose 8.5% in the period.

The reduction in imports of raw materials and intermediate goods, which accounted for 45.8% of imports of the period

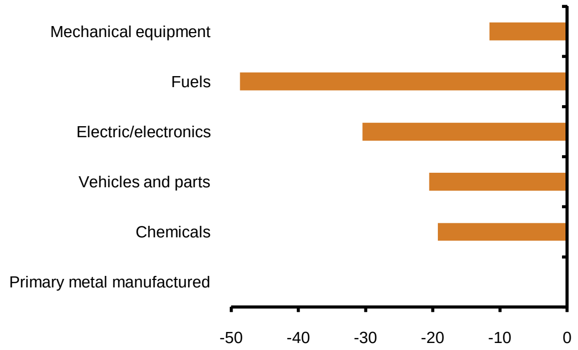
Table 5.4 – Imports by end-use category – FOB
Daily average – January-May

US$ million

Itemization	2008	2009	% change
Total	622.3	456.5	-26.6
Capital goods	129.4	115.8	-10.5
Raw materials	304.3	209.3	-31.2
Naphtha	11.0	5.5	-50.1
Consumer goods	78.3	74.8	-4.5
Durable	43.4	37.0	-14.6
Passenger vehicles	17.6	16.0	-9.2
Nondurable	34.9	37.8	8.1
Fuels	110.3	56.6	-48.7
Crude oil	59.2	10.5	-82.2

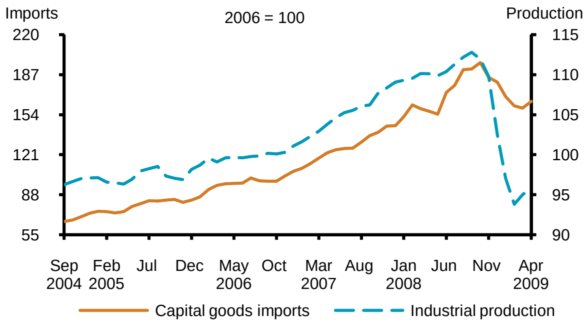
Source: MDIC/Secex

Figure 5.2 – Imports by main products
January-May – 2009/2008 – % change



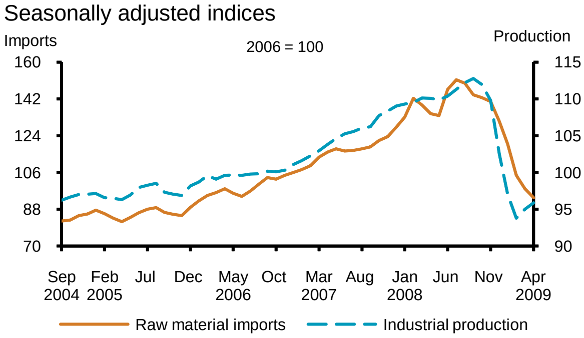
Source: MDIC/Secex

Figure 5.3 – Capital goods imports x industrial production – 3-month moving average
Seasonally adjusted indices



Sources: Funcex and IBGE

Figure 5.4 – Raw material imports x industrial production – 3-month moving average
Seasonally adjusted indices



Sources: Funcex and IBGE

compared to 48.9% in the first five months of 2008 reflected, decreases seen in purchases of mineral products of 38.3%; spares and parts of intermediate goods of 32.1% and non-food farm products of 29.2%. The trajectory of the purchases of raw materials and intermediate goods highlights the recent developments in industrial production, an indicator closely correlated with the performance of this category of use.

The decline in purchases of capital goods especially showed the impact of marked decreases in the purchases of machinery and office and scientific services equipment (28.9%) and parts and accessories of capital goods for industry (30.8%), partly offset by respective increases of 7.7% and 30.7% recorded in imports of industrial machinery and movable transportation equipment, which had benefited from the acquisition of aircraft by domestic airline company.

The decline in imports of durable consumer goods was associated mainly to the negative performance of the purchases of cars, which fell 9.2% in the period, accounting for 43.1% of purchases of this category of use. Additionally, imports of machinery and household appliances and parts and accessories for consumer nondurables fell by 32% and 23.4%, respectively.

The average daily purchases of six major importing sectors, accounting for 61.2% of total imports in the first five months of the year, showed an overall decline over the same period of 2008, except for those relating to the steel sector, which remained stable. Purchases of fuels and lubricants decreased 48.7%; followed by 30.5% in the sectors related to electronics; 20.5% in motor vehicles and parts; 19.2% in organic and inorganic chemicals, and 11.6% in mechanical equipment.

The geographical breakdown of exports revealed, in the first five months of the year, that Asia has acquired 25.7% of Brazilian products targeted to foreign markets, compared to 17.9% in the same period in 2008, followed by the European Union, of 23 1%; Latin America and the Caribbean, of 21.2%; and the USA, of 10.8%. The rise of the Asian market, as opposed to relative reduction in the participation of the North-American market, reflected the momentum of sales to China, which accounted for more than half of Brazilian sales to the region, taking the lead as an individual importer. This movement reflected, in particular, exporting patterns directed at China and the US, the first focusing on commodities and the second, on manufacturing, and the enhanced dynamics of the Chinese economy.

The daily average for Mercosur exports fell 41.1%in the period. This movement reflected the effect of barriers

Table 5.5 – Exports and imports by area – FOB
Daily average – January-May

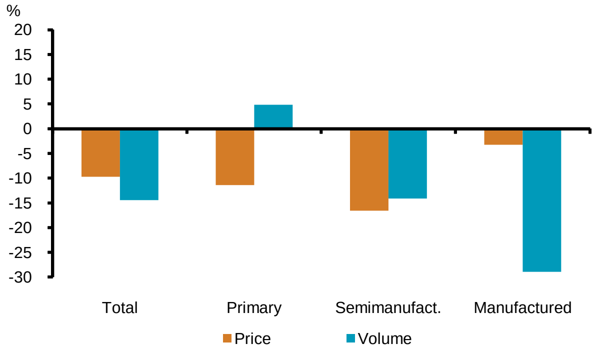
US$ million

Itemization	Exports			Imports			Balance	
	2008	2009	% change	2008	2009	% change	2008	2009
Total	706	549	-22.2	622	457	-26.6	84	93
L.A. and Caribe	182	116	-35.8	105	78	-25.7	77	38
Mercosur	83	49	-41.1	58	45	-22.2	24	3
Argentina	68	39	-43.7	52	39	-25.1	16	0
Other	14	10	-29.0	6	6	1.3	8	4
Other	99	68	-31.4	47	33	-30.0	52	35
USA[1/]	100	59	-40.7	91	82	-10.7	9	-22
EU	176	127	-28.0	131	101	-22.9	45	26
E. Europe	20	12	-40.7	18	4	-77.0	2	8
Asia	127	141	11.2	170	128	-24.8	-43	13
China	56	76	35.6	70	56	-20.1	-14	20
Other	71	65	-8.1	100	72	-28.1	-29	-7
Others	102	94	-7.7	107	64	-40.3	-6	30

Source: MDIC/Secex

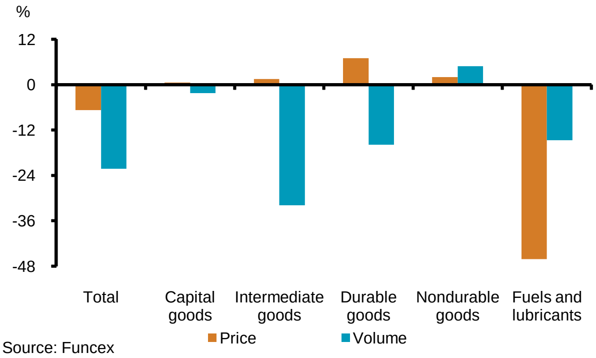
1/ Includes Puerto Rico.

Figure 5.5 – Exports – Price and volume index
January-May – 2009/2008



Source: Funcex

Figure 5.6 – Imports – Price and volume index
January-May – 2009/2008



Source: Funcex

imposed by Argentina on sales to that country, whose share in total exports decreased by 2.7 percentage points, to 7% in the period, accounting for more than half the reductions registered by the countries of Latin America and the Caribbean.

Brazil's average daily imports, considered by major blocs and regions, registered a general decline in the first five months of 2009 over the same period last year. The biggest decrease occurred in purchases originating from Eastern Europe, 77%, followed by Latin America and the Caribbean, 25.7%; Asia 24.8%, and the EU, 22.9%. The share of purchases from the US, the main single market of origin of the country's imports, increased 3.2 percentage points in the period, reaching 17.9%. Purchases from Asia, the main supply region to the country, accounted for 28% of Brazilian imports, of which 12.3% were from China, followed by the European Union with 22.1%, and Latin America and the Caribbean with 17.1%.

According to the Foreign Trade Studies Center Foundation (Funcex), a reduction of 23% recorded by exports in the first five months of 2009 over the same period of the previous year, resulted from decreases of 9.7% in prices and 14.5% in export volume. The export prices of semi-manufactured goods fell 16.6%, followed by contractions seen in basic products of 11.4%, and manufactured products of 3.3%, while the quantities exported of goods recorded respective variations of – 14.1% and 4.8% -28.9%.

The reduction of 27.4% observed on the same comparison basis in the value of imports reflected declines of 22.3% in volume and 6.7% in prices, indicating the larger impact of a shrinkage of 46.2% observed the category of fuels and lubricants, as opposed to that provided by the price increases in other categories, ranging from 7% in consumer durables to 0.6%, in capital goods.

The development of the imported volume reflected decreases recorded in purchase quantities of raw materials and intermediate goods of 31.9%; fuels and lubricants, of 14.7%; capital goods, of 2.2%; and durable consumer goods, of 15.9%; offset in part by an increase on purchases of consumer nondurables, of 5%. It should be mentioned that, although recent developments in commodity prices are exerting a more pronounced impact on the price structure of exports than on imports from Brazil, its trajectory at the margin suggests the prospect of the country's improved terms of trade.

5.3 Services and income

The current account deficit, after reaching US$28.2 billion in December 2008, has shown a trend of reversing the deterioration that began in mid-2007. This adjustment, evidenced by the deficit of US$6.6 billion reported in the first five months of the year, compared with US$14.1 billion in the same period last year, expressed improvement in trade balance, reducing the income account deficit and stability in net spending on services.

The trade surplus reached US$9.4 billion from January to May, increasing 9.3% over the same period in 2008. Net expenses of the income account reached US$11.2 billion, shrinking 37.8% in the period, while net remittances on the service account fell 2.4% to US$6.1 billion, and net revenues on unilateral transfers dropped 16.2%, to US$1.3 billion.

Revenues from international travel reached US$2.2 billion and expenses, US$3.5 billion, respective decreases of 12.5% and 22.7% over the first five months of 2008. Net expenditures, although lowering from US$2 billion to US$1.3 billion in the period, returned to be influenced over the past two months by the recent appreciation of the exchange rate.

Net remittances related to the account for equipment rental totaled US$3.6 billion, rising 46.7% in the first five months. Net payments abroad for royalties and licenses, including the provision of technology services, copyrights, licenses and registrations for trademark use and exploitation of patents, franchises, among others, reached US$771 million, decreasing 23.4%.

The income account deficit has been influenced by the trajectory of net remittances on income from direct investment, which respond to the increased stock of such investments in the country;to the profitability of enterprises and the needs of their respectiveheadquarters, and to the level of the exchange rate. Reflecting the reduction of external indebtedness, net remittances of profits and dividends remained more significant than the net interest expenses for the third consecutive year. This behavior reveals the predominance of the stocks of foreign direct investment and portfolio investment on the country's total external liabilities.

Net remittances of profits and dividends totaled US$7.8 billion from January to May, falling 49.8% over the same period in 2008, a movement consistent with the scenario of reducing the stock of foreign investment in the country – depending

Table 5.6 – Current account

US$ billion

Itemization	2008			2009		
	May	Jan-May	Year	May	Jan-May	Year[1/]
Current account	-0.8	-14.1	-28.2	-1.7	-6.6	-15.0
Trade balance	4.1	8.6	24.8	2.7	9.4	20.0
Exports	19.3	72.1	197.9	12.0	55.5	158.0
Imports	15.2	63.5	173.1	9.3	46.1	138.0
Services	-1.8	-6.3	-16.7	-1.7	-6.1	-13.0
Transportation	-0.7	-2.1	-5.0	-0.3	-1.2	-2.7
International travel	-0.6	-2.0	-5.2	-0.4	-1.3	-3.0
Computer and informat.	-0.2	-1.2	-2.6	-0.2	-1.0	-2.7
Operational leasing	-0.6	-2.5	-7.8	-0.7	-3.6	-8.5
Other	0.1	1.4	3.9	0.0	0.9	3.9
Income	-3.3	-18.0	-40.6	-2.9	-11.2	-25.0
Interest	-0.1	-2.6	-7.2	-0.4	-3.6	-8.6
Profits and dividends	-3.2	-15.6	-33.9	-2.6	-7.8	-17.0
Compensation of employees	0.0	0.2	0.5	0.1	0.3	0.6
Current transfers	0.3	1.6	4.2	0.2	1.3	3.0

1/ Forecast.

both on net remittances of portfolio flows and a reduction in their prices – and on exchange depreciation.

Net interest expenses totaled US$3.6 billion in the year through May, rising 41% over the same period in 2008, empahsized by a reduction of 31.1% recorded in revenues. Earnings on reserves – the main determinant of interest revenue and constrained by the monetary easing measures adopted worldwide in response to the global financial crisis – totaled US$2.4 billion, decreasing 23.1% over the first five months of 2008. Expenditure on interest payments abroad totaled US$6.7 billion, falling 4.9% in the period.

Net remittances of income on direct investment reached US$5.9 billion. The net expense of profits and dividends closed at US$5.3 billion, decreasing 51.6% over the first five months of 2008, while net remittances of interest on intercompany loans and portfolio investment amounted to US$604 million and US$3.2 billion, repsectively, with respective variations of -31.9% and 211.8% for the year. Net remittances related to other investments, including interest from supplier credits, loans, deposits and other assets and liabilities, totaled US$2.4 billion, remaining stable in the period. Companies in the industrial and services sectors were responsible, in order, for the sending of 53.6% and 45.1% of gross remittances of profits and dividends from FDI in the early five months of 2009, emphasizing the significance of remittances on financial intermediation segment of 24.1%, manufacturing and assembling of motor vehicles of 12.1%, and metallurgy of 10.7%.

Net unrequited transfers amounted to US$1.3 billion in the first five months of 2009, decreasing 16.2% over the same period last year.

5.4 Financial account

The capital and financial accounts reported a surplus of US$11.1 billion in the period ended in May, a performance associated with the larger impact of FDI inflows and stock, compared to that provided by the outflows of foreign capital related to fixed income securities and loans, especially the short–term ones.

The adverse conditions of international financial markets affected the Brazilian direct investment flows abroad earlier this year, which added up to US$20.5 billion in 2008, totaled US$944 million in the period ended in May. The creation of new direct investments abroad reached US$197 million,

Table 5.7 – Financial account

US$ billion

Itemization	2008 May	2008 Jan-May	2008 Year	2009 May	2009 Jan-May	2009 Year[1/]
Capital account	4.0	34.4	28.3	5.4	10.6	28.0
Direct investments	-0.1	6.4	24.6	3.9	10.3	25.0
Abroad	-1.4	-7.5	-20.5	1.5	-0.9	0.0
In Brazil	1.3	14.0	45.1	2.5	11.2	25.0
Equity capital	0.3	8.3	30.1	1.8	6.3	12.5
Intercompany loans	1.0	5.7	15.0	0.7	5.0	12.5
Portfolio investments	2.5	12.9	1.1	3.3	-0.4	-0.8
Assets	0.3	0.0	1.9	-0.4	-0.9	0.0
Liabilities	2.3	12.9	-0.8	3.7	0.5	-0.8
Derivatives	0.0	-0.3	-0.3	0.0	0.2	0.0
Other investments	1.6	15.4	2.9	-1.9	0.4	3.8
Assets	0.9	-1.3	-5.3	-4.1	-7.4	1.0
Liabilities	0.7	16.6	8.1	2.2	7.8	2.8

1/ Forecast.

Table 5.8 – BP financing sources

Selected items

US$ billion

Itemization	2008 May	2008 Jan-May	2008 Year	2009 May	2009 Jan-May	2009 Year[1/]
Medium and long-term funds	1.5	7.3	13.5	1.3	4.8	11.7
Public bonds	0.5	0.5	0.5	0.8	1.8	1.8
Private debt securities	0.7	3.9	7.3	0.4	2.2	6.0
Direct loans	0.3	2.8	5.7	0.2	0.8	4.0
Short-term loans (net)[2/]	1.4	1.3	-8.1	0.1	-3.0	0.0
Short-term sec. (net)	0.0	-1.0	-3.9	-0.1	-1.5	0.0
Portfolio (net)	1.6	14.7	4.4	3.5	2.5	3.0
Roll-over rates (%)[3/]						
Private sector:	227%	222%	111%	35%	58%	75%
Debt securit.	434%	194%	85%	49%	59%	75%
Direct loans	107%	281%	193%	22%	53%	75%

1/ Forecast.
2/ Includes direct loans and trade credits transferred by banks.
3/ It is equivalent to the ratio between medium-and long-term disbursements and amortizations, excluding amortizations resulting from debt-equity conversion.

compared with US$5.5 billion in the equivalent months of 2008, while intercompany loans declined 63.2%during that period, totaling $748 million.

Net inflows of FDI reached US$11.2 billion, compared with US$14 billion in the first five months of 2008. Net flows in equity ownership totaled US$6.3 billion and intercompany loans US$5 billion, respectively declining 24.5% and 12.7% in the period.

Foreign portfolio investment totaled net inflows of US$462 million in the first five months of the year, compared with US$12.9 billion in same period of 2008. Net inflows for foreign investment in stock of Brazilian companies totaled US$3.1 billion, compared with US$5.2 billion from January to May 2008, while foreign investments in fixed income securities amounted to net outflows of US$2.7 billion compared with net inflows of US$7.6 billion, with emphasis on a reversal of net inflows of US$9.3 billion in remittances from US$621 million of foreign investments in fixed income securities in the country.

The sovereign bond market recorded net disbursements of US$1.1 billion in the year through May, reflecting the issuance of US$1 billion on the launch in January of the Global 19N bonds and its relaunch in May of US$750 million. Amortizations for the original schedule of maturities and early redemptions of debt totaled US$724 million.

The operations of notes and commercial papers posted net repayments of US$1.6 billion through May, compared with net disbursements of US$1.8 billion in the corresponding range of 2008. The short-term securities recorded net repayments of US$1.5 billion in the period.

The performance of other Brazilian investment showed net granting of short-term borrowings of US$8.2 billion. Deposits abroad dropped by US$1 billion in the first five months of the year, a result of the formation of US$268 million by the banking sector and returns of US$1.2 billion related to the other sectors.

Other foreign investments, including direct loans to banks and international organizations, trade credits and creation of assets as deposits, reported net income of US$7.8 billion in the first five months of the year, compared with net disbursements of US$16.6 billion in the same period of 2008. Net inflows of commercial loans totaled US$9.1 billion, consisting of short-term funds. Loans

Table 5.9 – Statement of international reserves

US$ billion

Itemization	2008		2009	
	Jan-May	Year	Jan-May	Year[1/]
Reserve position in				
previous period	180.3	180.3	193.8	193.8
Net Banco Central purchases	13.2	-5.4	2.0	8.8
Spot	13.2	7.6	-0.7	-0.7
Repo lines of credit	-	-8.3	4.8	8.3
Foreign currency loans	-	-4.7	-2.0	1.1
Debt servicing (net)	-1.9	-0.4	-0.3	-0.9
Interest	0.9	2.8	0.4	1.2
Credit	3.1	7.2	2.4	5.2
Debit	-2.2	-4.4	-2.0	-4.0
Amortization	-2.7	-3.2	-0.6	-2.1
Disbursements	0.5	1.3	-	-
Multilateral organizations	-	0.8	-	-
Sovereign bonds	0.5	0.5	-	-
Others[2/]	0.6	10.4	-2.9	-2.9
Treasury's purchases	5.0	7.6	2.6	6.1
Change in assets	17.4	13.4	1.5	11.0
Gross reserve position	197.8	193.8	195.3	204.8
Repo lines of credit position	-	8.3	3.6	-
Foreign currency loans position	-	4.7	6.7	3.6
Reserves position - liquidity	197.8	206.8	205.6	208.4

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.

saw a deficit of US$1.7 billion, reflecting medium and long-term net inflows of US$1.3 billion and net repayments of US$3 billion related to short-term operations.

The rollover of medium and long-term private sector external debt, whose rate reflects new disbursements in relation to amortizations, stood at 58% from January to May. The percentages relative to the rollover of securities and medium and long-term direct loans ranged, respectively, 59% and 53%.

International reserves, considered the liquidity concept, which includes the repurchase lines and foreign currency credit operations, totaled US$205.6 billion in May, falling US$1.2 billion in the year. During this period, net purchases of the central bank foreign exchange market amounted to US$2 billion, resulting from cash sales of US$693 million, purchases of US$4.8 billion in transactions with repurchasecommitments, and sales of US$2 billion in in foreign currency loans abroad. Highlights among foreign operations are revenues of US$2.4 billion from earnings on reserves, while the other operations exerted a negative impact of US$2.9 billion in the period. The stock of foreign currency sale operations with repurchase agreement totaled US$3.6 billion at the end of May, while business loans against collateral in foreign currencies amounted to US$6.7 billion.

Considering the cashcriterion, international reserves reached US$195.3 billion in May, rising US$1.5 billion in the year.

5.5 External sustainability indicators

The external sustainability indicators, in line with the new environment experienced by the world economy registered as a whole an interruption of the steady improving movement that occurred until the end of 2008. In this framework and considering the December 2008 and May 2009 positions, one should highlight the impact of falloffs in exports and the US dollar GDP, partly offset by the reduction verified in total foreign debt.

The share of debt service in exports reached 21.2% in May, up 19% in December, an increase consistent with a decrease of US$16.6 billion marked in exports in the period.

The total external debt declined US$4.4 billion, while the surplus position of net total external debt rose from US$27.7 billion to US$28.8 billion, and the estimated GDP

Table 5.10 – Sustainability indicators[1/]

						US$ billion
Itemization	2006	2007	2008			2009
	Dec	Dec	Jun	Sep	Dec	May[2/]
Exports of goods	137.8	160.6	178.1	194.9	197.9	181.4
Exports of goods						
and services	157.3	184.6	205.1	224.3	228.4	210.7
Debt service	56.9	52.0	40.5	38.9	37.6	38.5
Total external debt	172.6	193.2	205.5	211.4	198.3	194.0
Net external debt	74.8	-11.9	-19.2	-20.6	-27.7	-28.8
International reserves						
Cash concept	85.8	180.3	200.8	206.5	193.8	195.3
Liquidity concept	85.8	180.3	200.8	207.5	206.8	205.6
GDP	1 089	1 334	1 458	1 526	1 573	1 373
Indicators						
Total external debt/GDP (%)	15.8	14.5	14.1	13.9	12.6	14.1
Net external debt/GDP (%)	6.9	-0.9	-1.3	-1.4	-1.8	-2.1
Total external debt/exports	1.3	1.2	1.2	1.1	1.0	1.1
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	-0.2
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	21.2
Debt service/exports of						
goods and services (%)	36.2	28.2	19.8	17.3	16.5	18.3
Reserves – Cash concept/						
total external debt (%)	49.7	93.3	97.7	97.7	97.7	100.7
Reserves – Liquidity concept/						
total external debt (%)	49.7	93.3	97.7	98.2	104.3	106.0

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

in US dollars dropped by US$200 billion. As a result, the ratio total debt to GDP increased 1.5 percentage points to 14.1% in the period. One should note an increase to 2.1 in the surplus ratio total net debt to GDP.

The ratios total debt to exports and total net debt to exports came to, in the same order, 1.1 and -0.2, the latter in the best level ever seen since the series was initiated in 1970.

The indicator that evaluates the representativeness of international reserves, in the liquidity concept, in external debt rose from 104.3% in December to 106% in May, developments arising from reductions recorded in the period in international reserves of US$1.2 billion and total external debt of US$4.4 billion.

The relationship between international reserves, in the liquidity concept and the M2 aggregate, after reaching 46.8% in November 2008 and remaining at that level in the first quarter, the highest value since the introduction of the Real, showed successive declines in two months ended in May, impacted by exchange rate appreciation and ending the period at 37.8%. Utilizing the reserves in the cash concept, this indicator reached 35.9% at the end of May.

5.6 Conclusion

After nine months of an aggravating crisis on international financial markets, the stability of international reserves and a reduction of the relative share of external debt in total country's liabilities on behalf of investments, both direct and portfolio, reinforce the argument of the appropriate management of the domestic economic policy in recent years as a key element to maintaining the soundness of the balance of payments and, hence, the resistance of the external sector to the global financial crisis.

The most recent scenario, while still incorporating high degrees of uncertainty, reveals more favorable conditions for the country's external accounts. Accordingly, there's a reduction of stress in financial markets, expressed by the performance of risk indicators, which are close to the level recorded prior to the aggravatin of the crisis, exerting positive impact on foreign investments flows and surpluses on the exchange market.

The current account deficit projected for the balance of payments in 2009, lower than that reported in previous years, should be fully financed by inflows of FDI, an environment compatible with the return of cash purchases by the Central Bank in the currency market – maintaining the policy of not setting floors or ceilings for the rate – aimed at strengthening the country's international reserves.

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.