Revision of Projections for the Balance of Payments

This box brings the revised projections for the balance of payments in 2010. As such, both the latest information on the global economy as well as the reassessment of domestic economic activity are considered. Also considered are changes in external debt service consistent with its stock in March, recent Central Bank interventions in the foreign exchange market, and buybacks of sovereign external debt by the National Treasury, carried out up to May.

The updated balance of payments projection maintains the expected current account deficit unchanged, at US$49 billion, with the increased trade surplus being offset by rising deficit in service and income accounts. Direct investment flows, for both Brazilians abroad and foreigners in the country, have been reduced due to the negative developments of the international environment, in particular, the fiscal crisis that is affecting some European economies. Despite a deteriorating world outlook, rollover rates and portfolio inflows in the country were maintained.

Revised projections for the trade balance include expansion of trade flows, with an increase both in exports, from US$173 billion to US$185 billion, and imports, from US$163 billion to US$172 billion. Thus, the projected 2010 trade surplus rose from US$10 billion to US$13 billion. The estimates are consistent with the results observed by mid-June, with the perspectives for the global and Brazilian economies, and with the maintenance of the terms of trade at high levels.

The revision raised the projected deficit in the service account by US$1.8 billion, in comparison with the March Inflation Report, which should

Table 1 – Uses and sources

US$ billion

	2009			2010		
	May	Jan-May	Year	May	Jan-May	Year[1/]
Uses	-4.3	-16.5	-54.4	-3.6	-32.0	-77.6
Current account	-1.8	-6.6	-24.3	-2.0	-18.7	-49.0
Amortizations ML-term[2/]	-2.5	-9.9	-30.1	-1.6	-13.2	-28.6
Securities	-0.8	-4.5	-13.0	-0.3	-7.1	-13.1
Suppliers' credits	-0.3	-1.2	-3.8	-0.3	-1.4	-2.4
Direct loans[3/]	-1.4	-4.2	-13.3	-1.0	-4.7	-13.1
Sources	4.3	16.5	54.4	3.6	32.0	77.6
Capital account	0.1	0.5	1.1	0.1	0.4	1.0
FDI	2.5	11.2	25.9	3.5	11.4	38.0
Domestic securities and equities[4/]	3.5	2.5	47.1	1.7	16.0	35.0
ML-term disbursem.[5/]	2.9	10.7	35.8	4.6	24.9	36.6
Securities	1.2	4.0	12.6	2.1	11.3	11.7
Supliers' credits	0.2	1.1	2.7	0.2	0.9	4.1
Loans[6/]	1.5	5.6	20.5	2.4	12.7	20.9
Brazilian assets abroad	-5.9	-10.2	-15.8	-4.5	-15.1	-16.4
Other[7/]	5.0	6.2	6.9	2.7	8.6	-
Reserve assets	-3.7	-4.4	-46.7	-4.6	-14.2	-16.7

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 debt securities traded in the domestic market and in equities traded in domestic market and abroad.
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.

reach US$24.7 billion in the year, 28.3% higher than observed in the previous year. This revision reflects increases of US$1billion in net expenditures forecast with equipment rentals, to US$11 billion in the year; US$500 million for the projected deficit in international travel, which should reach US$8 billion; and US$500 million in deficit on the transportation account, in line with the expected increase in trade of goods.

The projection for net interest expenditures grew US$1.1 billion, in comparison with the previous report, to US$9.4 billion. This growth resulted, primarily, from the reduction of US$1.1 billion in gross revenue projections, given the perspective of maintaining low international interest rates. A US$4 billion revenue is estimated with earnings on international reserves, a decrease of US$1.1 billion compared to the previous forecast, and US$1.8 billion in private interest income. Gross expenditures, forecast as of the stock of external debt in March 2010, were maintained at US$15.2 billion.

The estimate for net remittances of profits and dividends remained at US$32 billion, an increase of 26.9% compared to 2009. It is worth mentioning that the stock of foreign investments in BM&FBOVESPA, S.A. – Securities, Commodities and Futures Exchange increased to US$210.5 billion at end of March, from US$70.7 billion in February 2009. Unilateral transfers projected for 2010 were maintained at US$3.5 billion, a level similar to that seen in 2009.

The estimated surplus for the financial account rose from US$55.1 billion in the previous forecast, to US$64.6 billion. Highlighted is a reversal in the estimate of the external position of Brazilian banks, from an increase in investments of US$6.7 billion to a reduction of US$5.6 billion. Additionally projected is the increase of US$3.6 billion in net disbursements of medium and long-term loans, which should reach US$7.8 billion.

The projection for net inflows of foreign direct investments (FDI) was reduced from US$45 billion to US$38 billion, considering the results already shown in the first five months of the year and estimates from the United Nations Conference on Trade and

Table 2 – Balance of payments – Market

US$ billion

Itemization	2009			2010		
	May	Jan-May	Year	May	Jan-May	Year[1/]
Current account	-2.2	-9.0	-29.1	-2.3	-20.2	-53.0
Capital (net)	8.8	12.8	67.5	3.7	25.0	60.0
Foreign direct investment	2.5	11.2	25.9	3.5	11.4	38.0
Portfolio investment	3.4	3.1	46.7	1.3	15.1	35.0
ML-term loans	-0.4	-0.4	1.0	2.9	10.6	4.7
Trade credits – Short, medium and long term	3.9	8.0	5.8	2.9	11.8	3.3
Banks	2.0	-0.8	1.7	0.8	6.7	1.6
Other	1.9	8.9	4.1	2.1	5.1	1.7
Brazilian invest. abroad	-2.6	-8.5	-14.0	-7.3	-23.0	-22.0
Other	1.9	-0.6	1.9	0.4	-0.8	1.0
Financial gap	6.5	3.8	38.4	1.4	4.8	7.0
Banco Central net interv.	-3.2	-2.0	-36.5	-4.2	-12.7	-12.7
Bank assets	-3.3	-1.8	-1.9	2.8	7.9	5.6

1/ Forecast.

Development (UNCTAD) on global flows of FDI in 2010. Net flows of Brazilian direct investments abroad were reduced by US$3 billion to US$12 billion.

Projections for net inflows of foreign investment in long-term domestic bonds in the country were maintained at US$35 billion.

Amortizations of medium and long-term external debt for the year, considering the new external debt scheme positioned in March 2010, increased by US$2 billion to US$28.6 billion. The projection for the rollover rate was maintained at 125%.

In this scenario, the financing gap in the balance of payments in the market will remain at a surplus of US$7 billion. The Central Bank, considering only the transactions carried out up to May, will absorb US$12.7 billion of that amount, while the assets of commercial banks abroad should reduce US$5.6 billion.