External sector

5

The trajectory of the current account deficit appears to be compatible with the unfolding consolidation of Brazil's economy current growth cycle in the demand for imported goods and services. In this scenario, while exports registered substantial growth, aided by the rising prices of exported products, the trade balance surplus fell 39.6% in the five early months of 2010 in relation to the same period in the previous year, a trajectory that, reflecting disparate growth rates between the Brazilian and global economies, should persist throughout the year. Additionally, the prospect of increases in the deficit of the service account should be noted, driven by increases in imports of services and net remittances of profits and dividends, the latter encouraged by expansion of the stock of foreign investments in the country and the increasing profitability of residing companies.

Within the financial account, net inflows of direct foreign investments, fixed income securities, and stocks remain sufficient to finance current transactions and strengthen the momentum of improvement in the structure of external liabilities, with growth in the share of investments at the expense of the debt component.

Projections for the balance of payments, as shown in the box Review of Projections for the Balance of Payments, on page 73 of this Report, consider the maintenance of appropriate financing conditions for external accounts in the year. The changes recorded in these projections resulted from the incorporation of results that occurred until May, including net interventions made by the Central Bank in the market, and the new external indebtedness position, regarding March.

Table 5.1 – Foreign exchange flows

US$ billion

Itemization	2009			2010	
	May	Jan-May	Ano	May	Jan-May
Trade operations	1.6	13.0	9.9	2.7	2.0
Exports	12.4	59.1	144.7	16.3	66.1
Imports	10.8	46.2	134.7	13.6	64.1
Financial operations[1/]	1.6	-11.4	18.8	-0.1	5.6
Purchases	27.5	105.6	336.3	30.5	133.1
Sales	26.0	117.0	317.4	30.6	127.4
Net flows	3.1	1.6	28.7	2.6	7.6

1/ Excluding interbank operations and Central Bank foreign operations.

5.1 Exchange operations

The foreign exchange market contracted a surplus of US$7.6 billion in the first five months of 2010, when compared to US$1.6 billion in the same period of the previous year. The foreign exchange trade surplus for the period closed at US$2 billion, against US$13 billion in the equivalent period of 2009, reflecting respective expansions of 38.8% and 11.7% in contracting import and export operations.

The financial segment, indicating more favorable external financing conditions, registered 26% increases in purchases and 8.9% in sales of foreign currency, resulting in net inflows of US$5.6 billion, compared to net outflows of US$11.4 billion in the first five months of 2009.

Net foreign currency purchases by the Central Bank in the foreign exchange spot market totaled US$12.1 billion in the period. The position of banks, which reflects transactions with customers in the primary exchange market and Central Bank interventions, went from a long position of US$3.4 billion at the end of December 2009, to short position of US$3.3 billion at the end of May.

Table 5.2 – Trade balance – FOB

US$ million

Period	Exports	Imports	Balance	Total trade
Jan-May 2010	72 094	66 474	5 619	138 568
Jan-May 2009	55 484	46 180	9 304	101 663
% change	29.9	43.9	-39.6	36.3

Source: MDIC/Secex

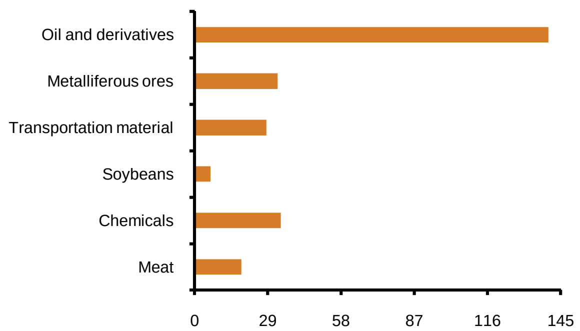
Table 5.3 – Exports by aggregate factor – FOB
Daily average – January-May

US$ million

	2009	2010	% change
Total	549.3	706.8	28.7
Primary products	223.9	304.5	36.0
Industrial products	314.2	386.7	23.1
Semimanufactured goods	71.0	96.4	35.8
Manufactured goods	243.2	290.3	19.4
Special operations	11.3	15.6	38.5

Source: MDIC/Secex

Figure 5.1 – Main exports
January-May – 2010/2009[1/] – % growth



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

5.2 Trade in goods

Exports totaled US$72.1 billion and imports, US$66.5 billion in the first five months of 2010, results 29.9% and 43.9% higher than those that occurred in the same period a year earlier, resulting in a decrease of 39.6% in the trade surplus for the period, which reached US$5.6 billion. Growth in the Brazilian economy and the recovery of activity with trading partners was reflected in the 36.3% increase in trade flow in the period.

Exports of basic products registered a daily average of US$304.5 million in the first five months of 2010, rising 36% over the same period in 2009, with emphasis on the expansion of foreign sales of crude oil, 208%; copper ore, 145%; beef, 44.2%; and iron ore, 28.3%. Conversely, shipments of grain corn and tobacco leaves were reduced 25.3% and 9.5% respectively.

Shipments of semi-manufactured goods totaled a daily average of US$96.4 million, noting that the increase of 35.8% in the period reflected, in part, increases in foreign sales of hides and skins, 77%; iron alloys, 58.4%; raw sugar, 57.9%; and cellulose, 55.6%. Exports of manufactured items, which amounted to a daily average of US$290.3 million in the five early months of the year, rising 19.4% over the same period in 2009 were boosted in particular by growth in shipments of fuel oil, 122.7%; cargo vehicles, 74.4%;

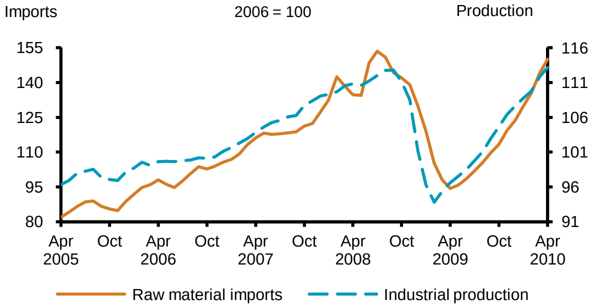
Table 5.4 – Imports by end-use category – FOB
Daily average – January-May

US$ million

Itemization	2009	2010	% change
Total	457.2	651.7	42.5
Capital goods	115.9	140.8	21.5
Raw materials	209.8	307.2	46.4
Naphtha	5.5	17.5	218.2
Consumer goods	74.9	110.5	47.5
Durables	37.0	62.6	69.1
Passenger vehicles	16.0	28.0	75.1
Nondurable	37.9	47.9	26.3
Fuels	56.6	93.2	64.7
Crude oil	28.0	41.8	49.5

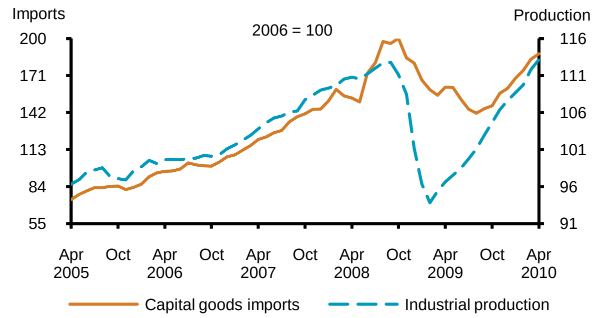
Source: MDIC/Secex

Figure 5.2 – Raw material imports x industrial production – 3-month moving average
Seasonally adjusted indices



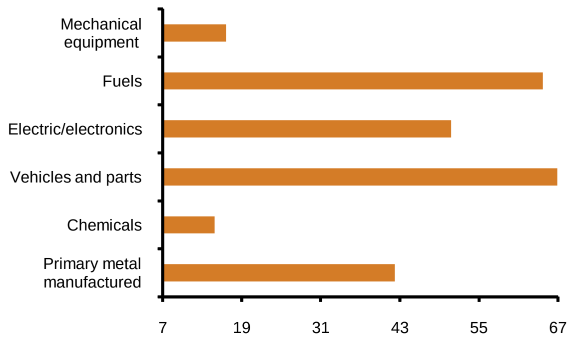
Sources: Funcex and IBGE

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



Sources: Funcex and IBGE

Figure 5.4 – Imports by main products
January-May – 2010/2009[1/] – % growth



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

aluminum oxides and hydroxides, 71.9%; passenger cars, 46.9%; and auto parts, 44.6%.

Breaking down by sector the country's exports, it was observed that the six major sectors accounted for 59.5% of the average daily shipments in the first five months of 2010, compared to 55.4% in the same period of the previous year, totaling US$420.2 million. Foreign sales of petroleum and oil-derived products – those relating to crude oil accounted for 71.1% of the total – rose by 140.1%, followed by increases in exports of chemical products, 34.2%; minerals, 33% – of which 91.5% related to iron ore; transportation equipment, 28.5%; meats, 18.6%; and soybean, 6.4%.

The accession of the Brazilian economy into a new expansion cycle, as evidenced in the 9% GDP growth experienced in the first quarter of the year compared to the corresponding period of 2009, continues reflecting in the import trajectory. Accordingly, the daily average of foreign acquisitions increased 42.5% in the first five months of the year, compared to the same period last year, with increases in purchases in all use categories.

Average daily imports of raw materials and intermediate goods, representing 47.1% of foreign purchases in the period, increased 46.4%, driven by increases in purchases of mineral products, 78.5%; non-food agricultural/livestock products, 59.6%; and parts and accessories for intermediate products, 47.1%.

Average daily purchases of capital goods accounted for 21.6% of the total imported in the first five months of the year, stressing that the increase of 21.5% over the same period in 2009 reflected, in part, increases in imports of office and scientific machines and appliances, 51.5%; accessories for industrial machinery, 37.8%; and parts and accessories for industrial capital goods, 28.7%. Imports of industrial machinery, the most representative item under this category, grew by 1.8% in the period, and now represent 30.5% of the purchases of capital goods.

The average daily purchases of fuels and lubricants rose by 64.7% in the first five months of the year, accounting for 14.3% of imports in the period, 44.9% of which 44.9% were related to petroleum.

The participation in the average daily purchases of durable and non-durable consumer goods in the total Brazilian imports reached, in order, 9.6% and 7.3% in the first five months of the year. Imports of durables, which rose 69.1% in relation to

Table 5.5 – Exports and imports by area – FOB

Daily average – January-May

US$ million

Itemization	Exports			Imports			Balance	
	2009	2010	% change	2009	2010	% change	2009	2010
Total	549	707	28.7	457	652	42.5	92	55
L.A. and Caribe	117	171	47.2	81	112	37.9	35	60
Mercosur	49	77	58.6	45	61	34.4	4	16
Argentina	39	62	60.5	39	53	35.8	-0	9
Other	10	15	51.1	6	8	25.8	4	7
Other	68	94	39.0	36	51	42.4	32	43
USA 1/	59	72	20.6	82	98	19.4	-22	-26
EU	127	154	21.8	106	140	32.6	21	14
E. Europe	12	21	73.4	4	10	145.9	8	11
Asia	142	188	32.2	128	198	54.7	14	-10
China	77	104	35.0	56	86	52.7	21	18
Other	65	84	28.7	72	112	56.2	-7	-29
Others	92	101	8.8	57	94	66.1	36	6

Source: MDIC/Secex

1/ Includes Puerto Rico.

the corresponding period in 2009, were sustained by increases in the purchases of machinery and household appliances, 135.9%; furniture and other home equipment, 84.4%; and automobiles, 75.1%, while the average daily increase of 26.3% registered in the non-durable consumption category reflected, in particular, growth in purchases of food products, 42.1%; toiletries, 39.3%; and pharmaceuticals, 21.6%.

Bilateral trade with major blocs and countries registered a general expansion in the first five months of the year, compared to the same period in 2009, with emphasis on the respective increases of 43.4% and 42.8% reported in foreign exchanges with Latin America and the Caribbean, and Asia. Additionally, commercial transactions with other countries, with the EU, and the US registered respective increases of 30.6%, 26.7%, and 19.9% in the period.

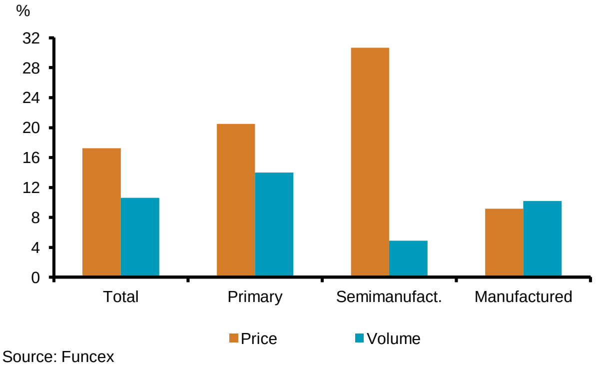
Trade with the Asian bloc, the country's largest trading partner, resulted in an average daily deficit of US$10 million in the first five months of the year, compared to a surplus of US$14 million in the corresponding period in 2009. Exports to the region accounted for 26.6% of Brazilian external sales, of which 55.5% were targeted to China, while Asian products accounted for 30.4% of foreign purchases of the country, 43.4% originated in China.

Commercial exchange with the EU provided an average daily surplus of US$14 million. The observed of 32.2% drop over the same period in 2009 reflected increases in exports, 21.8%, and imports, 32.6%, which represented 21.8% and 21.5% respectively, of the total country's external sales and purchases.

Commercial operations with Latin America and the Caribbean contributed an average daily surplus of US$60 million in the first five months of the year, of which 27.6% was relative to the Southern Common Market (Mercosul). The expansion of 68.2% in relation to the same period of 2009 was a result of growing exports, 47.2%, and imports, 37.9% that accounted for, in order, 24.3% and 17.2% the total exported and imported by Brazil in that period.

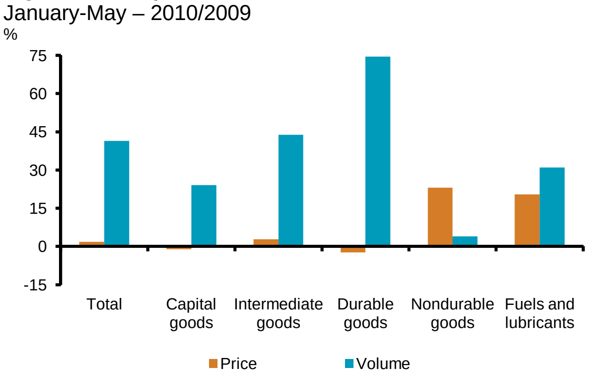
The average daily deficit observed in bilateral trade with the US grew from US$22 million, from January to May 2009, to US$26 million, a variation arising from increases of 20.6% in exports and 19.4% in imports, which registered respective daily averages of US$72 million and US$98 million, and accounted for, in order, 10.1% and 15% of total shipments and purchases by the country in the period.

Figure 5.5 – Exports – Price and volume index
January-May – 2010/2009



Source: Funcex

Figure 5.6 – Imports – Price and volume index
January-May – 2010/2009



Sources: Funcex and BCB

Table 5.6 – Current account

US$ billion

Itemization	2009			2010		
	May	Jan-May	Year	May	Jan-May	Year[1/]
Current account	-1.8	-6.6	-24.3	-2.0	-18.7	-49.0
Trade balance	2.6	9.3	25.3	3.4	5.6	13.0
Exports	12.0	55.5	153.0	17.7	72.1	185.0
Imports	9.4	46.2	127.7	14.3	66.5	172.0
Services	-1.7	-6.2	-19.2	-2.6	-11.3	-24.7
Transportation	-0.4	-1.3	-3.9	-0.5	-2.3	-5.0
International travel	-0.4	-1.3	-5.6	-0.7	-3.2	-8.0
Computer and inform.	-0.2	-1.0	-2.6	-0.2	-1.2	-3.0
Operational leasing	-0.7	-3.6	-9.4	-1.1	-5.0	-11.0
Other	0.0	1.0	2.3	0.0	0.5	2.3
Income	-2.9	-11.1	-33.7	-3.2	-14.6	-40.8
Interest	-0.4	-3.6	-9.1	-0.4	-4.0	-9.4
Profits and dividends	-2.6	-7.8	-25.2	-2.9	-10.8	-32.0
Compensation of employees	0.1	0.3	0.6	0.0	0.2	0.6
Current transfers	0.2	1.4	3.3	0.4	1.5	3.5

1/ Forecast.

The average daily surplus registered in trade with other countries posted reduction of 82.1% in the first five months of the year, as a result of 8.8% expansion on foreign sales and 66.1% on foreign purchases, which totaled respective daily averages of US$101 million and US$94 million. This result reflected, in particular, increases in petroleum imports from Nigeria, Algeria, Angola, and Iraq, countries which together accounted for 26.3% of trade flows and 41.2% of imports within the framework of 'other countries' group, in the first five months of the year.

According to Foreign Trade Studies Center Foundation (Funcex), the 29.9% growth registered in exports from January to May 2010, in relation to the same period in the previous year, resulted from increases of 17.2% in prices and 10.6% in quantum exported. The price index trajectory showed expansions of 30.6% in semi-manufactured product prices, 20.5% in basics, and 9.2% in manufactured products; while amounts exported increased, in the same order, by 4.9%, 14%, and 10.2% in the period.

The 43.9% expansion in imports, in relation to the first five months of 2009, revealed in particular, an increase of 41.5% in imported volume, while prices rose by 1.8%. A segmented analysis reveals that the imported quantum of durable consumer goods grew 74.5%, followed by increases in the categories of raw materials and intermediate goods, 43.9%; fuels and lubricants, 31%; capital goods, 24%; and non-durable consumer goods, 3.9%. In relation to the price index of imports, highlights were the increases in the categories of non-durable consumer goods, 23.1%, and fuels and lubricants, 20.5%, followed by variations for raw materials and intermediate goods, 2.8%; capital goods, -1.1%; and consumer durables, -2.3%.

5.3 Services and income

The deficit in current account reached US$18.7 billion in the first five months of 2010, compared with US$6.6 billion in the same period last year, evolving from the reduction in the trade balance and from increases in net expenditures on services and income account deficit. Considering twelve-month periods, the current account deficit totaled US$36.4 billion in May, equivalent to 1.94% of GDP.

Net remittances in the service account reached US$11.3 billion, increasing 82.7% over the outcome of the first five months of 2009, highlighting the variation of 145.7%, to US$3.2 billion, in net expenditures for international travel. Expenditures of Brazilians abroad resumed its upward trend and hit US$5.7 billion, while revenues from spending by foreign tourists in Brazil totaled US$2.5 billion, respective increases of 65.1% and 16.7%, in the same basis of comparison.

The performance of imports and international travel expenses contributed to net expenditures on transportation reaching US$2.3 billion from January to May, an increase of 81.8% over the same period in 2009. Net spending on equipment rentals totaled US$5 billion, increasing 41.3%, while net payments of royalties and licenses, including the provision of technology services, copyright, licenses and registrations for trademark use and exploitation of patents, franchises, and others, grew 31.6%, totaling US$1 billion. Government services as well as computing and information services registered net expenditures of US$1.3 billion and US$1.2 billion, increasing 139.1% and 23% respectively.

Net expenditures of the income account totaled US$14.6 billion in the first five months of the year, rising 31% over the same period last year. Net interest expenditures increased 11.4% in the period and hit US$4 billion, with emphasis on the 33.1% decline in revenues, which totaled US$2.1 billion in an environment of declining international interest rates.

Net remittances of profits and dividends totaled US$10.8 billion, increasing 38.1% in the period. The industrial and service sectors were responsible, respectively, for 52.1% and 45.5% of the gross remittances of profits and dividends from foreign direct investments (FDI) in the period, with emphasis on financial services, automobiles, and metallurgy.

Net unilateral transfers totaled US$1.5 billion in the first five months of 2010, increasing 6.1% over the same period last year. Net inflows stemming from remittances to maintain residents, reflecting the lower economic activity in major destination countries for Brazilian migrants, totaled US$606 million, dropping 18% in the period.

5.4 Financial account

The capital and financial account registered a surplus of US$34.4 billion in the first five months of the year, highlighting that the recent increase in risk aversion in international financial markets caused a limited impact on the financing of the country’s foreign accounts.

Table 5.7 – Financial account

US$ billion

Itemization	2009 May	2009 Jan-May	2009 Year	2010 May	2010 Jan-May	2010 Year[1/]
Capital account	3.7	9.8	70.2	6.6	34.0	64.7
Direct investments	3.9	10.3	36.0	1.2	3.5	26.0
Abroad	1.5	-0.9	10.1	-2.4	-7.9	-12.0
In Brazil	2.5	11.2	25.9	3.5	11.4	38.0
Equity capital	1.8	6.3	19.9	3.2	10.7	31.0
Intercompany loans	0.7	5.0	6.0	0.3	0.7	7.0
Portfolio investments	2.3	-0.7	50.3	3.7	19.8	33.6
Assets	-1.4	-1.1	4.1	0.1	-0.4	0.0
Liabilities	3.7	0.5	46.2	3.5	20.2	33.6
Derivatives	0.0	0.2	0.2	0.0	0.0	0.0
Other investments	-2.5	-0.1	-16.3	1.7	10.8	5.1
Assets	-6.0	-8.4	-30.4	-2.3	-6.9	-4.4
Liabilities	3.4	8.4	14.1	4.0	17.7	9.5

1/ Forecast.

Table 5.8 – BP financing sources

Selected items

US$ billion

Itemization	2009 May	2009 Jan-May	2009 Year	2010 May	2010 Jan-May	2010 Year[1/]
Medium and long-term funds	1.3	4.8	15.7	3.1	15.2	16.8
Public bonds	0.8	1.8	4.1	-	0.8	0.8
Private debt securities	0.4	2.2	8.5	2.1	10.5	11.7
Direct loans	0.2	0.8	3.1	1.1	3.9	4.3
Short-term loans (net)[2/]	1.2	-2.2	-2.2	0.5	5.1	-
Short-term sec. (net)	-0.1	-1.5	-0.6	0.1	0.0	-
Portfolio in the country (net)	3.5	2.5	42.2	-1.2	13.1	32.0
Roll-over rates (%)[3/]						
Total	35%	55%	88%	664%	261%	125%
Debt securit.	49%	58%	95%	1354%	240%	125%
Direct loans	22%	48%	72%	332%	337%	125%

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.

Direct Brazilian investments abroad totaled net investments of US$7.9 billion in the first five months of 2010. Brazilian companies resumed investments in foreign markets, amounting to a net US$11.2 billion in the form of equity. Net amortizations of loans to foreign subsidiaries totaled US$3.2 billion.

Net inflows of FDI amounted to US$11.4 billion in the first five months of the year, compared with US$11.2 billion in same period in 2009. Net inflows in capital participation totaled US$10.7 billion and those relating to intercompany loans, US$734 million, marking respective variations of 70.8% and -85.3% in the period. Considering periods of twelve months, FDI reached US$26.1 billion in May, 1.39% of GDP.

Net inflows of foreign portfolio investments totaled US$20.2 billion from January to May, compared with US$462 million in same period in 2009. Net inflows of foreign investment in shares of Brazilian companies totaled US$8.1 billion, compared to US$3.1 million in the equivalent period in 2009, while those referring to fixed income securities traded in the country reached, in that order, net inflows of US$7.9 billion and net outflows of US$621 million.

Bonds traded abroad showed net outflows of US$1.9 billion in the first five months of the year, including the disbursement of US$788 million relative to the issue of the Global 21. The National Treasury, in a policy of improvement of the foreign debt profile of the Public Sector, redeemed in advance US$1.5 billion of rebates in advance during the period, of which US$1.2 billion referred to the face value of the securities and US$283 million, to the premium on these operations.

The rollover rate of medium and long term securities negotiated abroad reached 240% in the five month period ended in May, up from 58% in the equivalent period in 2009. Net inflows of notes and commercial papers totaled US$6.1 billion, resulting from disbursements of US$10.5 billion and amortizations of US$4.4 billion. Short-term securities recorded net disbursements of US$15 million in the period.

Other Brazilian investments showed a net increase in assets abroad of US$6.9 billion in the year through May, while deposits abroad by Brazilian banks fell US$8 billion and those held by the non-financial sector increased by US$2.5 billion. Net disbursements of foreign loans, including commercial credits, totaled US$12.5 billion in the period.

Table 5.9 – Statement of international reserves

US$ billion

Itemization	2008	2009		2010	
	Year	Jan-May	Year	Jan-May	Year[1/]
Reserve position in					
previous period	180.3	193.8	193.8	238.5	238.5
Net Banco Central purchases	-5.4	2.0	36.5	12.7	12.7
Spot	7.6	-0.7	24.0	12.1	12.1
Repo lines of credit	-8.3	4.8	8.3	-	-
Foreign currency loans	-4.7	-2.0	4.2	0.5	0.5
Debt servicing (net)	-0.4	-0.3	-2.2	-2.9	-3.3
Interest	2.8	0.4	0.7	-0.5	0.2
Credit	7.2	2.4	4.8	1.5	4.0
Debit	-4.4	-2.0	-4.0	-2.0	-3.8
Amortization	-3.2	-0.6	-2.9	-2.4	-3.5
Disbursements	1.3	-	1.8	-	-
Multilateral organizations	0.8	-	-	-	-
Sovereign bonds	0.5	-	1.8	-	-
Others[2/]	10.4	-2.9	1.7	-2.8	-2.8
Treasury's purchases	7.6	2.6	7.0	4.4	7.3
Change in assets	13.4	1.5	44.7	11.3	13.8
Gross reserve position	193.8	195.3	238.5	249.8	252.4
Repo credit lines position	8.3	3.6	-	-	-
Foreign currency loans position	4.7	6.7	0.5	-	-
Reserve position – Liquidity	206.8	205.6	239.1	249.8	252.4

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, release of collaterals and SDRs allocations.

Other foreign investments, which include direct loans to banks, international organizations and agencies, commercial credits and deposits, registered net disbursements of US$17.7 billion in the first five months of the year, compared to US$8.4 billion in same period in 2009. Net inflows of long-term loans amounted to US$8 billion, highlighting net loans granted by agencies, US$3.9 billion. Direct medium and long-term loans presented net disbursements of US$2.8 billion, resulting in a rollover rate of 337%. Short-term loans totaled net disbursements of US$5.1 billion.

The May position of the international reserves registered a convergence between the two concepts, cash and liquidity, due to the total liquidation of the remaining balance of loan operations in foreign currencies granted during the 2008/2009 crisis. Thus, international reserves totaled US$249.8 billion in May, rising US$10.8 billion compared to December 2009, in the liquidity concept, and US$11.3 billion in the cash concept.

Net purchases by the Central Bank in the foreign exchange market amounted to US$12.7 billion in the same period, of which US$12.1 billion occurred in the spot market and the remaining US$535 million in lending transaction returns in foreign currencies. Still during the analyzed period, the remuneration of reserves generated revenues of US$1.5 billion and the other operations reduced the stock of reserves by US$2.8 billion.

5.5 External sustainability indicators

Debt indicators maintained positive trajectory in the first five months of 2010, except for growth of 10.2% of the estimated total external debt position and 5.4% increase in its service. It should be noted that, incorporating growth of 18.9% of GDP in dollars, the total external debt/GDP ratio decreased by 0.9 p.p. in relation to December 2009, to 11.6%. The increase of total external debt reduced the creditor position of the total net external debt, from -US$61.8 billion to -US$48.6 billion in the period, contributing to the change of the total net external debt/GDP ratio from -3.9% to -2.6%.

The rise in external debt service, associated with the 10.9% increase in exports, contributed to the ratio between debt service and total exports was reduced to 1.4 p.p., to 27.1%, in the year up to May. The coefficient total debt/exports remained at 1.3 and the total net debt/exports ratio dropped from -0.4 to -0.3.

Table 5.10 – Sustainability indicators[1/]

US$ billion

Itemization	2008		2009			2010
	Jun	Dec	Jun	Sep	Dec	May[2/]
Exports of goods	178.1	197.9	177.2	158.9	153.0	169.6
Exports of goods and services	205.1	228.4	206.3	186.6	180.7	199.2
Debt service	40.5	37.6	38.7	41.3	43.6	45.9
Total external debt	205.5	198.3	199.0	204.9	198.2	218.3
Net external debt	-19.2	-27.7	-28.0	-37.8	-61.8	-48.6
International reserves						
Cash concept	200.8	193.8	201.5	221.6	238.5	249.8
Liquidity concept	200.8	206.8	208.4	224.2	239.1	249.8
GDP	1 513	1 636	1 449	1 475	1 577	1 876
Indicators						
Total external debt/GDP (%)	13.6	12.1	13.7	13.9	12.6	11.6
Net external debt/GDP (%)	-1.3	-1.7	-1.9	-2.6	-3.9	-2.6
Total external debt/exports	1.2	1.0	1.1	1.3	1.3	1.3
Total external debt/exports of goods and services	1.0	0.9	1.0	1.1	1.1	1.1
Net external debt/exports	-0.1	-0.1	-0.2	-0.2	-0.4	-0.3
Net external debt/exports of goods and services	-0.1	-0.1	-0.1	-0.2	-0.3	-0.2
Debt service/exports (%)	22.8	19.0	21.9	26.0	28.5	27.1
Debt service/exports of goods and services (%)	19.8	16.5	18.8	22.1	24.1	23.0
Reserves – cash concept/ total external debt (%)	97.7	97.7	101.2	108.1	120.3	114.4
Reserves – liquidity concept/ total external debt (%)	97.7	104.3	104.7	109.4	120.6	114.4

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

International reserves rose 4.5% in the liquidity concept, contributing to their impact in the total external debt receding from 120.6% in December to 114.4% in April.

5.6 Conclusion

The evolution of the external sector remains conditioned to the need to bridge the gap produced by growth of domestic demand at a rate exceeding the capacity of supply expansion. The deficit projection for short-term transactions, detailed in this chapter and in the box Projections for the Balance of Payments, was maintained in relation to the previous Report, with improvement in the trade balance being offset by the increase in net expenditures of services and income. In this scenario, the projections mentioned indicate that the current account deficit must be wholly financed by net investment inflows in both direct and portfolio, and with rollover rates from external debt, estimated at 125%.

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.