External sector

5

The faster growth rate of the Brazilian economy in comparison to other countries continued to influence the performance of current transactions, which registered a deficit of R$43.5 billion in the first eleven months of the year, as against R$18.4 billion in the same period of 2009.

Notwithstanding, net flows of FDI and stocks are expected to exceed the level registered in the previous year, at the same time that the rollover rates of medium and long-term debts are expected to reach 230%. Thus, since long-term capital has been the main source of balance of payments financing, favorable conditions persist for continued accumulation of international reserves and for the strengthening of the foreign balance.

The projections for the 2011 balance of payments, shown on a specific box, reflect the prospects for moderate recovery in the global economy and the persistence of net inflows of foreign investments in Brazil.

5.1 Exchange

The contracts carried out in the foreign exchange market registered a surplus of US$26.3 billion in the first eleven months of the year, compared to US$26.7 billion in the same period of the previous year. In the financial segment, reflecting the foreign credit scenario and the attractiveness of the Brazilian economy, foreign currency purchases increased by 9.5% and sales expanded 5.5%, resulting in a net inflow of US$28.4 billion, compared to US$15.7 billion in the first eleven months of 2009. Conversely, the balance of the trade exchange registered a deficit of US$2.2 billion, compared to a surplus of US$11.1 billion in the corresponding period of 2009. This turnaround was due to respective increases of 20.7% and 33.6% in export and import contracts.

Table 5.1 – Foreign exchange flows

US$ billion

	2009			2010	
	Nov	Jan-nov	Year	Nov	Jan-nov
Trade operations	1.5	11.1	9.9	0.5	-2.2
Exports	13.1	131.1	144.7	17.3	158.3
Imports	11.7	120.1	134.7	16.8	160.4
Financial operations[1/]	2.4	15.7	18.8	1.7	28.4
Purchases	24.9	297.1	336.3	27.3	325.2
Sales	22.4	281.4	317.4	25.6	296.8
Net flows	3.9	26.7	28.7	2.2	26.3

1/ Excluding interbank operations and Central Bank foreign operations.

Net Central Bank foreign currency purchases on the exchange spot market totaled US$39.3 billion in the year up to November. The position of banks on the spot exchange market, reflecting their clients' transactions and Central Bank interventions, changed from a long position at US$3.4 billion at the end of 2009 to short position at US$12.7 billion at the end November 2010.

5.2 Trade in goods

The trade balance figures continued to show the enhanced Brazilian economy dynamics, especially in the first half of the year, compared to the country's major foreign trading partners. Exports totaled US$181 billion and imports US$166 billion in the first eleven months of 2010, rising 30.7% and 43.9%, respectively, in comparison to the same period of the previous year.

Average daily exports grew 30.7% in the first eleven months of the year, compared to the corresponding period of the previous year, registering foreign sales expansion in all aggregate factor categories. The value of shipments of commodities and semi-manufactured products, driven by the recovery of commodity prices, increased by 40.4% and 38%, respectively, while that for manufactured products rose 19.2% on the same comparison basis. The share of commodity exports in the total of foreign sales increased by 3.1 p.p. to 44.4% in the period, contrasting with a fall of 3.8 p.p. to 39.5% in that for manufactured goods. It is important to note that this dynamic is essentially due to price movements, since in both cases the exported volume registered expansion.

Average daily imports increased 43.9% over the same period, reflecting expansion in purchases in all end use categories, with emphasis on those related to durable consumer goods, 63.4%, and fuels and lubricants, 58.7 %, reflecting respective increases of 13.8% and 113.4% in purchases of oil and other products in the category. The increase in Brazilian imports reflected greater purchases from China, 62%; Eastern Europe, 50.7%; and other Latin America and Caribbean countries, 47.8%.

The country's daily average trade reported widespread growth from January to November 2010, compared to the same period of the previous year, with emphasis on the respective growth rates of 47.2%, 43.8% and 39.4% in trade with Asia, Eastern Europe and the Mercosur. Regarding exports, it should be highlighted sales expansion to Asia, 38.5%, and to Latin America and the Caribbean countries, 35.9%.

Table 5.2 – Trade balance – FOB

US$ million

Period		Exports	Imports	Balance	Total trade
Jan-Nov	2010	180 998	166 059	14 939	347 057
Jan-Nov	2009	138 532	115 426	23 106	253 958
% change		30.7	43.9	-35.3	36.7

Source: MDIC/Secex

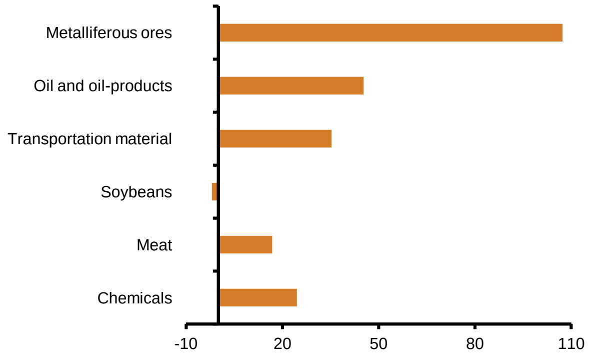
Table 5.3 – Exports by aggregate factor – FOB
Daily average – January-November

US$ million

	2009	2010	% change
Total	607.6	793.8	30.7
Primary products	251.0	352.5	40.4
Industrial products	343.9	425.2	23.6
Semimanufactured goods	81.2	112.0	38.0
Manufactured goods	262.8	313.3	19.2
Special operations	12.7	16.1	27.0

Source: MDIC/Secex

Figure 5.1 – Exports by major sectors
January-November – 2010/2009 – % growth



Source: MDIC/Secex

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

US$ million

	2009	2010	% change
Total	506.3	728.3	43.9
Capital goods	118.1	163.2	38.1
Raw materials	238.3	336.3	41.2
Naphtha	7.0	14.7	109.5
Consumer goods	84.4	124.9	48.0
Durable	45.1	73.8	63.4
Passenger vehicles	21.0	33.4	59.2
Nondurable	39.2	51.1	30.3
Fuels	65.5	103.9	58.7
Crude oil	35.9	40.9	13.8

Source: MDIC/Secex

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

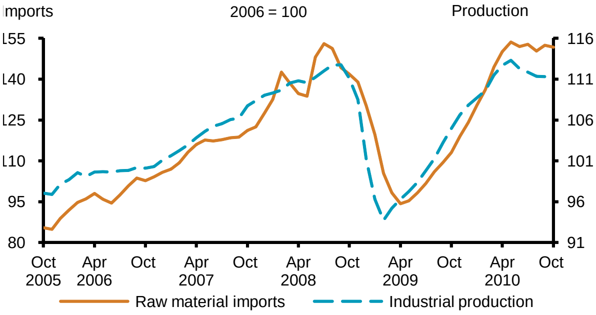
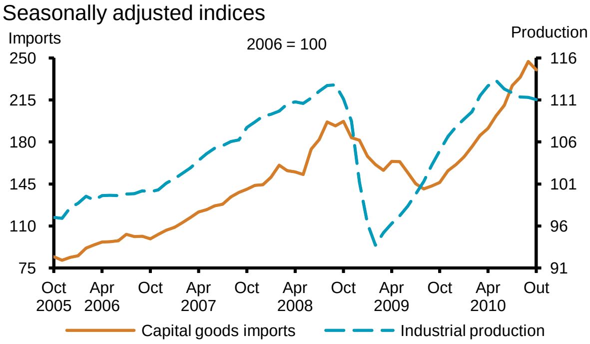
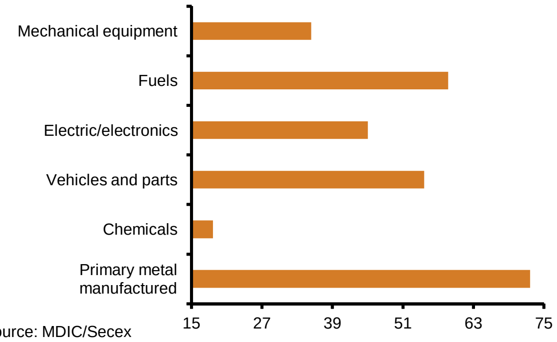


Figure 5.3 – Capital goods imports x industrial production – 3-month moving average
Seasonally adjusted indices



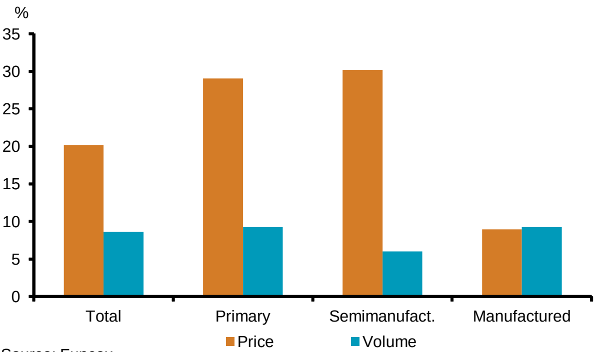
Sources: Funcex and IBGE

Figure 5.4 – Imports by major sectors
January-November – 2010/2009[1/] – % growth



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

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



Source: Funcex

According to the Foreign Trade Studies Center Foundation (Funcex), the 30.7% rise in exports from January to November 2010, compared to the same period of the previous year, resulted from increases of 20.2% in prices and 8.6% in exported volume. The price of semi-manufactured goods increased by 30.2%, followed by commodities, 29%, and manufactured goods, 8.9%, while exported volume in the categories mentioned increased, in the order, 6%, 9.2% and 9.3%.

The growth of 43.9% under imports in the period mainly reflected the 40.2% increase in the volume imported, with emphasis on the performance of consumer durables, 56.8%; capital goods, 44.2%; and raw materials and intermediate goods, 37.8%. Prices of imported goods in U.S. dollars rose 2.6% in the first eleven months of the year, highlighting increases observed in the categories of fuels and lubricants, 22.5%, nondurable consumer goods, 11.6%, contrasting with the decrease of 4.1% in the price of capital goods.

5.3 Services and income

The current account deficit totaled US$43.4 billion in the first eleven months of the year, compared to US$18.4 billion in the same period of 2009, due to the drop in the trade balance and the increase in net spending on services and income. In twelve months, the current account deficit totaled US$49.4 billion in November, equivalent to 2.43% of GDP.

Net remittances in the service account rose 63.3% in the period, to US$28.2 billion, with emphasis on the increase of 91.1% in net expenditures on international travel, which, driven by income gains and exchange rate appreciation in the period, reached US$9.4 billion. Net expenditures on equipment rental increased 42.1% to a total of US$12.3 billion.

Net income account expenditures increased by 20.4%, to US$32.8 billion, while net expenditures on interests rose 3.9%, totaling US$8.2 billion. It should be emphasized the 16.3% falloff in revenues, which, in an environment of low international interest rates, totaled US$5.1 billion.

Net remittances of profits and dividends totaled US$25 billion, for a 25.8% increase in the period. The sectors of industry and services accounted for respective 57.5% and 40.2% of gross remittances of FDI profits and dividends, highlighting those associated with the automotive, financial services and chemical products sectors.

Table 5.5 – Exports and imports by area – FOB

Daily average – January-November

US$ million

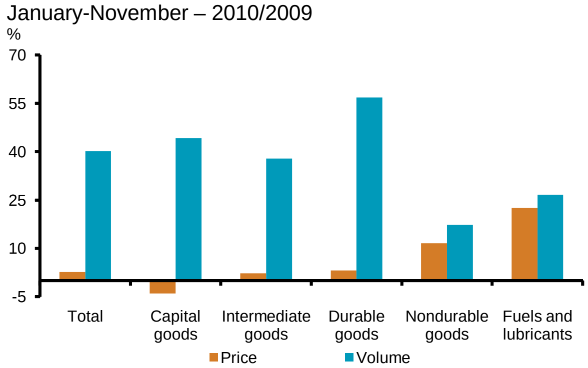
	Exports			Imports			Balance	
	2009	2010	% change	2009	2010	% change	2009	2010
Total	608	794	30.7	506	728	43.9	101	66
L.A. and Caribe	137	186	35.9	89	122	36.6	48	64
Mercosur	59	88	49.1	51	66	28.3	8	22
Argentina	47	72	52.4	44	57	30.0	3	15
Other	12	16	35.7	7	9	18.0	5	8
Other	78	98	25.9	38	56	47.8	40	42
USA[1/]	63	75	19.3	81	110	35.5	-18	-35
EU	136	169	24.0	115	156	35.5	21	13
E. Europe	14	19	39.7	8	12	50.7	5	7
Asia	162	225	38.5	144	226	56.9	18	-1
China	87	124	41.6	63	103	62.0	24	21
Other	75	101	34.8	81	123	52.9	-5	-22
Others	95	120	25.6	68	102	49.0	27	18

Source: MDIC/Secex

1/ Includes Puerto Rico.

Figure 5.6 – Imports – Price and volume index

January-November – 2010/2009



Sources: MDIC and BCB

Table 5.6 – Current account

US$ billion

	2009			2010			2011
	Nov	Jan-nov	Year	Nov	Jan-nov	Year[1/]	Year[1/]
Current account	-3.3	-18.4	-24.3	-4.7	-43.4	-49.0	-64.0
Trade balance	0.6	23.1	25.3	0.3	14.9	17.0	11.0
Exports	12.7	138.5	153.0	17.7	181.0	198.0	235.0
Imports	12.0	115.4	127.7	17.4	166.1	181.0	224.0
Services	-1.8	-17.3	-19.2	-2.8	-28.2	-31.1	-35.0
Transportation	-0.4	-3.5	-3.9	-0.6	-6.0	-6.5	-7.2
International travel	-0.5	-4.9	-5.6	-1.0	-9.4	-10.5	-12.0
Computer and inform.	-0.2	-2.3	-2.6	-0.3	-2.9	-3.3	-3.8
Operational leasing	-0.8	-8.6	-9.4	-1.2	-12.3	-13.5	-14.5
Other	0.1	2.1	2.3	0.3	2.4	2.6	2.5
Income	-2.3	-27.2	-33.7	-2.5	-32.8	-37.6	-43.0
Interest	-0.4	-7.9	-9.1	-0.6	-8.2	-9.5	-10.6
Profits and dividends	-2.0	-19.9	-25.2	-1.9	-25.0	-28.7	-33.0
Compensation of employees	0.0	0.5	0.6	0.0	0.4	0.6	0.6
Current transfers	0.2	3.1	3.3	0.2	2.6	2.7	3.0

1/ Forecast.

Net unilateral transfers reached US$2.6 billion in the first eleven months of 2010, compared to US$3.1 billion in the same period of the previous year. Net inflows of remittances for maintenance of residents totaled US$1.2 billion, compared to US$1.4 billion in the same period in 2009.

5.4 Financial Account

The capital and financial account registered a surplus of US$90.7 billion in the first eleven months of the year.

Brazilian direct investments abroad accumulated net investments of US$6.5 billion in the first eleven months of 2010. Brazilian companies have resumed their internationalization process, with net investments of US$20.3 billion under the equity participation modality. Net repayments of loans to foreign subsidiaries totaled US$13.8 billion.

Net FDI inflows amounted to US$33.1 billion in the period, compared to US$20.8 billion in the first eleven months of 2009. This performance signals that, in spite of the persistent sub-potential growth in major economies and its effect on the ability of their companies to carry out investments, the favorable medium and long-term economic outlook in Brazil continued to attract significant flows of investment. Net inflows of equity capital totaled US$26.8 billion, for growth of 74.3% in the period, while intercompany loans registered disbursements of US$6.4 billion. In twelve months, FDI totaled US$38.2 billion up to October, accounting for 1.88% of GDP.

Net inflows of foreign portfolio investments totaled US$61.7 billion from January to November 2010, compared to US$43.1 billion in the same period in 2009. Foreign investments in shares of Brazilian companies totaled net inflows of US$35.7 billion, compared to US$33.6 billion in the equivalent period of 2009. Meanwhile, fixed income securities traded in the country registered net inflows of US$14.8 billion, compared to US$9.2 billion in the previous period. National Treasury securities traded abroad registered net repayments of US$3.1 billion in the period, including disbursements related to the issue of Global 21, US$788 million; at its reopening, US$825 million; and reopenings of Global 41, US$550 million, and Global BRL28, US$655 million. The National Treasury, proceeding with the policy aimed at improving the profile of the foreign public debt, carried out anticipated redemptions of US$3.8 billion in the period, of which US$2.9 billion referring to the face value of bonds and US$869 million to premiums.

Table 5.7 – Financial account

US$ billion

	2009			2010			2011
	Nov	Jan-nov	Year	Nov	Jan-nov	Year[1/]	Year[1/]
Capital account	6.0	56.9	70.2	7.7	89.7	93.9	67.8
Direct investments	2.4	26.7	36.0	4.8	26.6	30.5	29.0
Abroad	0.8	5.8	10.1	1.1	-6.5	-7.5	-16.0
In Brazil	1.6	20.8	25.9	3.7	33.1	38.0	45.0
Equity capital	1.0	15.4	19.9	2.4	26.8	29.8	35.0
Intercompany loans	0.6	5.5	6.0	1.4	6.4	8.2	10.0
Portfolio investments	3.6	42.5	50.3	3.0	64.2	64.6	41.0
Assets	0.4	-0.5	4.1	1.3	2.5	2.0	-
Liabilities	3.3	43.1	46.2	1.7	61.7	63.1	41.0
Derivatives	0.0	0.2	0.2	0.0	-0.1	-	-
Other investments	0.0	-12.5	-16.3	-0.1	-1.0	-1.2	-2.2
Assets	0.5	-28.0	-30.4	-3.0	-47.5	-52.6	-18.0
Liabilities	-0.5	15.5	14.1	2.9	46.4	51.4	15.8

1/ Forecast.

Table 5.8 – BP financing sources

Selected items

US$ billion

	2009			2010			2011
	Nov	Jan-nov	Year	Nov	Jan-nov	Year[1/]	Year[1/]
Medium and long-term funds	1.2	13.9	15.7	1.7	31.4	36.1	19.9
Public bonds	0.0	3.6	4.1	0.0	2.8	2.8	-
Private debt securities	0.9	7.6	8.5	0.8	18.7	22.1	8.6
Direct loans	0.3	2.7	3.1	0.9	9.9	11.2	11.3
Short-term loans (net)[2/]	-1.6	-0.6	-2.2	1.0	22.1	23.5	-
Short-term sec. (net)	0.0	-0.6	-0.6	0.1	4.1	4.1	-
Portfolio in the country (net)	2.8	37.9	42.2	2.0	43.3	51.3	40.0
Roll-over rates[3/]							
Total	262%	95%	88%	367%	239%	230%	150%
Debt securit.	517%	105%	95%	290%	223%	220%	150%
Direct loans	99%	75%	72%	472%	274%	250%	150%

1/ Forecast.
2/ Includes direct loans and trade credits transferred by banks.
3/ Corresponds to the ratio between direct loans and medium-and long-term amortizations. Excludes amortizations resulting from debt/equity conversion.

The rollover rate of medium and long-term loans to businesses traded abroad reached 239% in the year up to November, compared to 95% in the equivalent period of 2009. Net inflows of notes and commercial papers totaled US$10.3 billion, with disbursements of US$18.7 billion and repayments of US$8.4 billion, for a rollover rate of 223% in the period. Short-term securities showed net disbursements of US$4.1 billion.

Other Brazilian investments registered net increases in foreign assets of US$47.5 billion in the year up to November, while Brazilian banks deposits abroad fell by US$302 million and those held by the nonfinancial sector increased by US$5.8 billion. Net foreign loan disbursements, including commercial credits, totaled US$41.2 billion in the period.

Other foreign investments, including operations with international bodies and agencies, direct bank loans, commercial credits and deposits, showed net disbursements of US$46.4 billion in the first eleven months of the year, compared with US$15.5 billion in the same period in 2009. Net inflows of long-term loans totaled US$15.8 billion, highlighting the net loans granted by agencies, US$3.8 billion, and by buyers, US$3.7 billion. Direct mid and long-term loans registered net disbursements of US$6.2 billion, for a rollover rate of 274%, while short-term loans totaled US$22.1 billion.

In November, international reserves totaled US$285.5 billion, up US$46.9 billion compared to December 2009. Central Bank net purchases on the foreign exchange market amounted to US$39.8 billion in the year, of which US$39.3 billion referring to spot market operations and US$535 million to the amortization of the remaining balance of foreign currency loans. In addition, it should be mentioned the impacts of issues of sovereign bonds, US$1.2 billion; earnings on international reserves, US$3.6 billion; and other operations, US$2.3 billion.

5.5 External sustainability indicators

External sustainability indicators showed divergent trends during the period from December 2009 to November 2010, a trajectory consistent with the accentuated increase in the level of international reserves, 19.7%; of GDP evaluated in US dollars, 27.2%; in exports of goods, 27.8%; in total foreign debt, 24.7%, and its respective service, 10.5%. The creditor position of total net foreign debt fell by US$3.4 billion in the period to US$58.3 billion.

Table 5.9 – Statement of international reserves

US$ billion

	2009		2010		2011
	Jan-Nov	Year	Jan-Nov	Year[1/]	Year[1/]
Reserve position in previous period	193.8	193.8	238.5	238.5	285.8
Net Banco Central purchases	32.2	36.5	39.8	39.8	-
Spot	20.6	24.0	39.3	39.3	-
Repo lines of credit	8.3	8.3	-	-	-
Foreign currency loans	3.3	4.2	0.5	0.5	-
Debt servicing (net)	-2.4	-2.2	-5.3	-5.3	-0.6
Interest	0.4	0.7	-0.2	0.1	1.2
Credit	4.4	4.8	3.6	4.0	4.8
Debit	-4.0	-4.0	-3.9	-3.9	-3.6
Amortization	-2.8	-2.9	-5.1	-5.4	-1.9
Disbursements	1.8	1.8	1.2	1.2	-
Multilateral organizations	-	-	-	-	-
Sovereign bonds	1.8	1.8	1.2	1.2	-
Others[2/]	4.4	1.7	2.3	2.3	-
Treasury's purchases	6.8	7.0	8.9	9.3	5.4
Change in assets	42.9	44.7	46.9	47.3	4.8
Gross reserve position	236.7	238.5	285.5	285.8	290.6
Repo lines of credit position	-	-	-	-	-
Foreign currency loans position	1.3	0.5	-	-	-
Reserves position – liquidity	238.0	239.1	285.5	285.8	290.6

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.

The ratio of total foreign debt/GDP fell from 12.4% in December 2009 to 12.2%, while the ratio between the total net foreign debt to GDP moved from -3.9% to -2.9%.

The increase in foreign debt service at a level below that of exports contributed to the decrease in the debt service/total exports ratio by 3.8 p.p. to 24.6% in November. The total debt/exports ratio stood at 1.3, while the total net debt/exports moved from -0.4 to -0.3. In the same period, the international reserves/total foreign debt ratio fell from 120.6% to 115.5%.

5.6 Conclusion

In 2010, financial flows do not only permit the balance of payments financing, but also the accumulation of reserves. Forecasts for the balance of payments in 2011 reflect expectations of a slower recovery in the global economy and the maintenance of the expansion cycle of the Brazilian economy. Thus, the current account deficit should increase, driven by expanded demand for imports of goods and services and the prospect of greater net remittances of services as well as of profits and dividends.

However, it should be mentioned that the expected trajectory for current account transactions does not imply restrictions to the balance of payments financing. As demonstrated by the projections shown in a separate Box, the prospects point out for an increase in net flows of foreign direct investments with no obstacles to the rollover of public and private external liabilities, albeit at lower rates than 2010.

Table 5.10 – Sustainability indicators[1/]

US$ billion

	2009		2010			
	Jun	Dec	Mar	Jun	Sep	Nov[2/]
Exports of goods	158.9	153.0	161.0	172.2	186.1	195.5
Exports of goods and services	186.6	180.7	189.8	202.1	216.6	226.5
Debt service	41.3	43.6	47.4	47.0	48.3	48.1
Total external debt	204.9	198.2	211.5	228.6	247.8	247.1
Net external debt	-37.8	-61.8	-49.5	-42.2	-44.9	-58.3
International reserves						
Cash concept	221.6	238.5	243.8	253.1	275.2	285.5
Liquidity concept	224.2	239.1	244.0	253.1	275.2	285.5
GDP	1 489	1 598	1 798	1 971	2 033	2 033
Indicators						
Total external debt/GDP (%)	13.8	12.4	11.8	11.6	12.2	12.2
Net external debt/GDP (%)	-2.5	-3.9	-2.8	-2.1	-2.2	-2.9
Total external debt/exports	1.3	1.3	1.3	1.3	1.3	1.3
Total external debt/exports of goods and services	1.1	1.1	1.1	1.1	1.1	1.1
Net external debt/exports	-0.2	-0.4	-0.3	-0.2	-0.2	-0.3
Net external debt/exports of goods and services	-0.2	-0.3	-0.3	-0.2	-0.2	-0.3
Debt service/exports (%)	26.0	28.5	29.4	27.3	26.0	24.6
Debt service/exports of goods and services (%)	22.1	24.1	25.0	23.2	22.3	21.3
Reserves – cash concept/ total external debt (%)	108.1	120.3	115.2	110.7	111.1	115.5
Reserves – liquidity concept/ total external debt (%)	109.4	120.6	115.3	110.7	111.1	115.5

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

Balance of Payment Projections

Table 1 – Uses and sources

US$ billion

	2009			2010			2011
	Nov	Jan-nov	Year	Nov	Jan-nov	Year[1/]	Year[1/]
Uses	-5.4	-43.0	-54.4	-7.4	-74.2	-82.7	-92.9
Current account	-3.3	-18.4	-24.3	-4.7	-43.5	-49.0	-64.0
Amortizations ML-term[2/]	-2.1	-24.7	-30.1	-2.7	-30.8	-33.7	-28.9
Securities	-0.5	-10.3	-13.0	-1.1	-14.4	-15.6	-7.6
Suppliers' credits	-0.3	-3.4	-3.8	-0.2	-3.7	-3.8	-3.6
Direct loans[3/]	-1.4	-10.9	-13.3	-1.3	-12.7	-14.3	-17.8
Sources	5.4	43.0	54.4	7.4	74.2	82.7	92.9
Capital account	0.1	1.0	1.1	0.1	1.0	1.1	1.0
FDI	1.6	20.8	25.9	3.7	33.1	38.0	45.0
Domestic securities	2.8	42.8	47.1	2.0	50.4	51.3	40.0
and equities[4/]	2.9	27.9	35.8	3.5	52.9	58.3	45.8
ML-term disbursem.[5/]	0.9	11.2	12.6	0.8	21.5	23.3	8.6
Securities	0.2	2.3	2.7	0.2	2.9	4.7	6.9
Supliers' credits	1.9	14.5	20.5	2.5	28.5	30.3	30.3
Loans[6/]	1.7	-22.4	-15.8	-0.6	-51.4	-58.6	-34.0
Brazilian assets abroad	0.1	15.0	6.9	1.6	34.4	39.3	-
Other[7/]	-3.9	-42.2	-46.7	-3.0	-46.3	-46.7	-4.8
Reserve assets							

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 and omissions.

This box introduces a review of projections for the balance of payments in 2010 and 2011. Reviews looked at data gathered since the Inflation Report of last September, current updates regarding trends in the global and national economic outlook, the most recent statistics regarding the stock of national foreign indebtedness and its servicing, and repurchases of sovereign debt by the National Treasury.

The projection for the current account deficit remained at US$49 billion, a level that has remained constant since the March Inflation Report. There was, however, a rise in the projection for trade surplus and a reduction in expected net remittances of profits and dividends, at the same time as an expansion in the services account deficit and a decrease in net revenue with unilateral transfers.

The trade balance in 2010 rose from US$15 billion, estimated in the previous Inflation Report, to US$17 billion, already accumulating US$16.7 billion by the third week of December. This change occurred due to an increase in exports forecast for the year, from US$192 billion to US$198 billion, boosted by the favorable international scenario for price increases of Brazilian products abroad. The forecast for imports increased from US$177 billion to US$181 billion, due to the faster expansion of import volume.

The deficit in the category of services increased from US$26.7 billion in the previous Inflation Report, to US$31.1 billion, mainly due to the revision of net expenditures in accounts for equipment rental, transportation and international travel. The dynamism of the domestic economy and investments were reflected in an increase of US$2.5 billion in the forecast for net remittances of equipment rental, which totaled US$13.5 billion. Expansion of trade flow was largely responsible for the increase of US$1.5 billion in the forecast for net payments abroad for transportation, which should total US$6.5 billion in the year. Net spending on international travel increased from US$10 billion to US$10.5 billion.

Net interest expenses increased by US$0.1 billion to US$9.5 billion, while those relating to profits and dividends were reduced from US$32 billion to US$28.7 billion, representing growth of 13.8% compared to 2009. Still reflecting the impacts of the international crisis on the labor market of developed countries, the projection for unilateral transfers, consisting mainly of remittances for resident maintenance, dropped to US$2.7 billion this year.

The estimated surplus for the financial account was raised to US$93.9 billion, a reduction in the projection for net Brazilian direct investment abroad and increases in net inflows of Foreign Direct Investment (FDI), in portfolio investments and in rollover rates. The projection for Brazilian direct investment was reduced from US$12 billion to US$7.5 billion, while that for FDI increased from US$30 billion to US$38 billion, returning to the value forecast in the June Inflation Report, due to the acceleration of these investments in recent months.

Among portfolio investments, it is worth noting the increase in the projection for net inflows of foreign investment in shares and fixed-income in the country. With the conclusion of recent share offerings, this projection has moved from US$38 billion to US$51.3 billion.

Likewise, the typical access of resident corporations to international financial markets is materialized in disbursements more than sufficient to meet the depreciation in the period. Accordingly, the projection for the rollover rate for national foreign debt, which reached 239% by November, was revised upward from 175% to 230%. Thus, disbursements in the year were increased from US$11.9 billion to US$58.3 billion.

Finally, the projection for inflows of foreign short-term investments, including securities, commercial credits and loans, moved from US$32 billion to US$39.3 billion.

Table 2 – Balance of payments – Market

US$ billion

	2009			2010			2011
	Nov	Jan-nov	Year	Nov	Jan-nov	Year[1/]	Year[1/]
Current account	-3.6	-22.8	-29.1	-5.1	-47.1	-53.0	-68.8
Capital (net)	8.5	60.2	67.5	6.9	87.5	93.4	74.9
Foreign direct investment	1.6	20.8	25.9	3.7	33.1	38.0	45.0
Portfolio investment	2.8	42.6	46.7	2.0	49.3	49.7	38.0
ML-term loans	0.3	-0.4	1.0	1.1	17.7	19.1	8.4
Trade credits – Short, medium and long-term	-1.0	10.0	5.8	2.1	34.4	37.8	8.4
Banks	-1.0	2.5	1.7	1.3	25.8	26.0	5.2
Other	0.1	7.5	4.1	0.8	8.6	11.9	3.3
Brazilian invest. abroad	3.1	-17.2	-14.0	-1.1	-50.8	-58.0	-28.0
Other	1.7	4.4	1.9	-0.9	3.9	6.8	3.0
Financial gap	4.9	37.4	38.4	1.8	40.4	40.4	6.0
Banco Central net interv.	-3.4	-32.2	-36.5	-2.4	-39.8	-39.8	-
Bank assets	-1.4	-5.2	-1.9	0.6	-0.6	-0.6	-6.0

1/ Forecast.

In this scenario, the financing gap for the balance of payments in the market is expected to reach a total surplus of US$40.4 billion, compared with US$19.5 billion in the previous projection. Of this total, the Central Bank will absorb, based only on transactions carried out up to November, US$39.8 billion, while the banking sector will expand assets abroad by US$0.6 billion.

Regarding 2011, there was an increase in the deficit projection for current transactions compared to the previous report, from US$60 billion to US$64 billion, equivalent to 2.85% of Gross Domestic Product (GDP). The trade surplus was maintained at US$11 billion, with increases in the values of exports and imports to US$235 billion and US$224 billion, respectively.

The deficit in the services account expanded from US$30.1 billion to US$35 billion, with increases in net expenditures on equipment rental, travel and transportation ofUS$14.5 billion, US$12 billion and US$7.2 billion, in that order.

Additionally, there were reductions both in net remittances of profits and dividends, from US$36 billion to US$33 billion, and inflows of unilateral transfers, from US$4 billion to US$3 billion. In both cases, such revisions in projections were due to a lower than expected performance, maintained in the prospects for the next year.

Projections for direct investments, both Brazilian investments abroad, and foreign investment in the country, remained unchanged at US$16 billion and US$45 billion respectively. The rollover rate also remained steady at 150%. Investments in domestic securities and shares have increased from US$36 billion, in the September projection, to US$40 billion.

In this scenario, the financial gap in the balance of payments of the market should again be a surplus, totaling US$6 billion in 2011.