Brazil Flash

Current account deficit drops as global tensions rise

Recent financial turbulences drove prices of Brazilian exports down and made the real weaker. As a consequence of the former, the trade surplus has been declining. As a result of the former, both income and service deficits have been trending down. Taking all these things into account, the current account deficit has been abating lately.

- **Trade surplus slows down.**
  Brazil's trade surplus dropped for the second month in a row in and reached USD 2.4bn in October (USD 3.9bn in August and USD 3.1bn in September) as exports declined more than imports: 4.9%m/m the former and 2.1%m/m the latter (in September exports and imports had declined 11.0%m/m and 9.3%m/m, respectively). The moderation of Brazilian trade flows is in line with a lower economic dynamism both in Brazil and abroad. The more significant adjustment of exports in comparison to imports is due a recent drop in Brazil's terms of trade. In spite of the recent easing, the trade balance accumulates a USD 25.4bn surplus in the year to date which is 74.7% more than in the same period last year.

- **Income and service deficits also slow down.**
  The recent depreciation of the real and the moderation of domestic demand drove income and services deficits down. The sum of these two deficits reached USD 5.7bn in October, significantly less than the USD 9.0bn deficit recorded in August and than the USD 7.0bn monthly average observed from January to August. Especially remarkable was the adjustment of the sub-account "profit remittances abroad" which dropped from USD 5.1bn in August and USD 3.2bn in average from January to August to USD 1.6bn in October. Taking into account the data released today, income and services deficits together amount to USD 67.0bn in the year up to date (19.7%y/y).

- **All in all, the current account deficit declines.**
  As the magnitude of the recent correction in income and services accounts has been larger than the decline in trade surplus, the current account deficit has been narrowing: it was equal to USD 3.1bn in October, less than markets were expecting and less than the average observed in the year before global turbulences intensified (USD 4.2bn in average between January and August). The current account deficit accumulates now USD 47.3bn in the year up to date. As a share of GDP, the 12-month current account deficit dropped to 2.0% in October, the lowest figure since the first half of 2010. This moderation of the current account creates a downside bias to our current account deficit forecasts (2.1% in 2011 and 2.9% in 2012).

- **On the funding side, FDI flows remain very strong.**
  In spite of the uncertainties hovering around the global economy, foreign direct investments (FDI) into Brazil have been showing resilience: in October they reached USD 5.5bn, which is the same amount observed in average before financial tensions intensified. As a share of GDP, 12-month FDI inflows remain around 3.2% of GDP.

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Enestor Dos Santos
enestor.dossantos@bbva.com
+34 639 82 72 11

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