RESEARCH

# Economic Watch

## Brazil

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Economic Analysis

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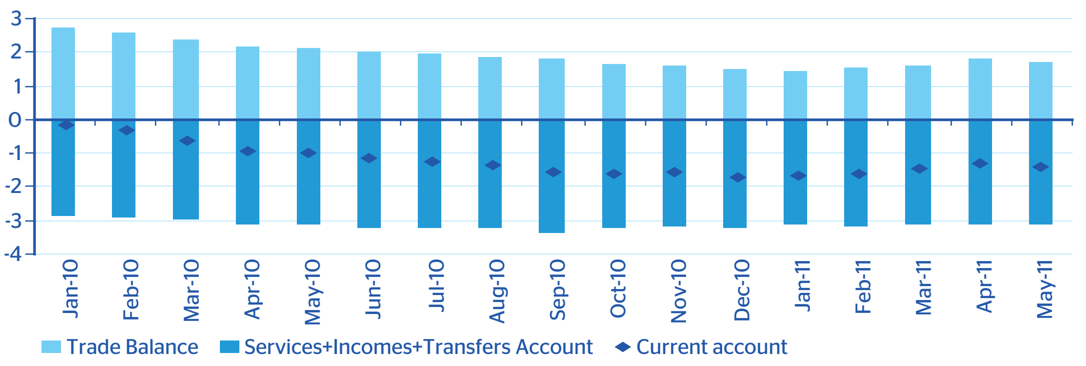
# Brazil: stable current account deficit

- **The 12-month current account deficit was equal to 2.29% of GDP in May.** The deficit has been within the 2.20%-2.30% range since August of 2010 when trade balance stopped trending down and started moving gradually up in spite of the appreciation of the exchange rate and of the dynamism of domestic demand (see graph below).

- **The trade balance inflexion is related to a sharp improvement of terms of trade.** This suggests that an eventual drop in the price of Brazilian exports will impose an extra burden to the current account. In our view, current account risks remain alive in spite of the recent stability.

The current account deficit reached 2.29% of GDP in May, within the 2.20%-2.30% range it has been since August of 2010. FDI and overall capital inflows eased in May, but remained at high levels. Total external debt reached 12.8% of GDP, which is still less than the total international reserves owned by the country (15.0% of GDP)

Chart 1
External Accounts (accumulated in 12 months; % GDP)




Source:Central Bank of Brazi

- **The current account deficit was equal to USD 4.1bn in May,** more than markets were expecting (around USD 3.7bn) and more than in April (USD 3.5bn).

- **The trade balance reached USD 3.5bn in May as exports reached USD 23.2bn (+31%y/y; +15%m/m) and imports USD 19.7bn (38%y/y; 7%m/m).** The trade balance accumulates USD 8.6bn in the year up to now, which is 52% more than in the same period last year as exports grew 31% in the first five months of the year, in comparison to a 29% growth of imports.

- **FDI was equal to USD 3.9bn in May, below the record levels recorded in the last three months (USD 6.7 bn in average), around the same levels observed in 2010 (USD 4.0bn in average), and more than forecasted by markets (USD 3.0bn).** In the same line, total capital inflows (which include FDI, portfolio inflows, derivatives, and other inflows) eased to USD 8.9bn in May from USD 13.2bn in average in the three previous months.

- **In spite of the moderation observed in May, FDI accumulates now 2.88% of GDP in the last 12 months,** which is more than enough to fund the current account deficit. In addition, international reserves continued to grow and reached USD 333.0bn (15% of GDP).

- The data released today also show that the gross external debt reached USD 284.1bn (12.8% of GDP), which is 10.6% more than the level observed by the end of 2010 (when it was equal to 12.3% of GDP). The main contribution to this expansion came from the banking sector whose total external debt increased 19.9% in the period (long-term external debt to the banking system grew 54.8% while short-term external debt to the sector dropped 15.6% following the recent implementation of some measures to avoid short-term capital inflow).
- Looking forward, we expect trade balance to be less supportive in the second half of the year and the current account deficit to be around 2.45% of GDP by the end of 2011.

For more on Brazil, click here

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