

Brazil Flash

Current account deficit to near 3.0% in 2012 after closing 2011 at 2.1% of GDP

Current account deficit closed 2011 at 2.1% of GDP, not very far from the 2.2% deficit observed in 2010 as very positive terms of trade drove trade balance up and offset the negative impact of a strong domestic demand and an appreciated exchange rate. In 2012 we expect a downward correction of terms of trade to weight on external accounts and the current account deficit to reach 3.1%, the highest figure since 2001.

- **Trade balance to shrink significantly after surprising to the upside in 2011**

Brazil's trade surplus expanded 47%/y/y and reached USD 29.8bn in 2011 (1.2% of GDP) as exports expanded 27%/y/y, more than imports which grew 25%/y/y. The trade surplus expansion was essentially due to more positive terms of trade (we estimate export and import prices to have grown 18%/y/y and 7%/y/y, respectively, last year) as the volume imported grew more than the volume exported (17%/y/y and 8%/y/y, respectively). This year we expect global tensions and lower global growth to impact more significantly exports prices than imports prices (the former is expected to drop 7%/y/y and the latter, to remain practically constant). As a result of the former –and of the relative strength of domestic demand–, we expect Brazilian trade surplus to drop to USD 11bn (0.4% of GDP) in 2012, the worst result since 2001.

- **Current account to deteriorate from now on**

In addition to a less supportive trade balance, both service and income accounts will also play a role in the deterioration of the current account in 2012. We expect a relatively appreciated exchange rate (around 1.78) and a resilient domestic demand (to grow around 3.6%/y/y this year) to keep service and income deficits at high levels. More precisely, we expect the service deficit to be around 1.6% of GDP (1.5% in 2011 and 1.5% in 2010) and the income deficit to reach 2.1% of GDP (1.9% in both 2011 and 2010) this year. All in all, the deficit in current account should reach 3.1% (USD 78.8bn) in 2012 in comparison to 2.1% in 2011 (observed: USD 52.6bn; expected USD 52.4bn).

- **No problems to fund an increasing current account deficit, at least in our base scenario.**

Brazil should have no big problems to fund its increasing current account deficit, at least if the global situation refrains from being much more negative than we are currently anticipating. FDI flows amounted to USD 66.6bn (2.7% of GDP) in 2011 and should continue vigorous this year (we expect them to reach at least USD 50bn) in line with Brazil's positive perspectives of expansion in coming years. Portfolio inflows, which dropped from USD 63.0bn in 2010 to USD 25.1bn in 2011, should continue as a positive –although secondary – source of external funding. The situation would be much more problematic in the case of an extreme deterioration of the external environment, but even in this risk scenario the funding situation would be eased by the use of international reserves, which reached USD 352bn in the end of 2011 (more than the total external debt, which increased 16%/y/y and reached USD 297bn).

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