Brazil Flash

The weakness of the real drives profit remittances down and prevents an additional increase in the current account deficit

The current account deficit remained practically unchanged in the first half of the year as the impact of a lower trade surplus was offset by a decline in profit remittances abroad. FDI inflows remained strong, providing more than enough resources to fund the current account deficit, which reached 2.2% of GDP in June and is expected to close the year at 2.5%.

- ### Trade flows slowdown in June

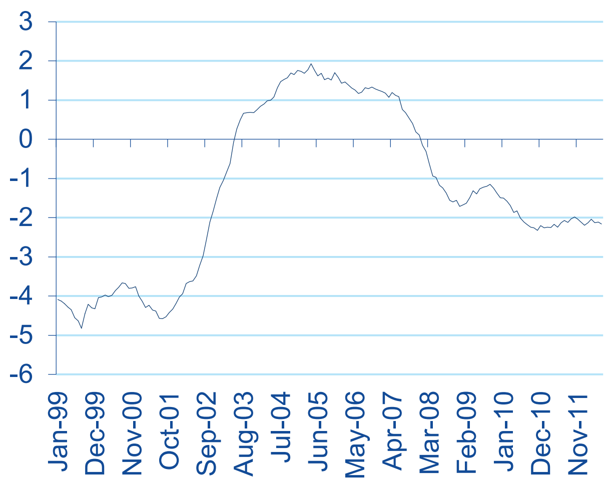
  Both exports and imports declined significantly in June after holding up very well in the first five months of the year. Exports contracted (-17%m/m; -18%y/y) in June following the moderation of both global demand and commodity prices. Imports also contracted, although at a slower pace (-8%m/m; -4%y/y). The trade balance, therefore, dropped to USD 0.8bn from USD2.9bn in the previous months and USD4.4bn in the same month last year. As a consequence of this deterioration, and of deficits in both service and income accounts (USD 3.4bn and USD 2.2bn, respectively), the current account deficit increased in comparison to May (USD 3.5bn) and also to June of 2011 (also USD3.5bn). Amid heightened uncertainty over Europe, both portfolio inflows and private bond issuances remained relatively low (USD 1.2bn and USD0.8bn, respectively) while FDI inflows and the debt roll-over ratio showed strength (USD 5.8bn and 361%, respectively) in June

- ### Current account deficit: stable in the first semester and increasing in the second

  In spite of the sharper deterioration observed in June, the current account deficit remained relatively stable in the first half of the year. In yearly terms it reached USD 51.8bn (2.2% of GDP) in comparison to USD 52.8bn (2.1% of GDP) in the end of 2011 (see Chart 1 below). Lower terms of trade are helping to reduce the trade balance in the last months (USD 7.1bn in H1 2012 in comparison to USD 13.0bn in H1 2011), but this is at a large extent being offset by lower profit remittances (which declined to USD 10bn in H1 2012 from USD 18.8bn in H1 2011, supporting the reduction of the income balance deficit in the period). Looking ahead, we expect worse terms of trade to continue to impact negatively the trade balance and to drive the current account deficit up to USD 58bn by December, even though the weakness of the real will continue providing less incentives for companies to remit profits abroad. In terms of GDP, we expect the current account deficit to reach 2.5% by the end of the year (note that a weaker real drives "automatically" the current account deficit /GDP ratio up by lowering the value of GDP in dollars).

For more on Brazil, **click here**

Chart 1
Current Account(% GDP)



Source: Central Bank of Brazil

Chart 2
Balance of Payments (USD million)

	H1 2012	H1 2011
Current Account	-25.342	-26.034
Trade Balance	7.069	12.960
Service Balance	-19.679	-17.993
Income Balance*	-12.732	-21.001
Capital and Financial Account	47.119	68.944
Capital Account	926	666
FDI**	34.732	34.986
Portfolio	1.010	25.146
Other	10.452	8.146
Reserves Variation* **	-21.778	-42.910
* Includes international transfers.		
** In net terms.		
*** (-) means increase of reserves.		

Source: Central Bank of Brazil

La debilidad del real reduce los pagos por rentas de capital e impide un deterioro adicional del déficit en cuenta corriente

El déficit en la cuenta corriente permaneció prácticamente inalterado en la primera mitad del año debido a que el impacto de un menor superávit comercial fue compensado por menores pagos por rentas de capital. Los influjos de IED siguieron robustos, más que suficientes para financiar el déficit en cuenta corriente, el cual alcanzó 2,2% del PIB en junio y se espera alcance 2,5% al final del año.

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