Brazil

Economic Watch

Madrid, 23 February 2011

Economic Analysis

Enestor Dos Santos
enestor.dossantos@grupobbva.com
+34 91 537 68 87

Brazil: current account deteriorates; capital inflows at record highs

- The current account deficit reached USD 5.409 millions in January, in line with the market consensus (USD 5.650 million) and higher than BBVA's forecast (USD 4.000 million).
- The deficit was higher than observed in December (USD 3.493 million) as the trade surplus declined sharply, more than compensating for a moderation in the income and services balance's deficit.
- The trade balance result was USD 424 million in January as exports reached USD 15.215 million (34.6%y/y) and imports reached USD 14.791 million (28.8%y/y). This result compares poorly to the result from the previous month (USD 5.367 million), but an important part of the decline is explained by seasonal factors and by the fact that December's surplus was extraordinarily high. Preliminary data available for February suggests that the trade balance should be around USD 2.000 million.
- The services and income balance's deficit reached USD 6.080 million, lower than December's USD 9.169 million deficit, and still very driven by travel expenditures (USD 1.146 million) and by interest payments (USD 2.536 million).
- The funding of the current account deficit, recorded in the financial and capital account, reached USD 13.922 million in January, the third largest monthly value since the series started in 1995. Foreign direct investments (FDI) reached USD 2.956 million (market's consensus: USD 2.000 million). Preliminary information suggests FDI could have reached USD 7.000 million in February, which would be an all-time record for the month.
- The current account deficit accumulated over the last 12 months moved up to USD 49.106 million (2.35% of GDP) in comparison to USD 47.518 million (2.3% of GDP) at the end of 2010. FDI accumulated USD 50.817 million (2.43% of GDP) in the same period.
- We expect the current account deficit to continue deteriorating as the year goes on, reaching USD 66.000 million (2.8% of GDP) by Dec-11.

For more on Brazil, click here.

DISCLAIMER