

Economic Watch

Brazil

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Economic Analysis

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Brazil: strong FDI flows offset current account deterioration

- The current account deficit reached USD 5.676 million in March. The deficit was higher than expected (USD 4.800 million) and than observed in the same period last year (USD 5.017 million). The current account deficit now accumulates USD 50.047 million (2.33% of GDP) in the last 12 months.
- The trade balance remains positive and higher than expected, due to exceptionally supportive terms of trade. The trade balance was equal to USD 1.552 million in March (a 130%y/y growth in comparison to March of 2010 as exports expanded 23%y/y and imports 18%y/y).
- The recent deterioration of the current account deficit, from 1.52% of GDP in December of 2009 to 2.33% in March, follows the strong dynamism of the domestic demand and the appreciation of the exchange rate. This deterioration is, however, being more than compensated by surprisingly robust FDI flows, which expanded from 1.62% in December of 2009 to 2.81% of GDP in March.
- FDI flows mounted to USD 6.791 million in March, one of the highest results ever. Net portfolio inflows remained significant (USD 3.194 million in March), but not as much as FDI inflows. The financial and capital account recorded a USD 15.024 million surplus this month, much more than the needed to fund the current account. As a consequence, international reserves expanded significantly and reached USD 317.146 millions (14.7% of GDP).
- Although strong FDI inflows and high terms of trade are easing the concerns with the current account, its continued deterioration (to 2.6% of GDP by the end of this year and 3.3% by the end of 2012 according to our estimates) should highlight the risks of a forced correction triggered by a change in the external mood or a reversal of the commodity prices' positive trend.

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