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# Shrinking External Imbalance of Brazil

Hiroshi Morikawa, Senior economist
Institute for International Monetary Affairs

The current account of Brazil recorded a surplus of $0.4 billion in April, which was the first single-month surplus since April 2009. The accumulated balance on the current account for January-April 2016 amounted to a deficit of $7.2 billion, noticeably decreasing by 77% as compared to the corresponding period of a year earlier (2015).

**Chart 1. External Balance of Brazil**

| ($ billion) | 2016 Jan-Apr. | 2015 Jan-Apr | 2015 whole year |
|---|---|---|---|
| Current Account | -7.2 | -31.9 | -58.9 |
| Trade Balance | 12.4 | -5.5 | 17.7 |
| Exports | 55.7 | 57.6 | 190.1 |
| Imports | 43.2 | 63.1 | 172.4 |
| Service Balance | -8.7 | -13.6 | -36.9 |
| Income Balance | -10.8 | -12.8 | -39.7 |
| Capital･Fiancial Account | -5.1 | -32.0 | -54.3 |
| Financial Account | -4.5 | -35.4 | -56.3 |
| Direct Investment | -21.1 | -10.0 | -61.6 |
| Assets | 2.7 | 8.9 | 13.5 |
| Liabilities | 23.8 | 18.9 | 75.1 |
| Portfolio Investment | 4.1 | -25.1 | -22.0 |
| Assets | -0.9 | -0.8 | -3.5 |
| Liabilities | -5.0 | 24.3 | 18.5 |
| Derivatives | -0.3 | 0.9 | 3.4 |
| Others | 12.8 | -1.2 | 23.9 |
| Capital Account | 0.1 | 0.1 | 0.4 |
| Forex Reserves | -0.6 | 3.2 | 1.6 |
| Errors & Omissions | 1.9 | 1.2 | 3.7 |

(Source) Banco Central do Brasil

Let's look at the details of the Jan-Apr. balance. Exports decreased by $1.9 billion to $55.7 billion from $57.6 billion recorded in the corresponding months of last year, showing a declining trend has continued. Imports decreased drastically by $19.9 million to $43.2 billion from $63.1 billion, an impressive decline of 33% from a year earlier. This can be understood as an evidence that the correction of external imbalance has been strongly induced by the stagnant domestic demand and a shift of demand to domestic products associated with the depreciation of the real. As a result, the trade balance shifted from a deficit of $5.5 billion last year to a surplus of $12.4 billion this year.

The deficit in the services account narrowed from $13.6 billion last year to $8.7 billion this year. A large decrease in travel deficit ($4.8 billion to $1.7 billion) contributed to the decline. As the sagging business restrained the outflow of income (remittance of interests and dividends to abroad), income balance reduced the deficit from $12.8 billion in the previous year to that of $10.8 billion this year.

On the capital transactions, net inflow of capital narrowed by a large margin. Both portfolio investment and other investment (such as loans) recorded a net outflow respectively[1]. At the same time the financial account (which represents private capital transactions) reduced its inflow of capital dramatically from $35.4 billion of last year to $4.5 billion this year, although the inflow in the direct investment increased from $10.0 billion last year to $21.1 billion this year. It will be a great relief to Brazil that the current account deficit has been financed totally by an inflow of direct investment which is not likely to outflow in the short run.

However, the present situation represents only a contracted equilibrium driven by the downturn of business and does not necessarily mean a good thing for the future of Brazil. The outflow of volatile capital like portfolio investment may reflect that concern. If the outflow of such capital continues in the ahead, Brazil may not be able to take comfort in the present situation.

The investors' concern derives from an expanding fiscal deficit and political capability that cannot control that fiscal deterioration. The handling of the Temer Interim Administration for the deficit reduction is greatly expected.

[1] In the capital and financial accounts, minus sign shows a decrease in net assets (inflow of capital) .