



# **BRAZILIAN ECONOMY: Macroeconomic Performance**

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# SUMMARY



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- 2-The public Sector Accounts**
- 3-Inflation**
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# Economic Adjustment



## 1999 : Main Changes

System	Features	Variables	Objectives
Exchange Rate	Floating	Exchange Rate	Balance of Payments Adjustment
Monetary	Inflation Targets	Interest Rate	Inflation Control
Fiscal	Fiscal Targets	Primary Surplus/ GDP	Reduction of Public Debt/GDP



# THE PUBLIC SECTOR ACCOUNTS



## **Fiscal Targets Primary Surplus (% of GDP)**

	<b>Result</b>	<b>Target</b>
<b>1999</b>	<b>3.21</b>	<b>3.10</b>
<b>2000</b>	<b>3.45</b>	<b>3.25</b>
<b>2001</b>	<b>3.64</b>	<b>3.35</b>
<b>2002</b>	<b>3.89</b>	<b>3.75</b>
<b>2003</b>	<b>4.32</b>	<b>4.25</b>
<b>2004</b>	<b>4.59</b>	<b>4.50</b>
<b>2005</b>	<b>4.84</b>	<b>4.25</b>
<b>2006</b>	<b>4.39*</b>	<b>4.25</b>

**\*Accumulated in 12 months (Mar06).**



## **The states' adjustments**

- \* Restriction of “AROs”**
- \* Restriction of “precatórios”**
- \* Privatization of state banks**
- \* Privatization of state owned companies**
- \* Renegotiation of states' debts**
- \* Fiscal Responsibility Law**



## **Fiscal Responsibility Law**

- **Prohibits debt renegotiations**
- **Ceilings for government expenditures**
- **Restriction of total government debt**
- **Primary Target Forecasts : 3 years**



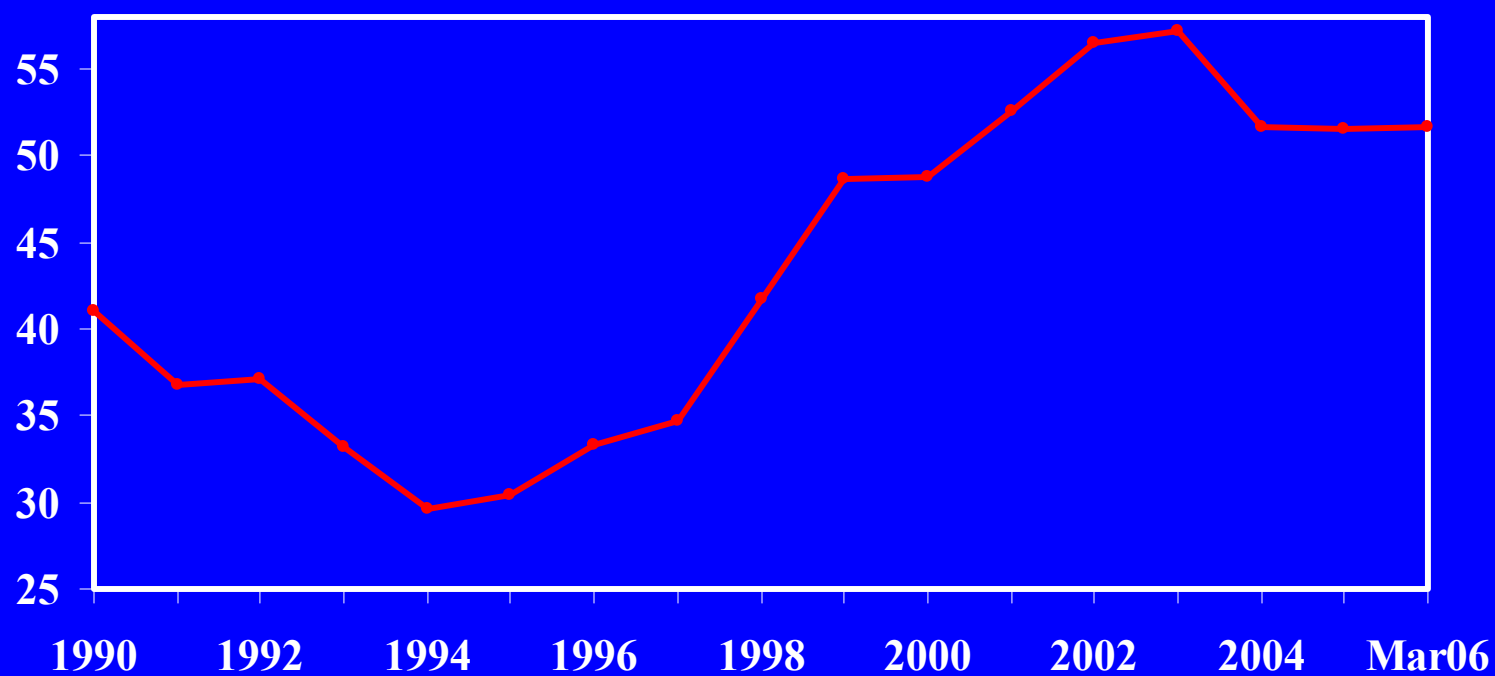
## PUBLIC SECTOR BORROWING REQUIREMENTS - PSBR (% of GDP)

	2001	2002	2003	2004	2005	jan-mar/06
<b><i>PSBR</i></b>	<b>3.57</b>	<b>4.58</b>	<b>5.08</b>	<b>2.67</b>	<b>3.28</b>	<b>4.86</b>
Central Government	2.11	0.75	3.99	1.53	3.78	5.24
States/ Municipalities	2.02	3.83	1.74	1.92	0.28	0.32
State-owned companies	-0.56	0.01	-0.65	-0.79	-0.78	-0.70
<b><i>Primary</i></b>	<b>-3.64</b>	<b>-3.89</b>	<b>-4.25</b>	<b>-4.59</b>	<b>-4.83</b>	<b>-4.39</b>
Central Government	-1.83	-2.37	-2.49	-2.97	-2.88	-2.55
States/ Municipalities	-0.87	-0.79	-0.89	-0.99	-1.10	-1.24
State-owned companies	-0.93	-0.73	-0.87	-0.64	-0.85	-0.60
<b><i>Nominal Interest Payments</i></b>	<b>7.21</b>	<b>8.47</b>	<b>9.33</b>	<b>7.26</b>	<b>8.11</b>	<b>9.25</b>
Central Government	3.94	3.12	6.48	4.50	6.66	7.79
States/ Municipalities	2.90	4.62	2.62	2.91	1.38	1.55
State-owned companies	0.37	0.74	0.22	-0.15	0.07	-0.10

Source: Central Bank



## Public Sector Net Debt (% of GDP)





## Public Sector Net Debt (% of GDP)

% of GDP	2003	2004	2005	Mar06
<b><i>Internal Debt</i></b>	<b><i>45.5</i></b>	<b><i>44.4</i></b>	<b><i>48.9</i></b>	<b><i>50.6</i></b>
Central Government	26.2	25.7	31.7	33.7
States and Municipalities	18.6	18.0	17.2	17.1
State-owned companies	0.7	0.5	0.0	-0.1
<b><i>External Debt</i></b>	<b><i>11.7</i></b>	<b><i>7.5</i></b>	<b><i>2.6</i></b>	<b><i>1.1</i></b>
Central Government	10.0	6.8	2.4	1.1
States and Municipalities	1.2	1.0	0.8	0.7
State-owned companies	0.4	-0.3	-0.6	-0.6
<b><i>Total Debt</i></b>	<b><i>57.2</i></b>	<b><i>51.7</i></b>	<b><i>51.5</i></b>	<b><i>51.7</i></b>



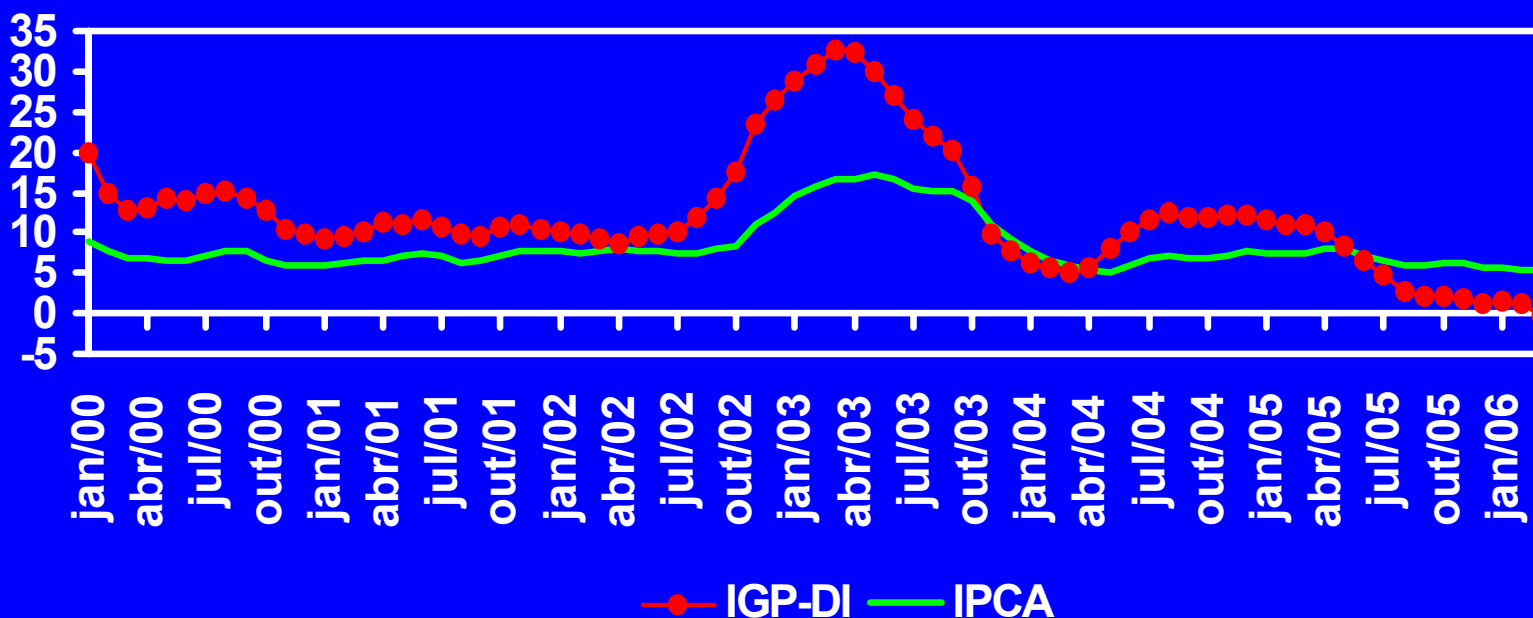
# INFLATION

## Inflation Targets - IPCA(%)

	1999	2000	2001	2002	2003	2004	2005	2006
<b>Target</b>	8.0	6.0	4.0	3.5	4.0	5.5	4.5	4.5
<b>Minimum</b>	6.0	4.0	2.0	1.5	1.5	2.0	2.0	2.5
<b>Maximum</b>	10.0	8.0	6.0	5.5	6.5	8.0	7.0	6.5
<b>Range</b>	2.0	2.0	2.0	2.0	2.5	2.5	2.5	2.0
<b>Adjusted target</b>	-	-	-	-	8.5	-	5.1	-
<b>Result</b>	8.9	6.0	7.7	12.5	9.3	7.6	5.7	5,3*
*Accumulated in 12 months (March).								

# Inflation (%)

## Accumulated over 12 months



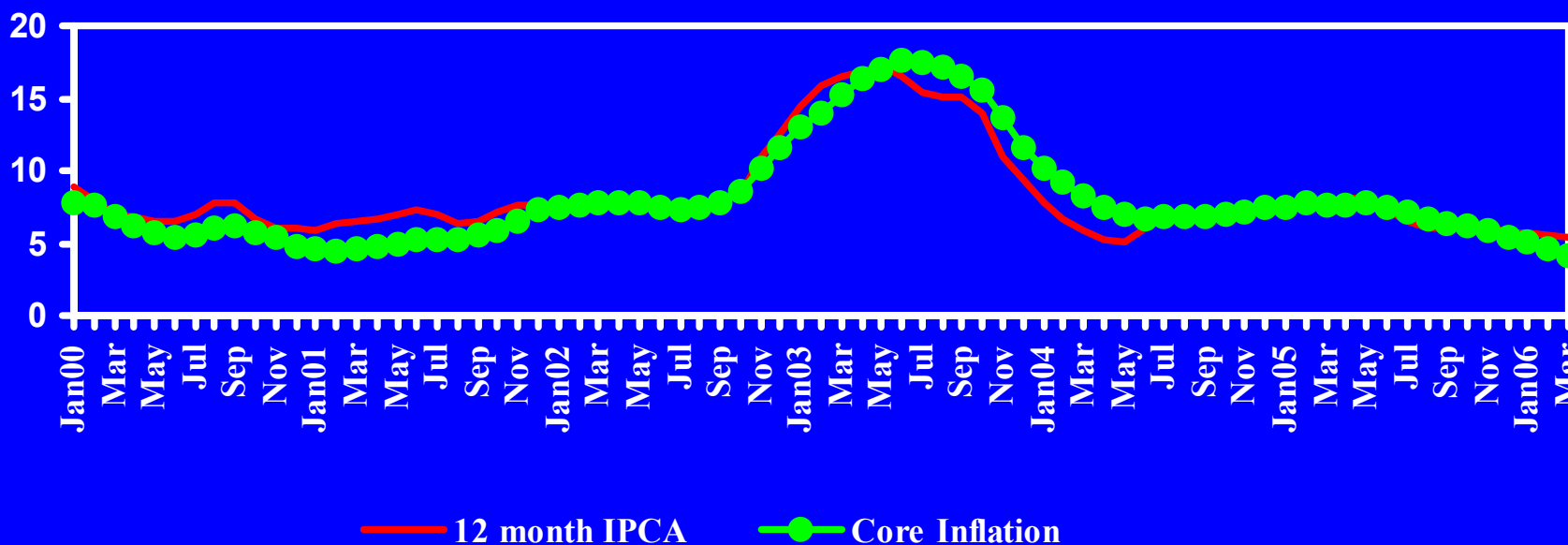
# **Inflation (%)**

## **Accumulated in 12 months**



	<b>IGP-DI</b>	<b>IPCA</b>	<b>IPC-FIPE</b>	<b>Average</b>
<b>1999</b>	<b>19.98</b>	<b>8.94</b>	<b>8.64</b>	<b>12.52</b>
<b>2000</b>	<b>9.79</b>	<b>5.97</b>	<b>4.38</b>	<b>6.71</b>
<b>2001</b>	<b>10.39</b>	<b>7.67</b>	<b>7.13</b>	<b>8.40</b>
<b>2002</b>	<b>26.40</b>	<b>12.53</b>	<b>9.92</b>	<b>16.28</b>
<b>2003</b>	<b>7.65</b>	<b>9.30</b>	<b>8.17</b>	<b>8.37</b>
<b>2004</b>	<b>12.14</b>	<b>7.60</b>	<b>6.57</b>	<b>8.77</b>
<b>2005</b>	<b>1.20</b>	<b>5.70</b>	<b>4.53</b>	<b>3.81</b>
<b>Feb-02</b>	<b>-0.30</b>	<b>5.30</b>	<b>3.40</b>	<b>2.80</b>

# Core Inflation - IPC/FGV(%) Accumulated over 12 months





# ECONOMIC PERFORMANCE



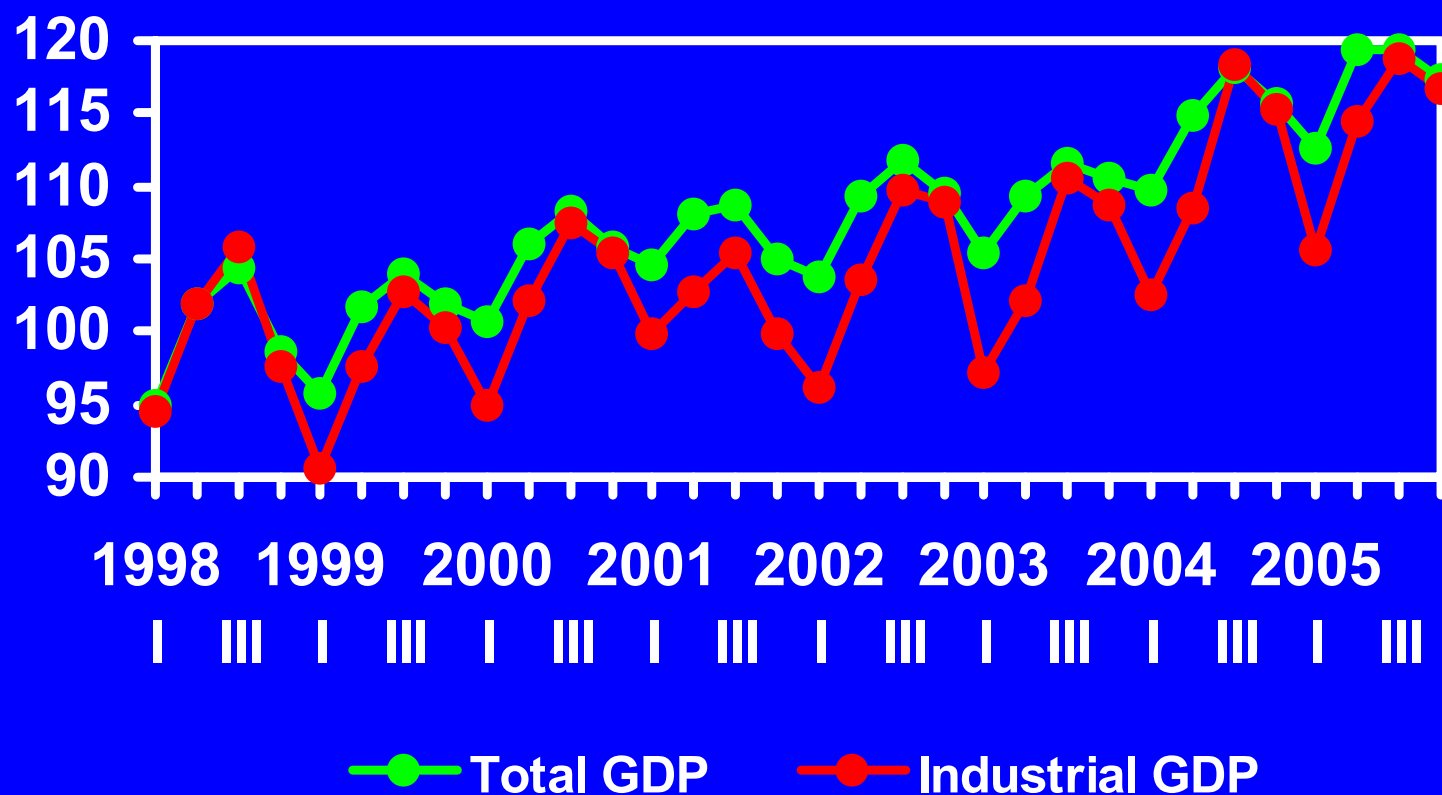
## **GDP and Per Capita Income Real Growth Rates(%) - IBGE**

	<b>GDP</b>	<b>Per Capita Income</b>
<b>1995</b>	<b>4.2</b>	<b>2.6</b>
<b>1996</b>	<b>2.7</b>	<b>1.1</b>
<b>1997</b>	<b>3.3</b>	<b>1.7</b>
<b>1998</b>	<b>0.1</b>	<b>-1.4</b>
<b>1999</b>	<b>0.8</b>	<b>-0.7</b>
<b>2000</b>	<b>4.4</b>	<b>3.0</b>
<b>2001</b>	<b>1.3</b>	<b>0.2</b>
<b>2002</b>	<b>1.9</b>	<b>0.4</b>
<b>2003</b>	<b>0.5</b>	<b>-0.9</b>
<b>2004</b>	<b>4.9</b>	<b>3.4</b>
<b>2005</b>	<b>2.3</b>	<b>0.9</b>

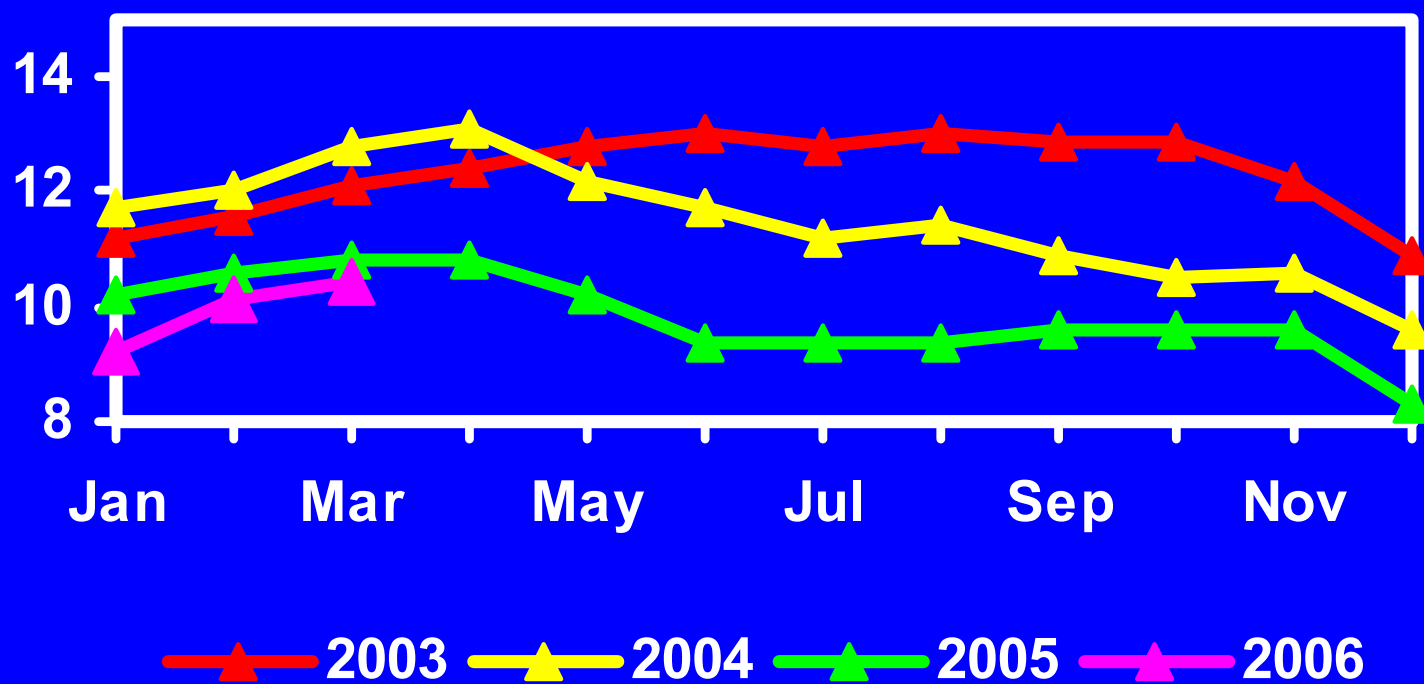
**Fonte: IBGE**



## Quarterly GDP - IBGE 1998=100



## Unemployment Rate (%)





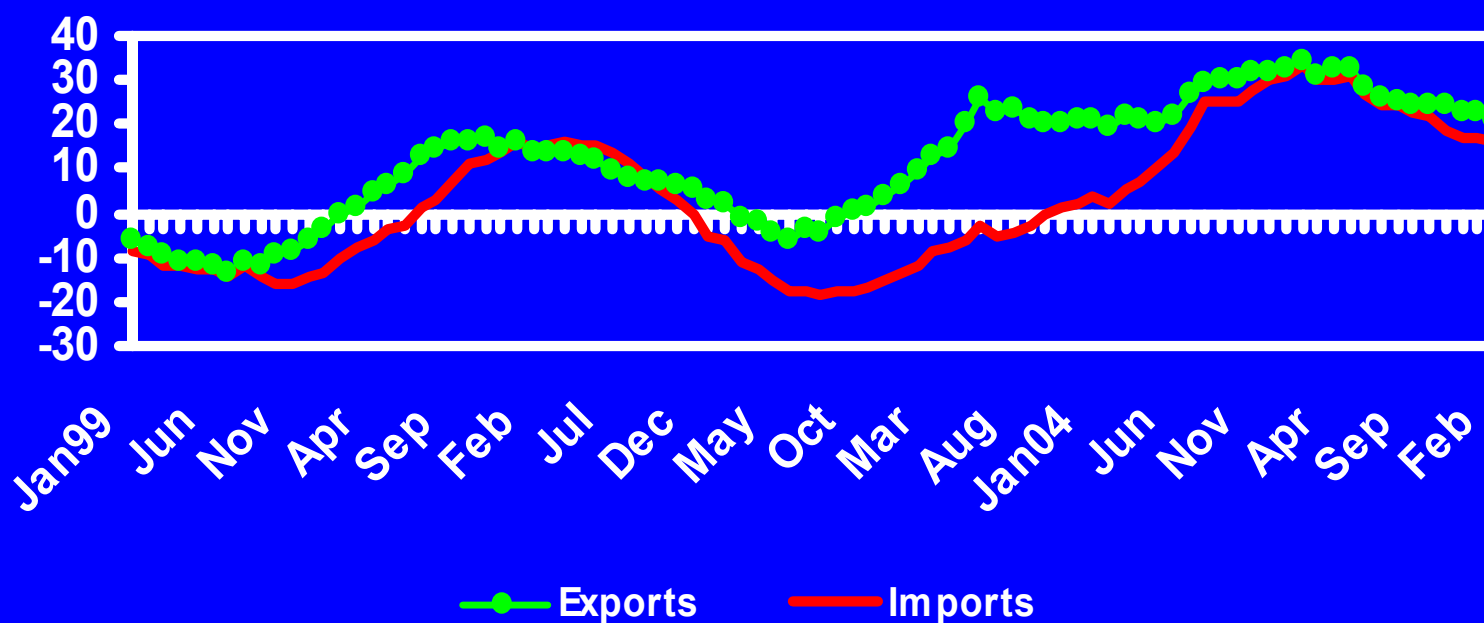
# EXTERNAL SECTOR



# Foreign Trade

## Exports and Imports

### 12 month accumulated variation (%)





## Brazilian Exports

US\$ million	2005	2004	Var. % 2005/04
Basic goods	34722	28518	22
Semi-manufactured goods	15961	13430	19
Manufactured goods	65144	52943	23
Special Transactions	2481	1578	57
<b>TOTAL</b>	<b>118308</b>	<b>96469</b>	<b>23</b>

Source: Development, Industry and Trade Ministry.



# Brazilian Trade: main partners

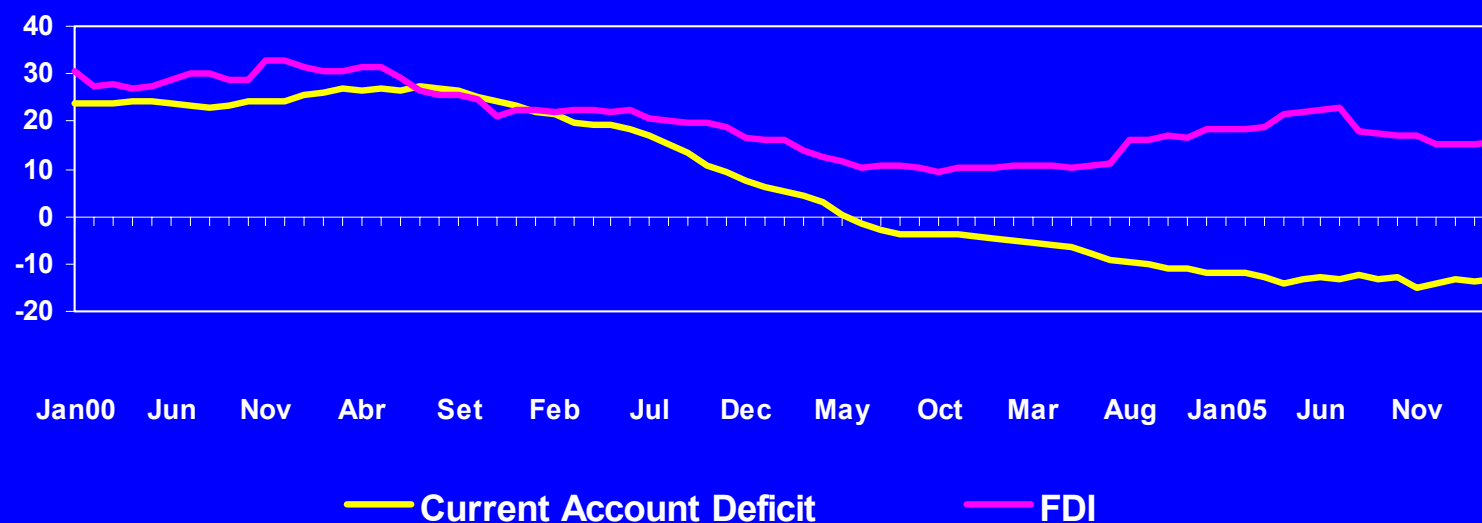
## US\$ Billion

	Exports				Imports			
	2005	2004	Var.(%)	P.(%)-2005	2005	2004	Var.(%)	P.(%)-2005
<b>EU</b>	27	24	10	21	18	16	14	21
<b>EUA</b>	20	20	0	16	13	12	12	15
<b>ALADI</b>	25	20	29	20	12	10	16	14
<b>MERCOSUR</b>	12	9	31	9	7	6	10	8
<b>Asia</b>	19	15	27	15	17	12	38	20
China	7	5	26	5	5	4	44	6
Japan	3	3	26	3	3	3	19	4
<b>Africa</b>	6	4	41	5	7	6	8	8
<b>Middle East</b>	4	4	17	3	3	2	9	3
<b>Eastern Europe</b>	4	2	55	3	1	1	-11	1
<b>Total</b>	<b>127</b>	<b>106</b>	<b>19</b>	<b>100</b>	<b>86</b>	<b>72</b>	<b>18</b>	<b>100</b>

Source: Development, Industry and Trade Ministry.



## Current Account Deficit and FDI Accumulated over 12 months - US\$ billion





## FOREIGN DIRECT INVESTMENTS (FDI) WORLD INFLOWS – US\$ BILLION

	1998	1999	2000	2001	2002	2003	2004	2005
<i>Developed Countries</i>	<b>472</b>	<b>828</b>	<b>1107</b>	<b>571</b>	<b>490</b>	<b>442</b>	<b>415</b>	<b>573</b>
EU	250	479	671	357	374	340	259	445
Japan	3	13	8	6	9	6	8	9
United States of America	174	283	314	159	63	57	96	106
<i>Developing Countries</i>	<b>194</b>	<b>232</b>	<b>252</b>	<b>220</b>	<b>158</b>	<b>172</b>	<b>243</b>	<b>273</b>
Africa	9	12	9	20	12	17	19	29
Latin America and Caribbean	82	108	98	88	53	48	69	72
Argentina	7	24	10	2	1	2	4	4
Brazil	29	29	33	22	17	10	18	16
Chile	5	9	5	4	2	4	8	7
Mexico	12	13	17	27	15	13	18	17
Venezuela	5	3	5	4	1	3	-	-
Asia and Pacific	102	113	146	112	94	107	155	173
China	45	40	41	47	43	53	61	60
Hong Kong (China)	15	25	62	24	10	14	34	40
India	3	2	2	3	3	4	5	6
<i>Transition Countries</i>	<b>22</b>	<b>25</b>	<b>26</b>	<b>25</b>	<b>29</b>	<b>24</b>	<b>37</b>	<b>50</b>
Russia	3	3	3	2	3	8	12	26
<b>Total</b>	<b>691</b>	<b>1087</b>	<b>1388</b>	<b>818</b>	<b>681</b>	<b>637</b>	<b>695</b>	<b>897</b>

*Source: UNCTAD*



## FDI - % of WORLD INFLOWS (%)

	1998	1999	2000	2001	2002	2003	2004	2005
<b><i>Developed Countries</i></b>	<b>68</b>	<b>76</b>	<b>80</b>	<b>70</b>	<b>72</b>	<b>69</b>	<b>60</b>	<b>64</b>
EU	36	44	48	44	55	53	37	50
Japan	0	1	1	1	1	1	1	1
United States of America	25	26	23	19	9	9	14	12
<b><i>Developing Countries</i></b>	<b>28</b>	<b>21</b>	<b>18</b>	<b>27</b>	<b>23</b>	<b>27</b>	<b>35</b>	<b>30</b>
Africa	1	1	1	2	2	3	3	3
Latin America and Caribbean	12	10	7	11	8	8	10	8
Argentina	1	2	1	0	0	0	1	0
Brazil	4	3	2	3	2	2	3	2
Chile	1	1	0	1	0	1	1	1
Mexico	2	1	1	3	2	2	3	2
Venezuela	1	0	0	0	0	1	-	-
Asia and Pacific	15	10	11	14	14	17	22	19
China	7	4	3	6	6	8	9	7
Hong Kong (China)	2	2	4	3	1	2	5	4
India	0	0	0	0	1	1	1	1
<b><i>Transition Countries</i></b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>5</b>	<b>6</b>
Russia	0	0	0	0	0	1	2	3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: UNCTAD*



# FDI in Brazil

## Sectorial Distribution (%)

	1998	1999	2000	2001	2002	2003	2004	2005	jan-mar/06
<i>Agriculture, cattle and mineral extraction</i>	1	2	2	7	3	11	5	10	9
<b>Industry</b>	<b>12</b>	<b>25</b>	<b>17</b>	<b>33</b>	<b>40</b>	<b>35</b>	<b>53</b>	<b>30</b>	<b>49</b>
Automotive Industry	5	7	3	7	9	7	4	5	4
Chemicals	2	5	4	7	8	7	7	3	5
Food and beverages	1	4	3	3	10	3	26	10	1
Metalurgical	1	0	1	2	1	3	1	1	15
Paper and paper goods	0	0	0	1	0	3	1	1	2
Electronic material and communication equipment	1	2	2	6	3	3	1	2	3
Others	4	7	4	8	9	9	14	8	20
<b>Services</b>	<b>88</b>	<b>73</b>	<b>81</b>	<b>60</b>	<b>56</b>	<b>54</b>	<b>42</b>	<b>60</b>	<b>42</b>
Postal and communication	11	28	36	20	22	22	15	18	2
Commerce	9	11	5	8	8	7	6	13	11
Services for companies	27	12	3	3	4	6	4	4	5
Financial institutions	25	6	21	9	6	5	5	6	13
Public utilities: power, gas and water	9	11	10	7	8	5	6	7	0
Others	5	5	5	13	7	9	9	11	11
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Central Bank.



## FDI in Brazil Country of Origin (%)

	1998	1999	2000	2001	2002	2003	2004	2005	jan-mar/06
<b>United States</b>	<b>20</b>	<b>29</b>	<b>18</b>	<b>21</b>	<b>14</b>	<b>18</b>	<b>20</b>	<b>21</b>	<b>34</b>
Cayman Islands	8	8	7	8	8	15	7	5	5
Japan	1	1	1	4	3	11	1	4	2
<b>France</b>	<b>8</b>	<b>7</b>	<b>6</b>	<b>9</b>	<b>10</b>	<b>6</b>	<b>2</b>	<b>7</b>	<b>4</b>
<b>Spain</b>	<b>22</b>	<b>21</b>	<b>32</b>	<b>13</b>	<b>3</b>	<b>6</b>	<b>5</b>	<b>6</b>	<b>4</b>
Bermuda	0	1	1	3	8	5	1	1	5
Germany	2	2	1	5	3	4	4	6	3
Italy	3	1	2	1	3	3	2	2	2
<b>Others</b>	<b>95</b>	<b>30</b>	<b>31</b>	<b>35</b>	<b>49</b>	<b>32</b>	<b>58</b>	<b>41</b>	<b>30</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Central Bank.



# OTHER INDICATORS



## Real Interest Rate - SELIC (%)/a

Year	Interest Rate (%)/a	
	Nominal	Real
1995	53.1	25.0
1996	27.4	16.3
1997	24.7	18.6
1998	28.8	26.7
1999	25.6	15.3
2000	17.4	10.8
2001	17.3	9.0
2002	19.1	5.8
2003	23.3	12.8
2004	16.2	8.0
2005	19.0	12.6
mar/2006*	18.9	12.9

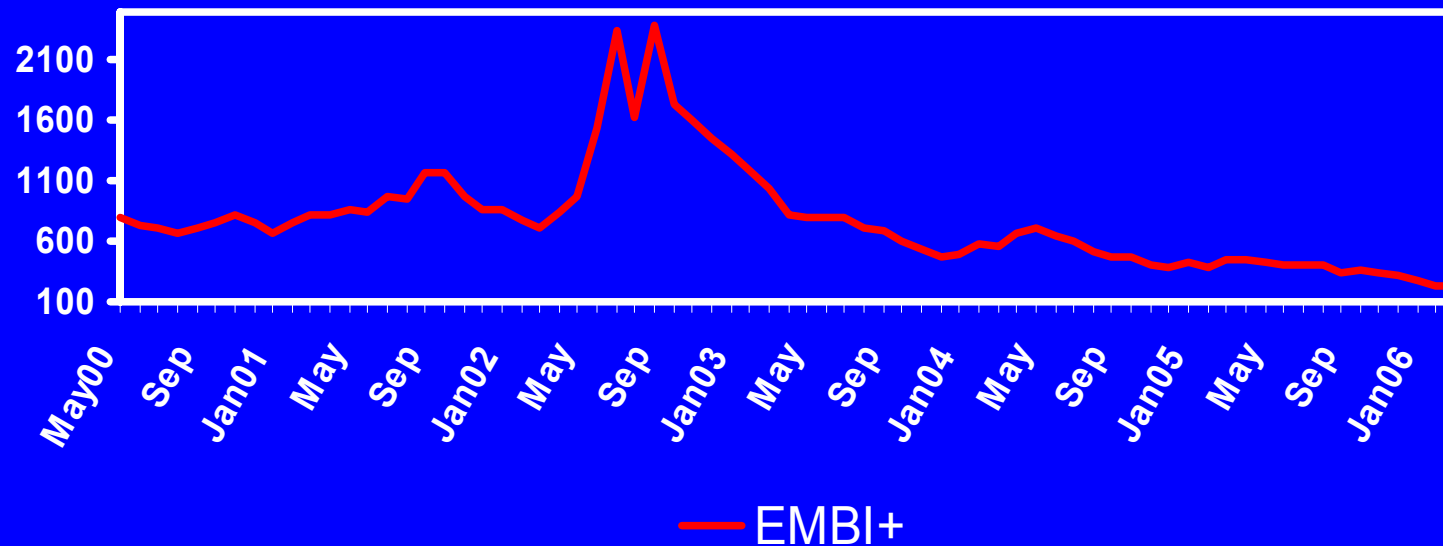
\*Accumulated over 12 months

/a Annual Deflator : IPCA

Source : Central Bank.



# Sovereign Risk Spread Brazil



# Sovereign Risk Spread



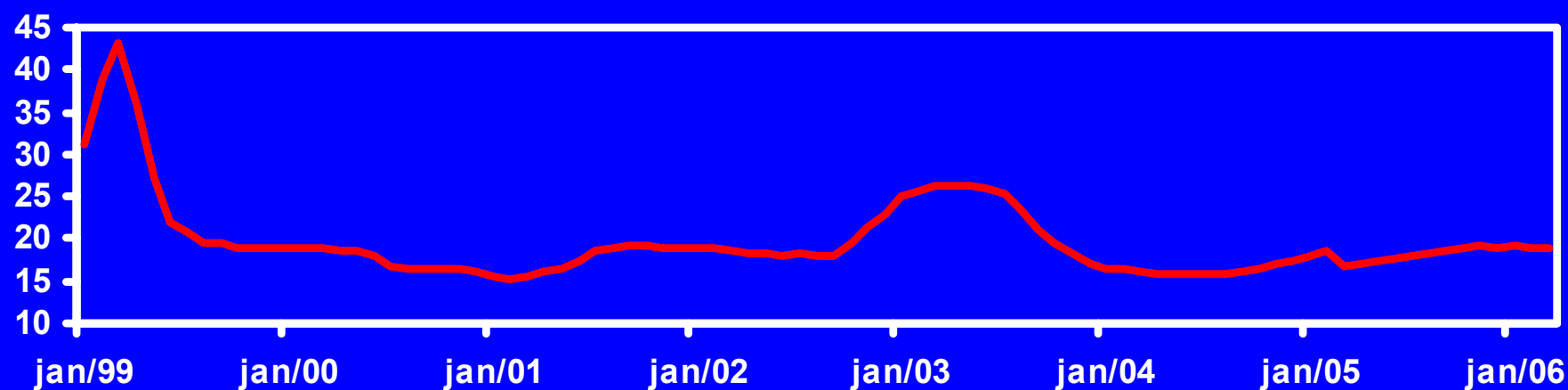
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	mar/05	mar/06
<b>ARGENTINA</b>	<b>5393</b>	<b>344</b>
<b>BRAZIL</b>	<b>458</b>	<b>235</b>
<b>COLOMBIA</b>	<b>396</b>	<b>174</b>
<b>PHILIPPINES</b>	<b>417</b>	<b>228</b>
<b>MEXICO</b>	<b>180</b>	<b>127</b>
<b>PERU</b>	<b>239</b>	<b>187</b>
<b>RUSSIA</b>	<b>207</b>	<b>105</b>
<b>TURKEY</b>	<b>306</b>	<b>178</b>
<b>VENEZUELA</b>	<b>459</b>	<b>190</b>

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Source: Bloomberg

## Nominal Interest Rate - Selic (% a.a)





# MACROECONOMIC FORECASTS

	<b>2006</b>	<b>2007</b>
<b>GDP (Variation %)</b>	<b>3.5</b>	<b>3.7</b>
<b>Consumer Prices Index</b>	<b>4.4</b>	<b>4.5</b>
<b>Nominal Interest Rate (Selic end of period)</b>	<b>14.0</b>	<b>13.0</b>
<b>Nominal Interest Rate (Selic average)</b>	<b>15.2</b>	<b>13.5</b>
<b>Exchange Rate - end of period (R\$/US\$)</b>	<b>2.2</b>	<b>2.35</b>
<b>Trade Balance (US\$ Billion)</b>	<b>40.0</b>	<b>35.2</b>
<b>Current Account Balance (US\$ billion)</b>	<b>9.0</b>	<b>4.5</b>
<b>Foreign Direct Investment (US\$ billion)</b>	<b>15.0</b>	<b>16.4</b>

Source: Central Bank of Brazil

Average of market forecasts surveyed by the Central Bank on 20/04/2006.