



**BANCO CENTRAL DO BRASIL**

# **Brazil: Economic Outlook and Perspectives**

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**September 2010**

# Brazil in 2002

- **60% of total sovereign debt denominated in dollars**
- **IMF debtor country**
- **High public debt to GDP ratio: 60.6%**
- **Policy rate at 25%**
- **Rising inflation**
- **High country risk premiums and sovereign debt rated as speculative grade**
- **Unemployment rate at 14%**
- **Minimum wage at US\$ 60.00**

# Changes in Economic Policy

## 2003: Monetary and fiscal policy stance

**Austere monetary policy**

**Strong fiscal adjustment**



- **Quick disinflation**
  - **Jan 03: 30% (annual rate)**
  - **Jul 03: 0%**
- **Decrease in the public debt**
- **As a result: decrease in country risk premiums**

# Changes in Economic Policy

**2003:**

➤ **Costs**

- **6% drop in domestic demand in the first semester**
- **15% of industrial production was redirected to exports**



➤ **Trade surplus**

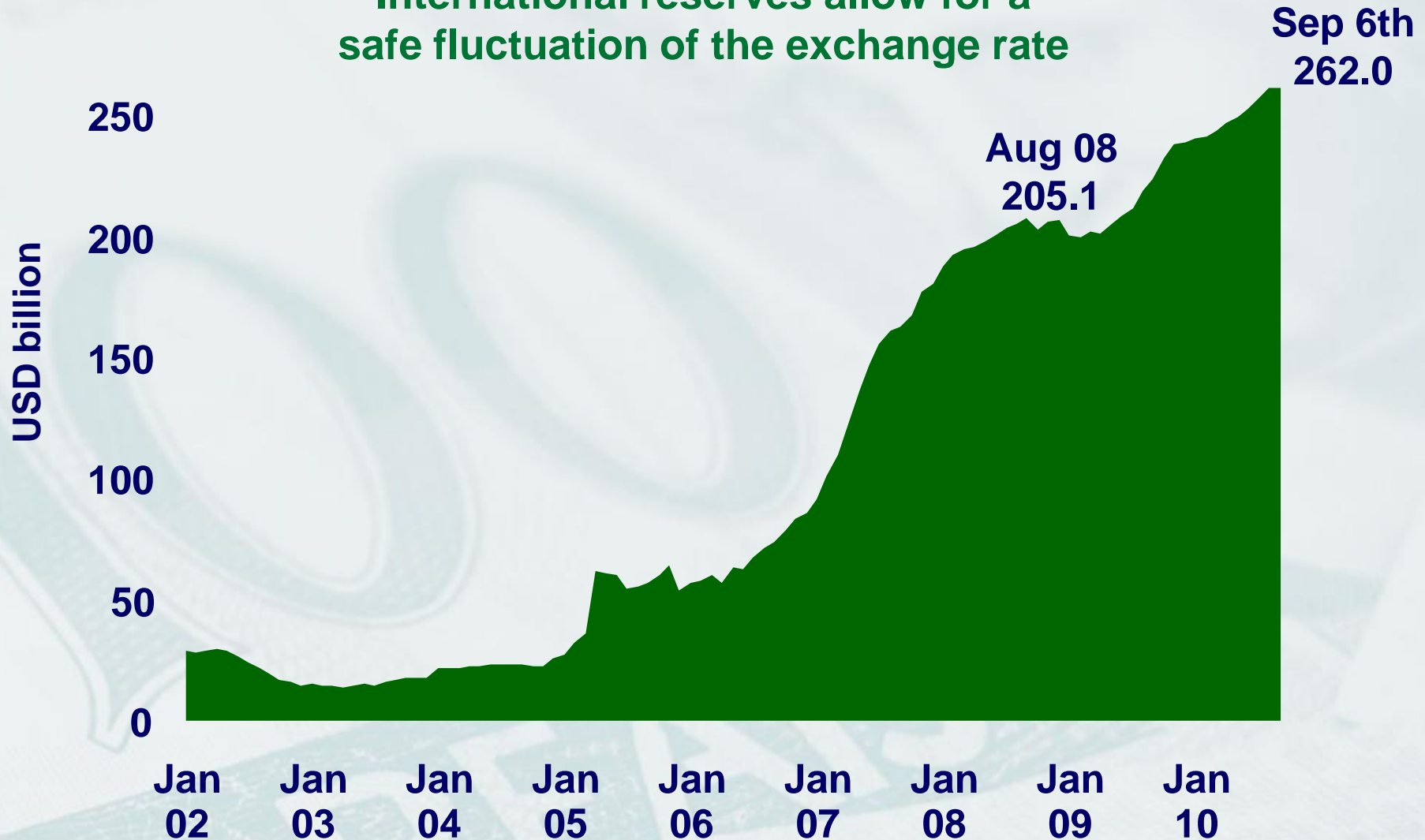
- **Current account reversal: from -6% to +2% of GDP**

# Public Sector Net Debt

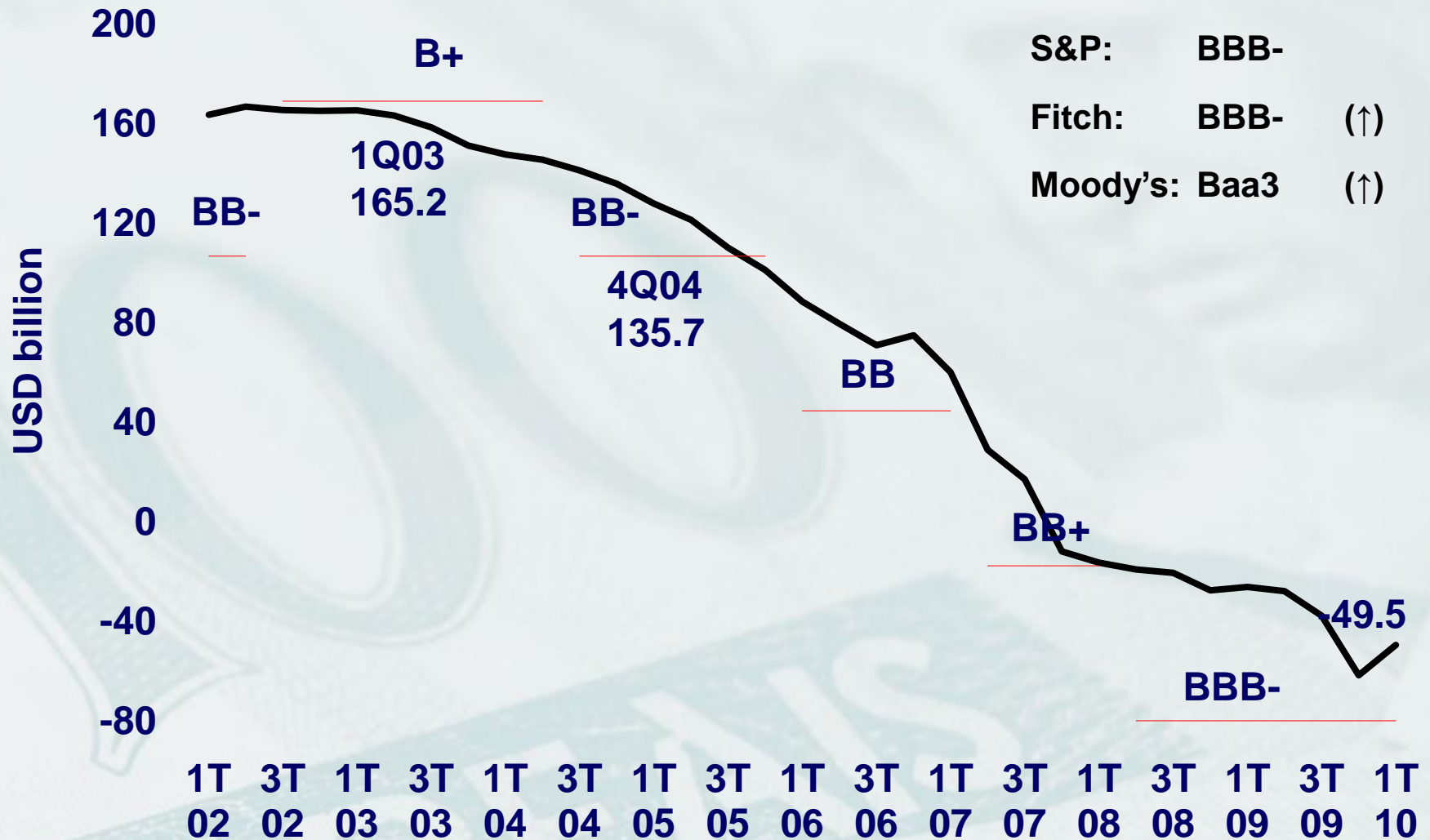


# Floating Exchange Rate Regime and Build Up of International Reserves

International reserves allow for a safe fluctuation of the exchange rate



# Net External Debt and Risk



# Macroeconomic Responsibility

## Virtuous Circle:



increased credibility → expectations anchored

lower interest rates → lower interest on public debt

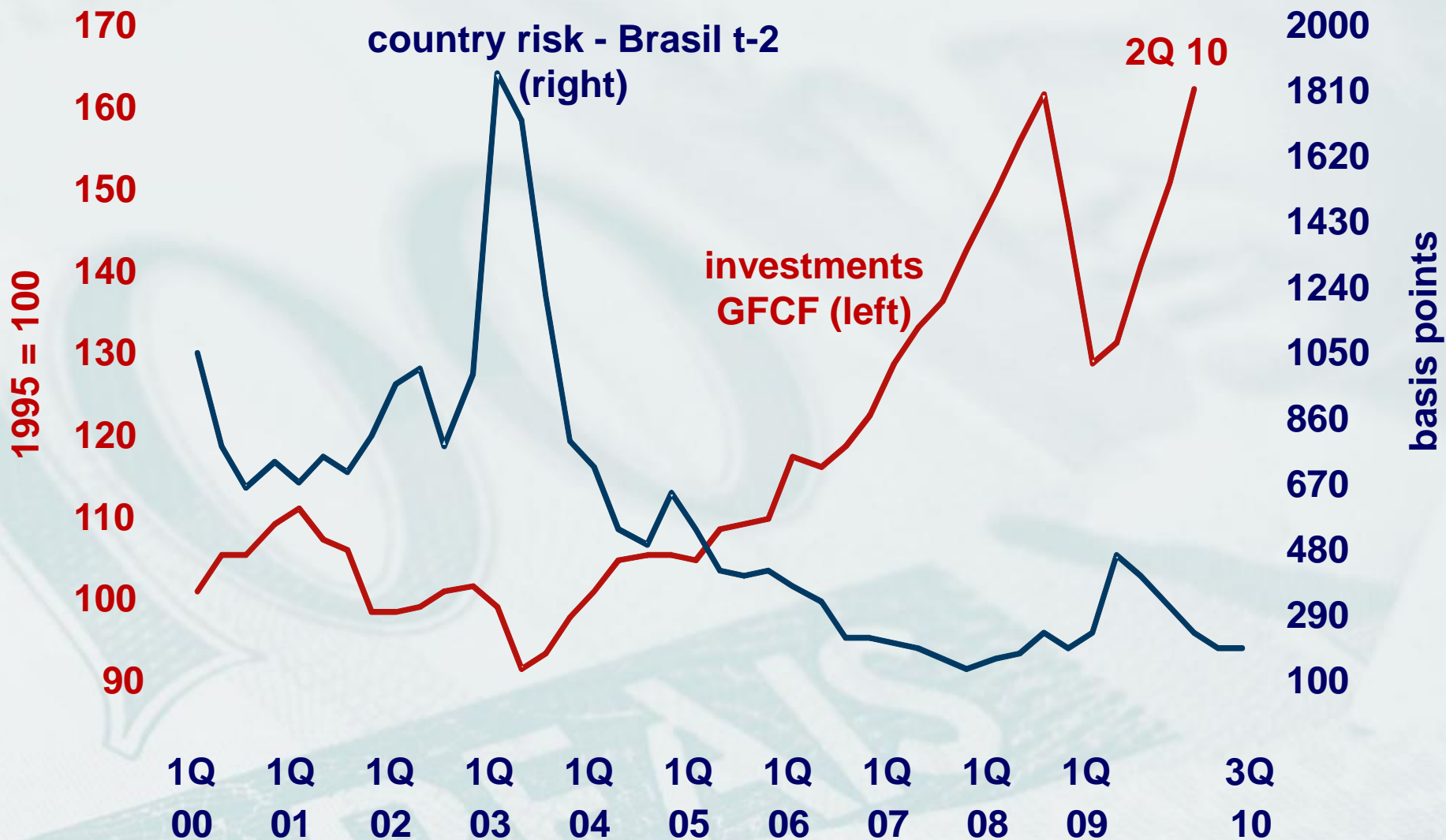
higher growth rate → decline in public debt to GDP ratio



# Macroeconomic Policy Framework

- ✓ Macroeconomic fundamentals of inflation targeting, fiscal responsibility, exchange rate flexibility,  
combined with
- ✓ Adequate prudential policy and solid bank supervision,  
resulted in:
  - capacity to absorb internal and external shocks
  - macroeconomic and financial stability
  - sustainable growth
  - investment growth
  - credit and capital market development

# Investments x Country Risk

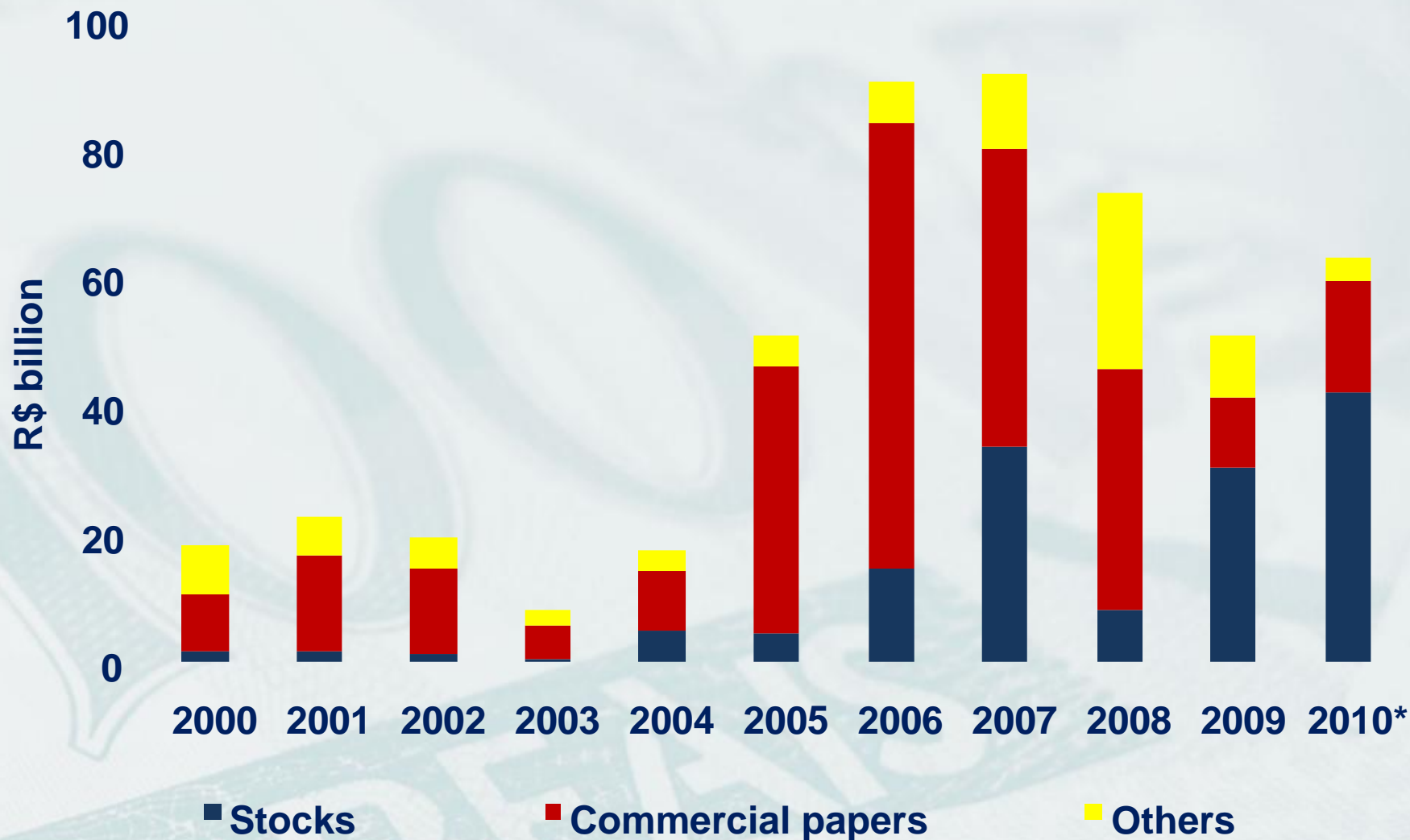


# Credit – Outstanding Balances

consistent growth throughout the period

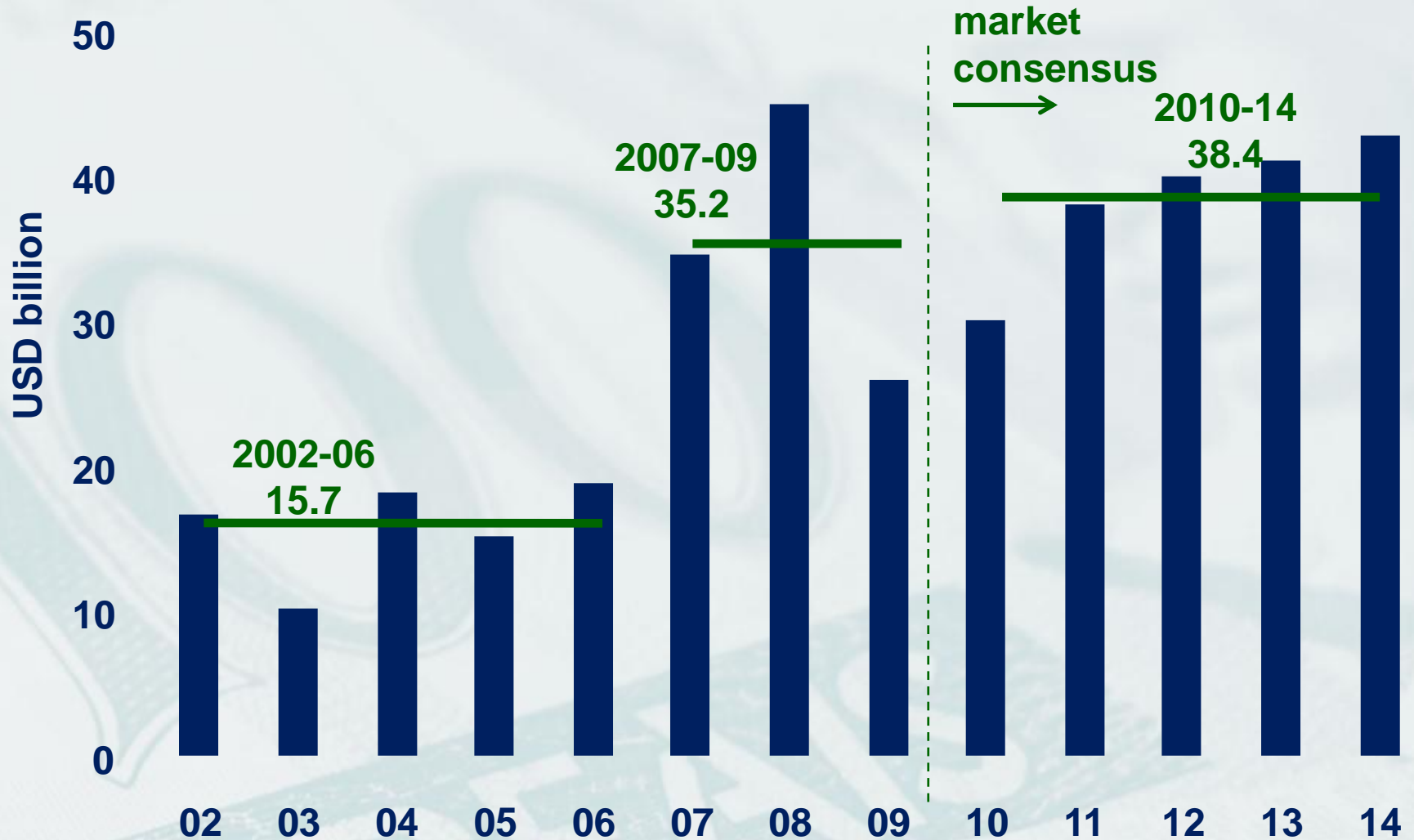


# Capital market – primary issues



Source: CVM (Brazilian Securities Commission) \* 12 months acc. to July

# Net Foreign Direct Investment

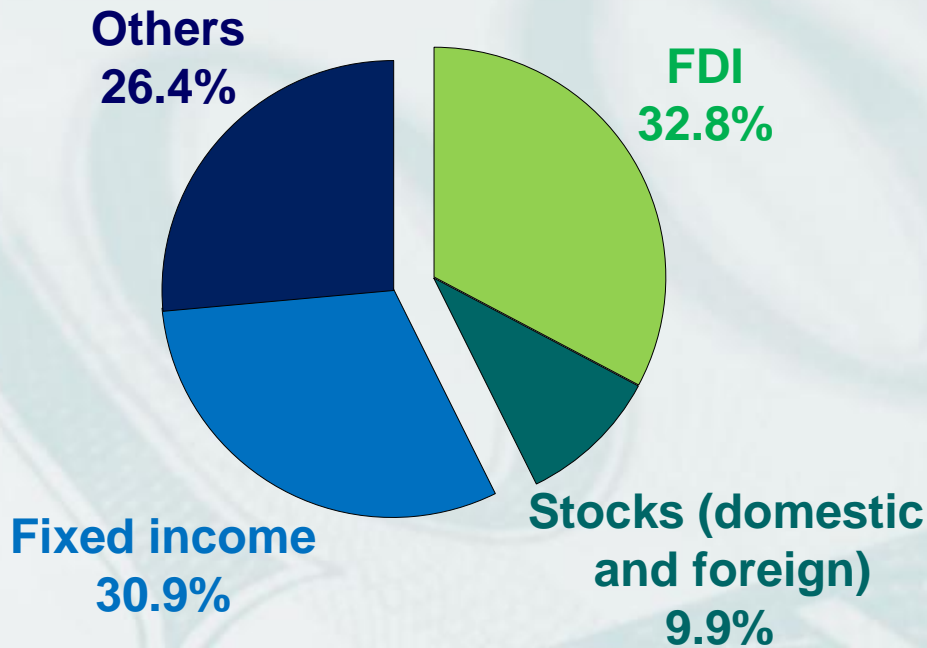


Source: Central Bank of Brazil (market consensus)

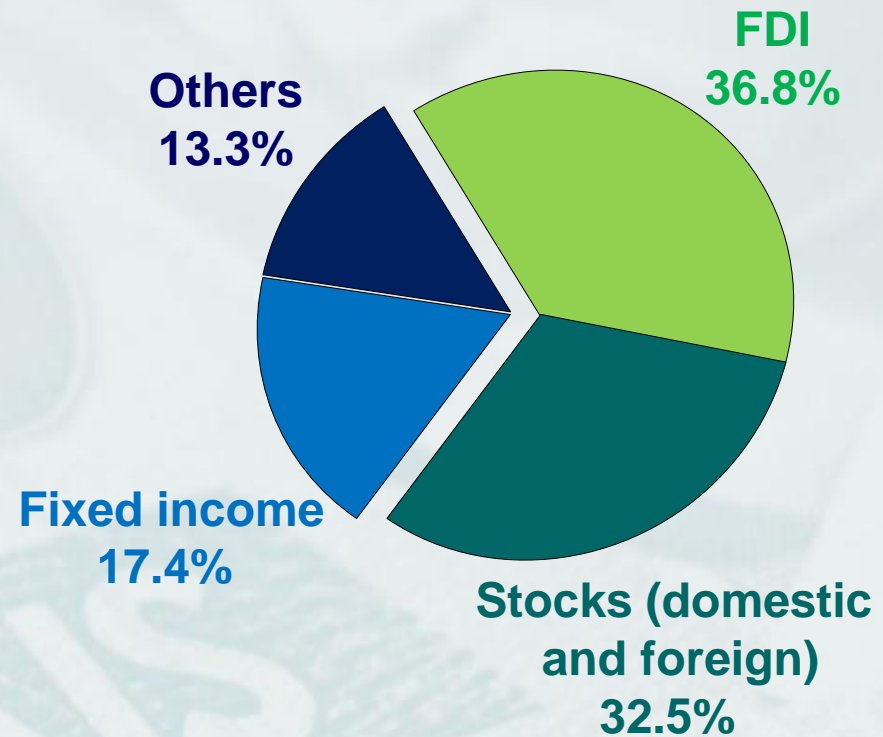
# Brazilian External Liabilities

as a percentage of the gross external liabilities

2001



2010



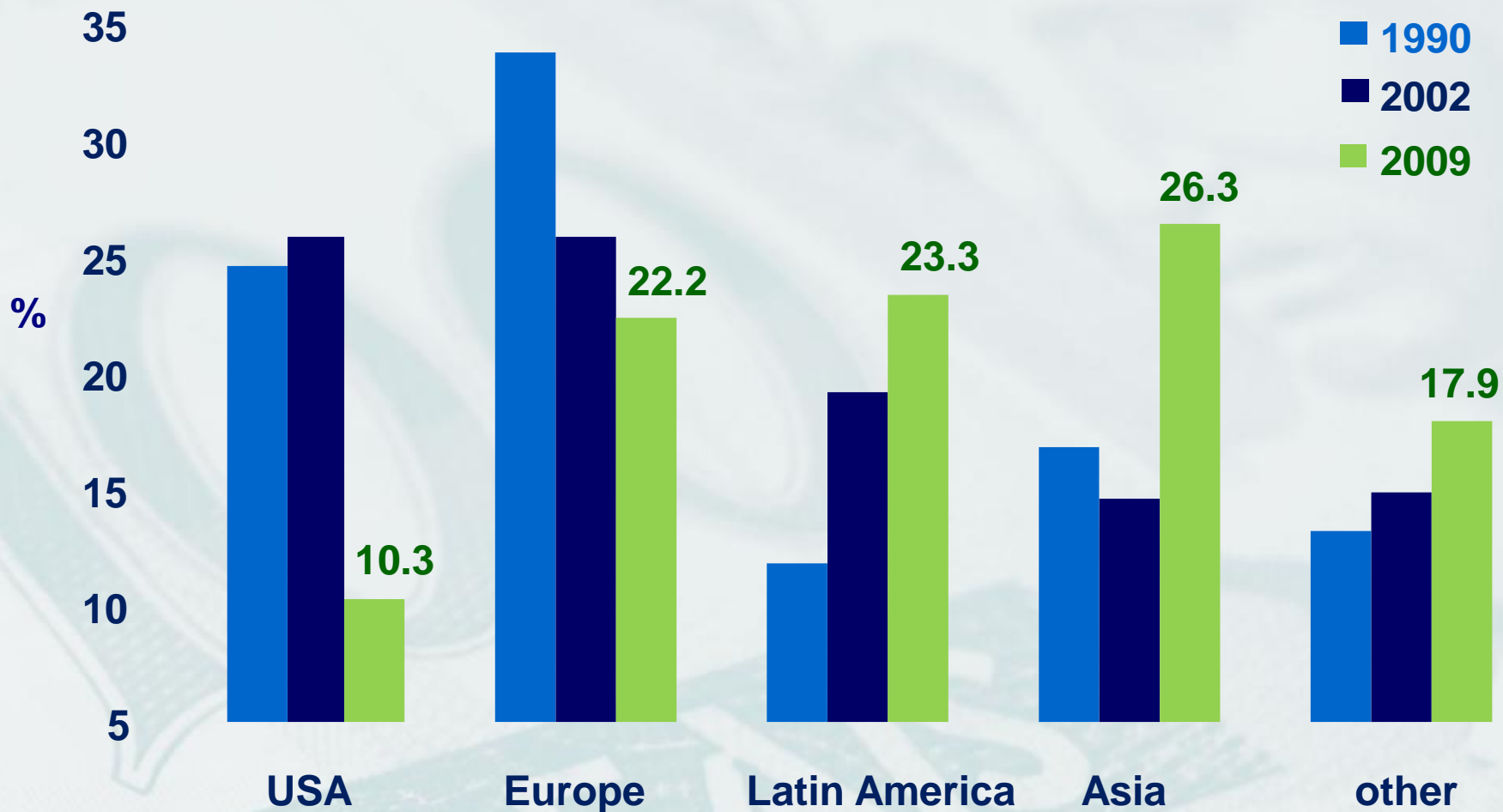
# Exports



Source: Central Bank of Brazil (market consensus)

# Exports

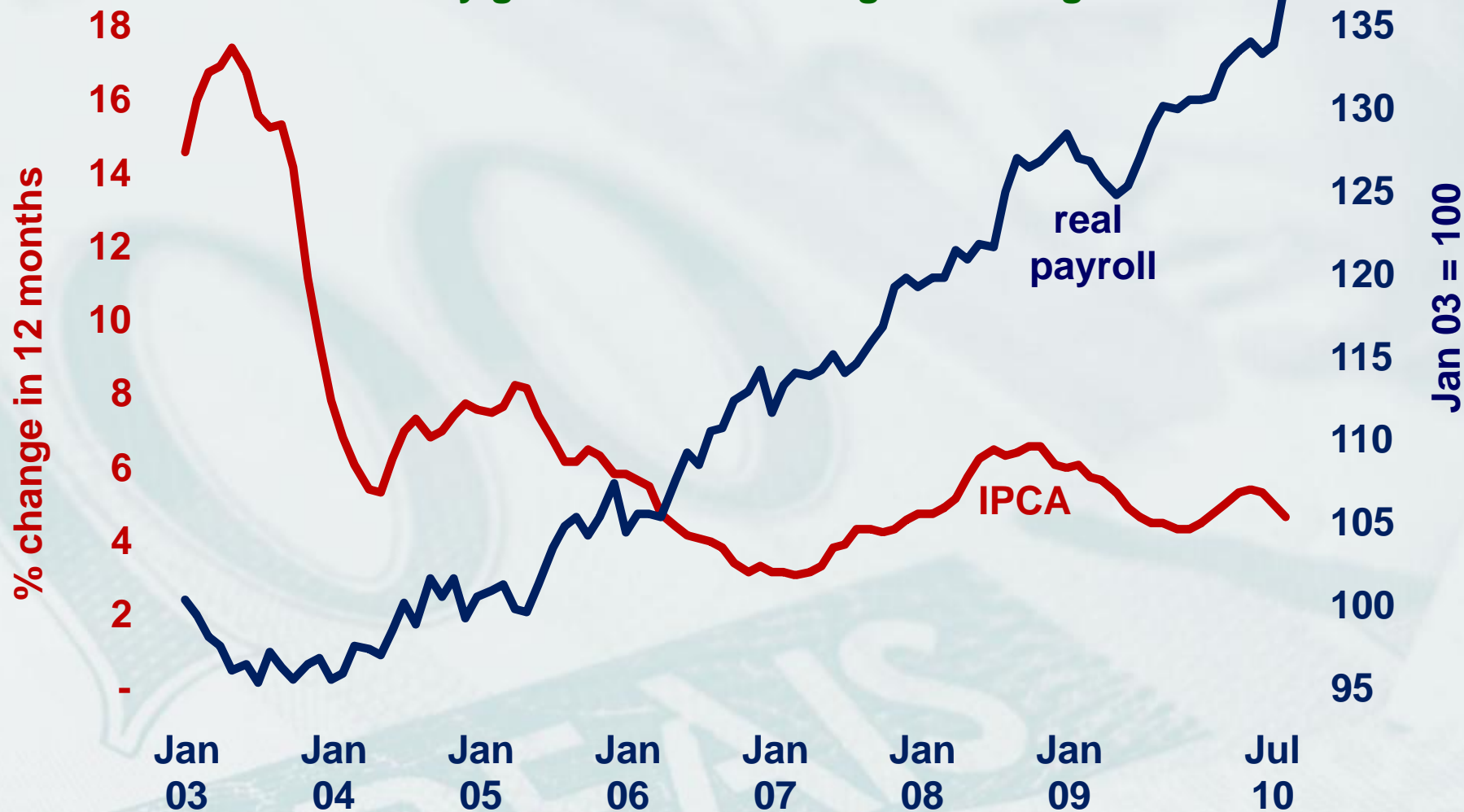
## diversification of trade partners



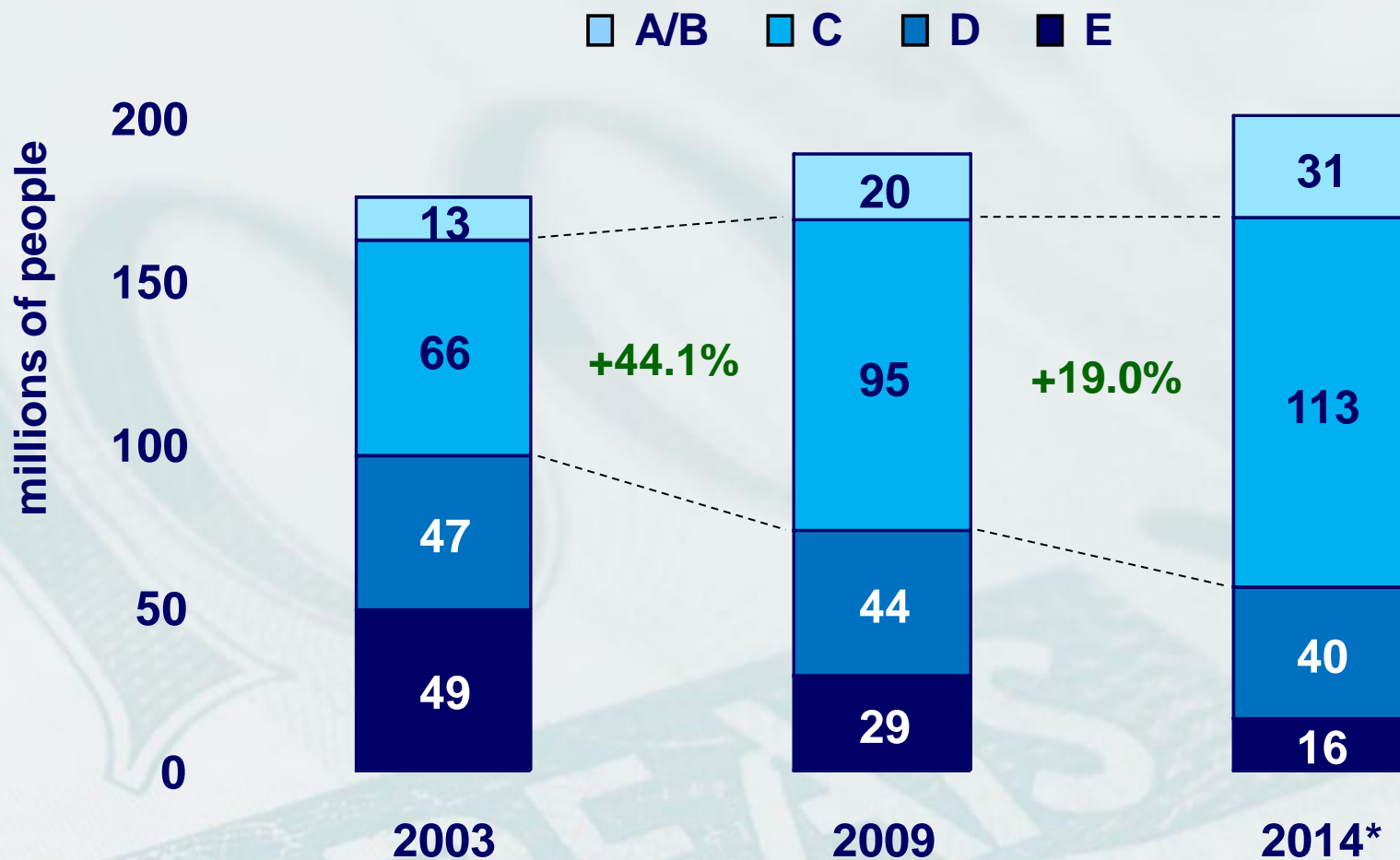


# Price Stability and Real Payroll Growth

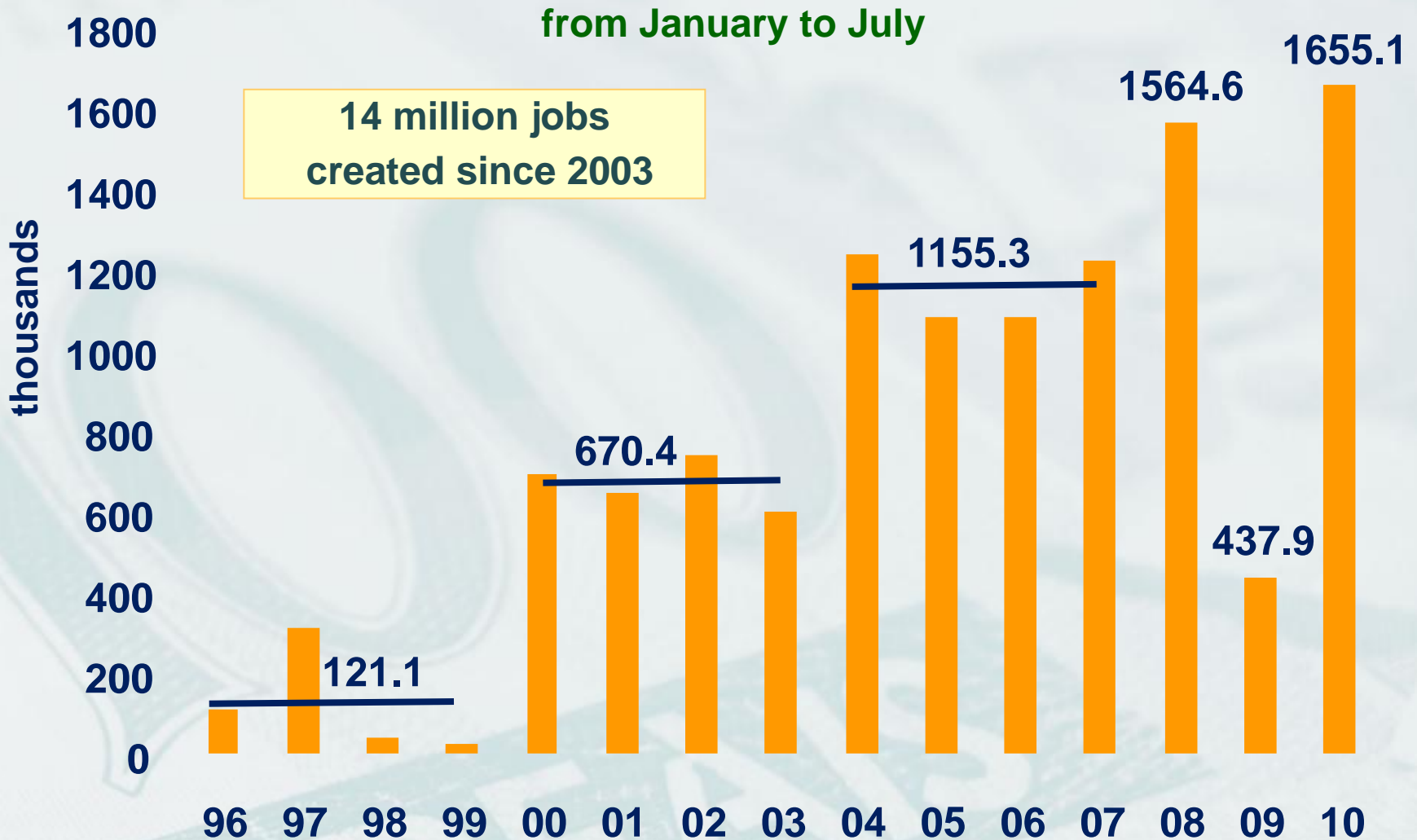
stability generates increasing well-being



# Social Mobility



# Formal Job Creation

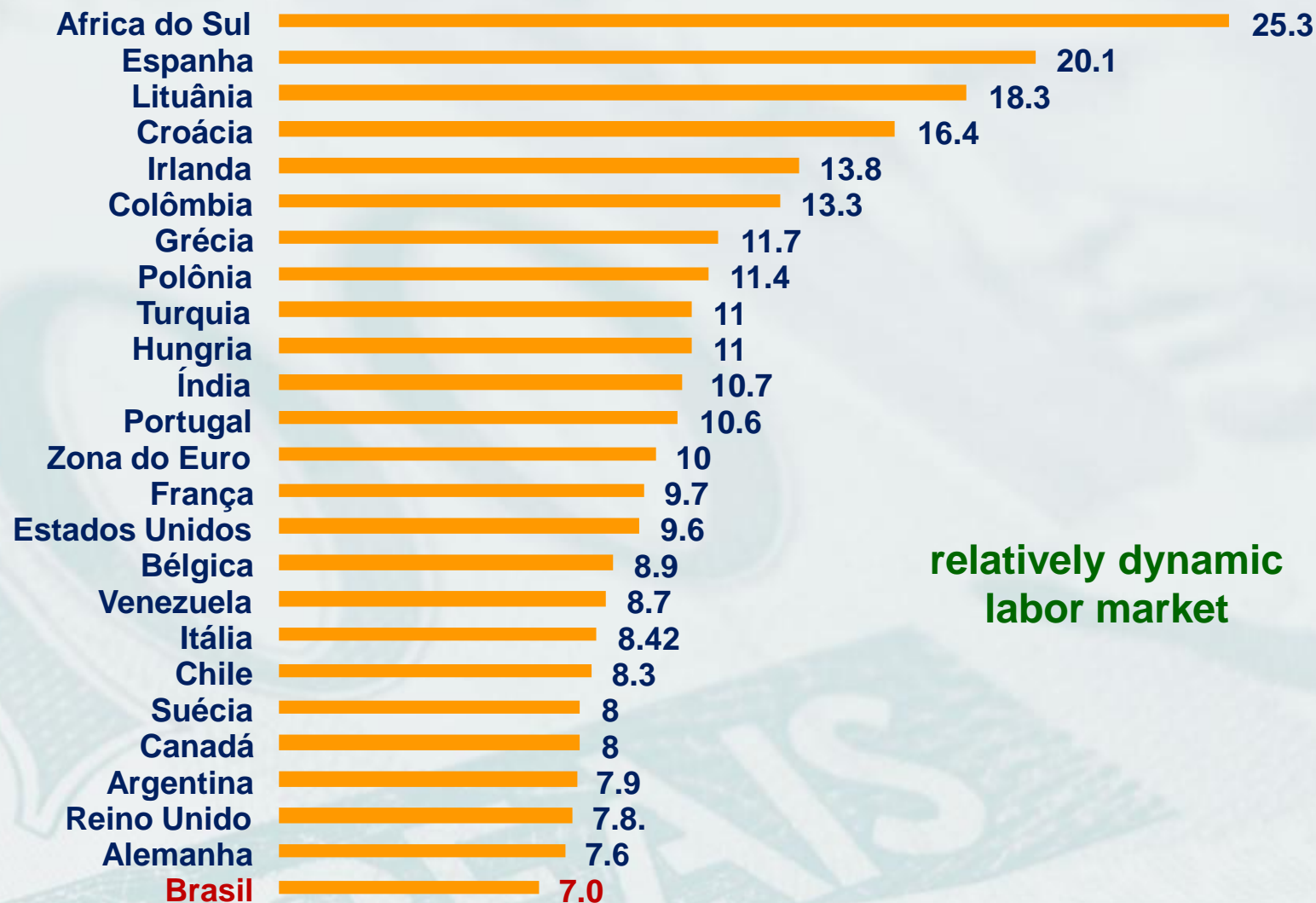


# Unemployment in Brazil

seasonally adjusted



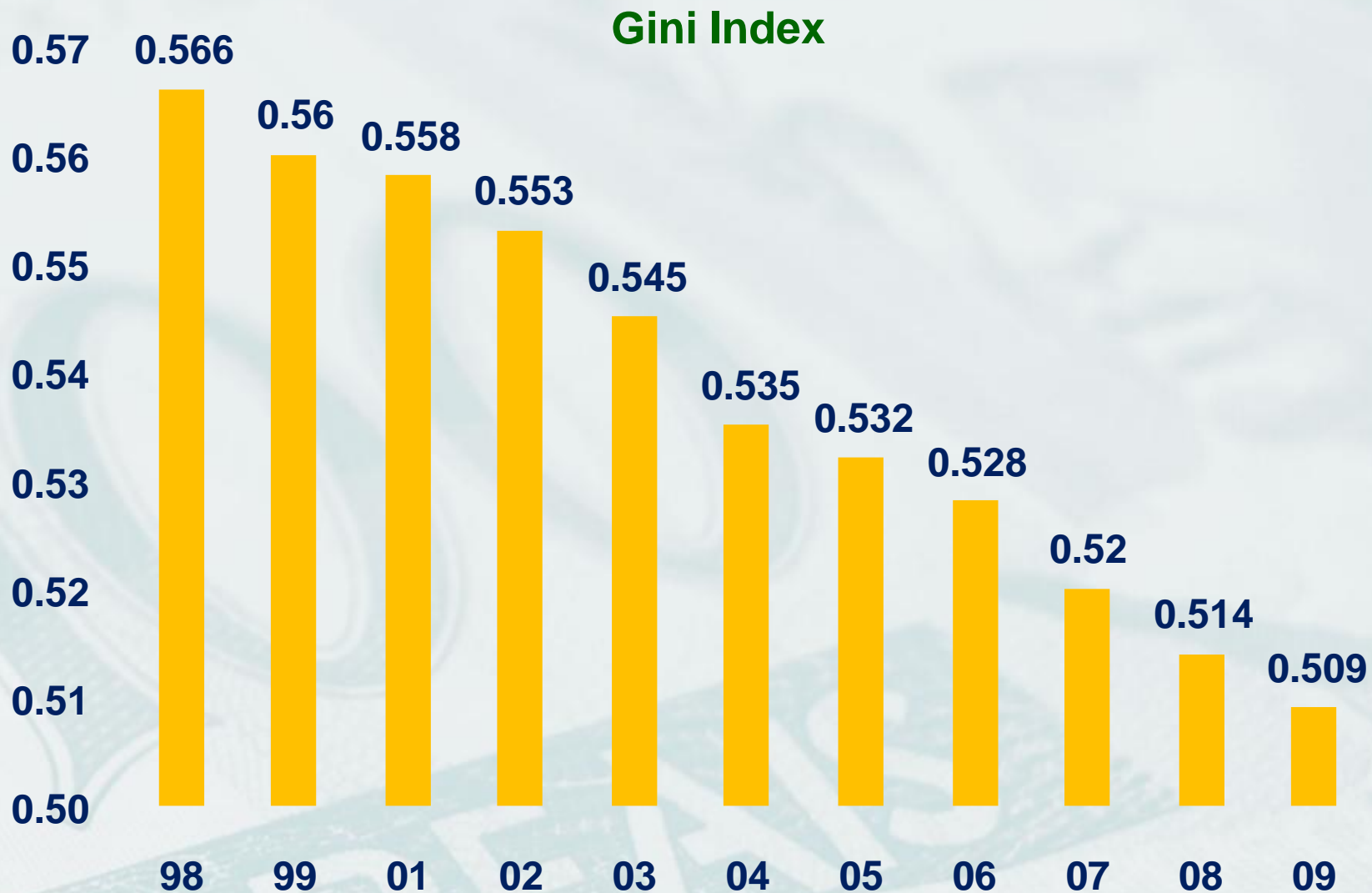
# Unemployment Rate



# GDP *per capita* Growth



# Income Inequality Reduction

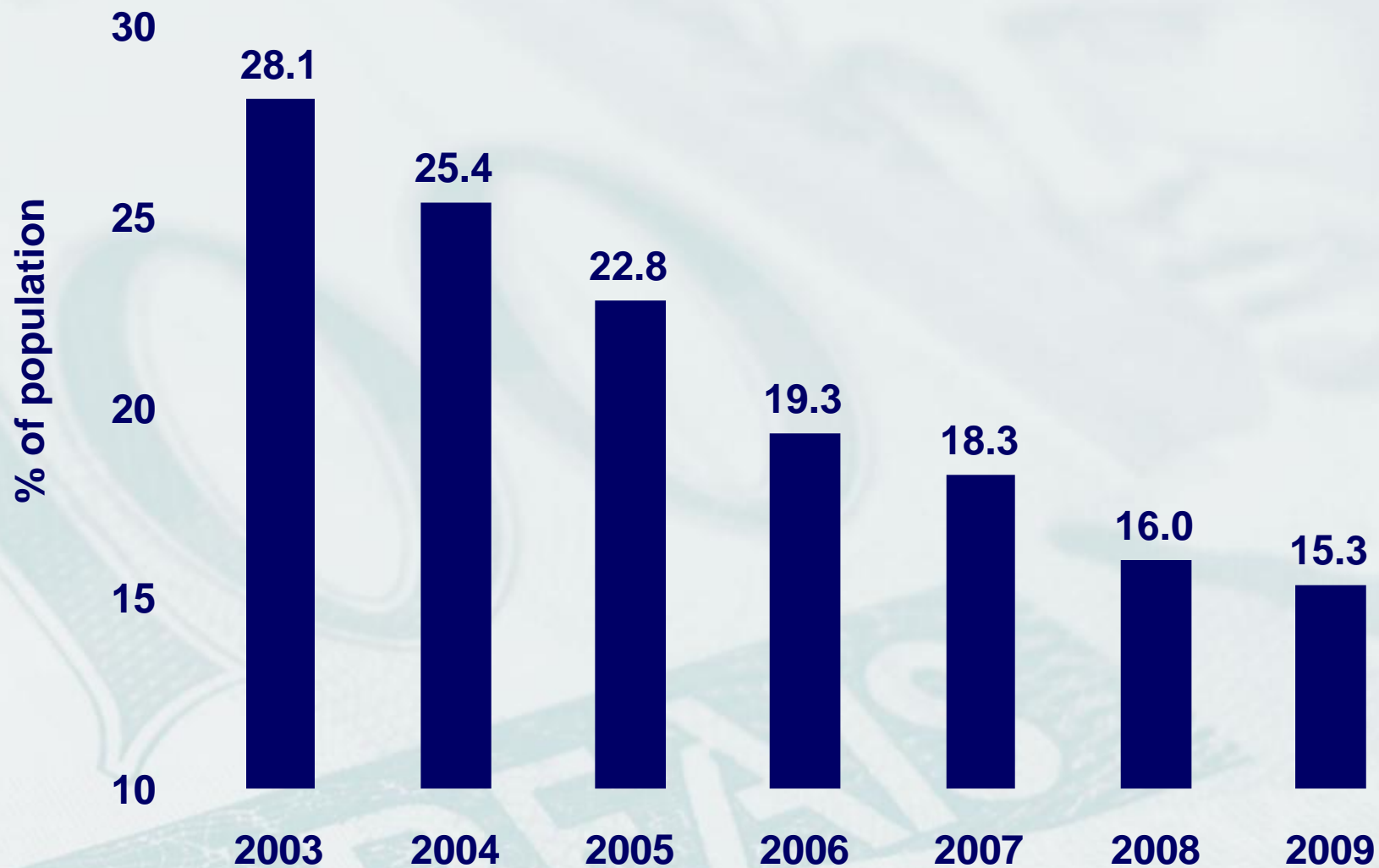


# Middle Class Growth and Poverty Reduction

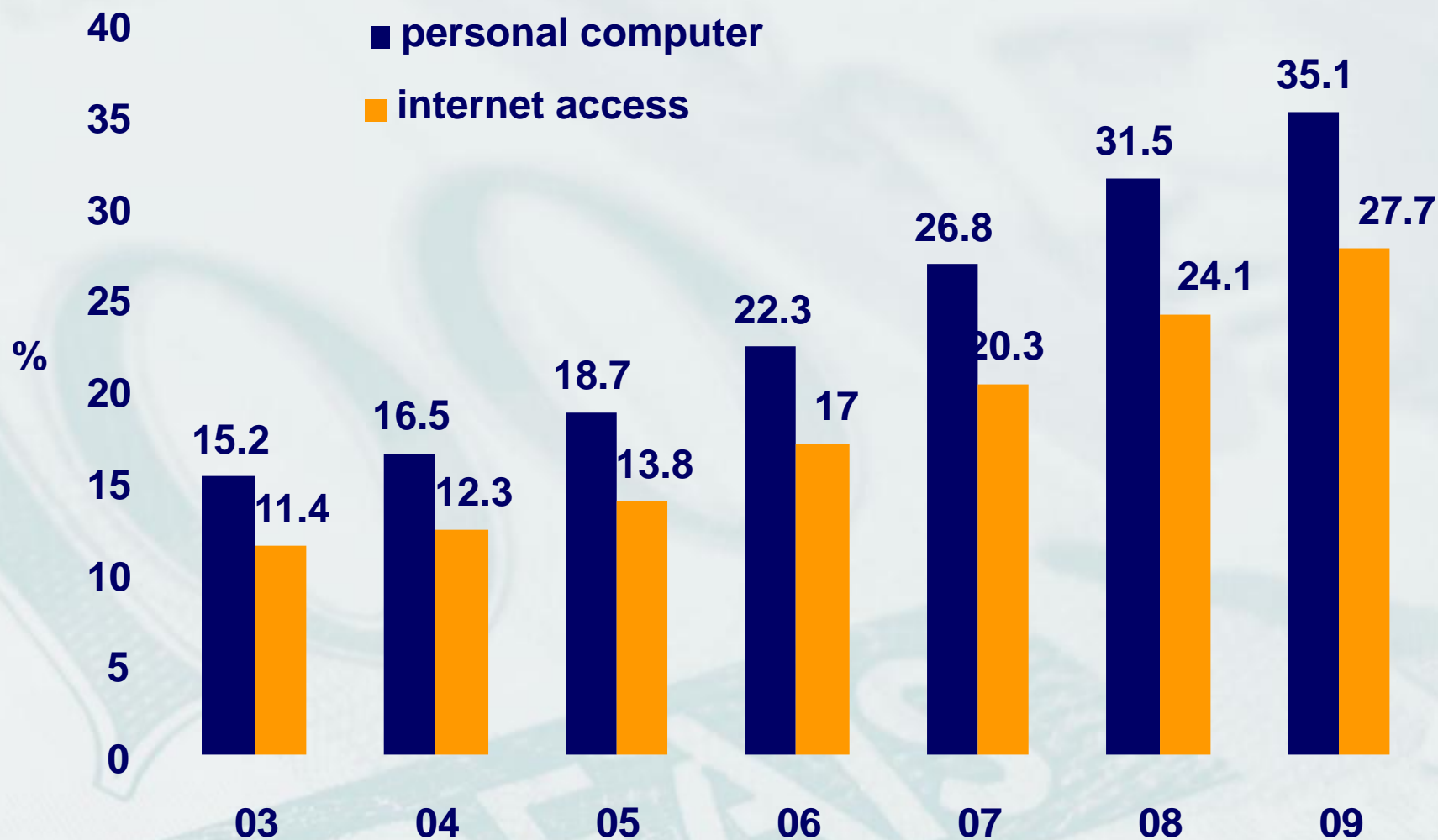
- From 2003 to 2009
  - 35.7 million people have entered the middle class
  - 20.5 million have crossed the poverty line upwards
- 2010-2014 forecast for the current trend
  - 36.0 million more will enter the middle class
  - 14.5 million more will come out of poverty
- Family Grant Program (Bolsa Família): reduction of people in extreme poverty from 12% to the 4% level



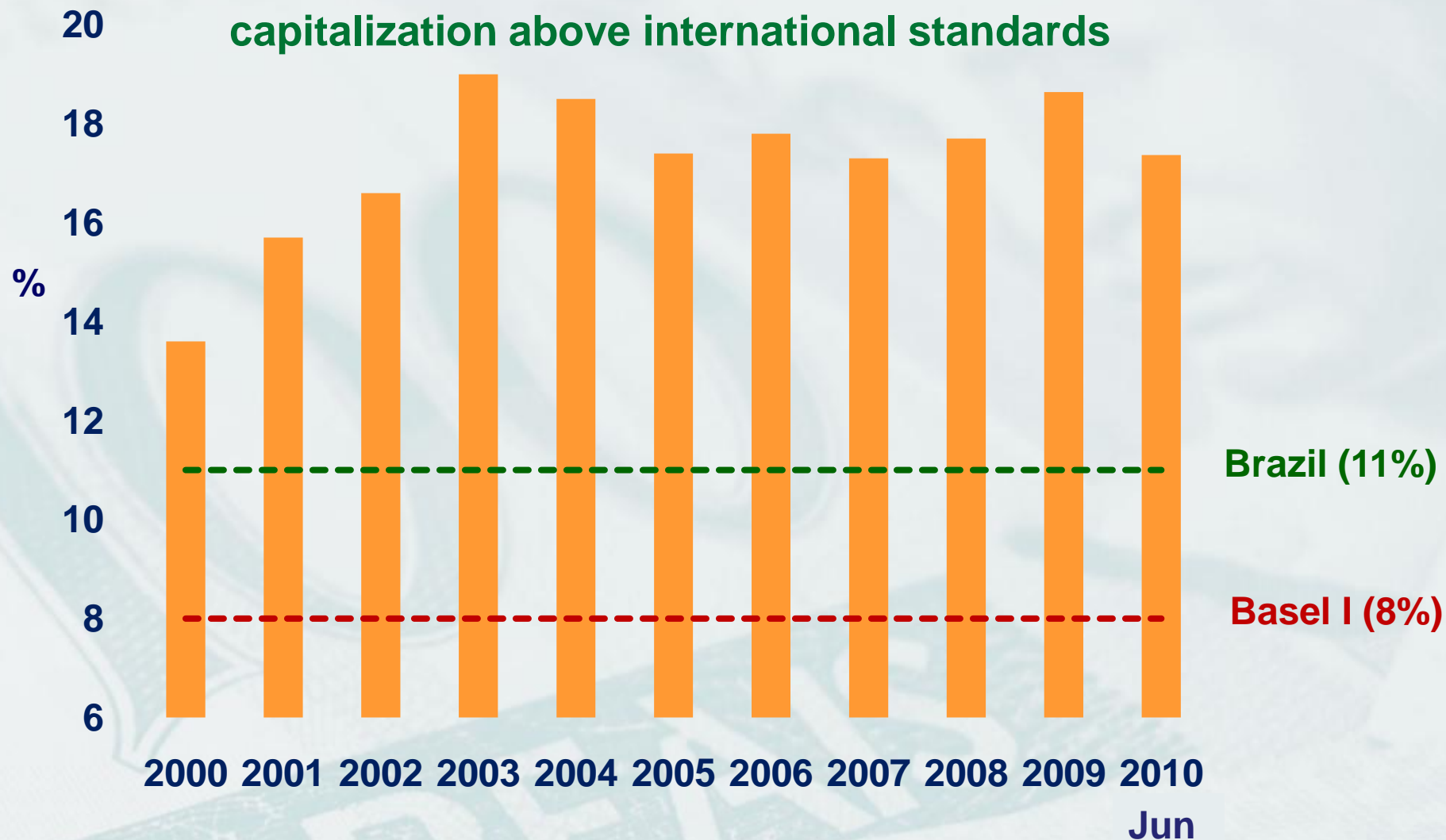
# Poverty



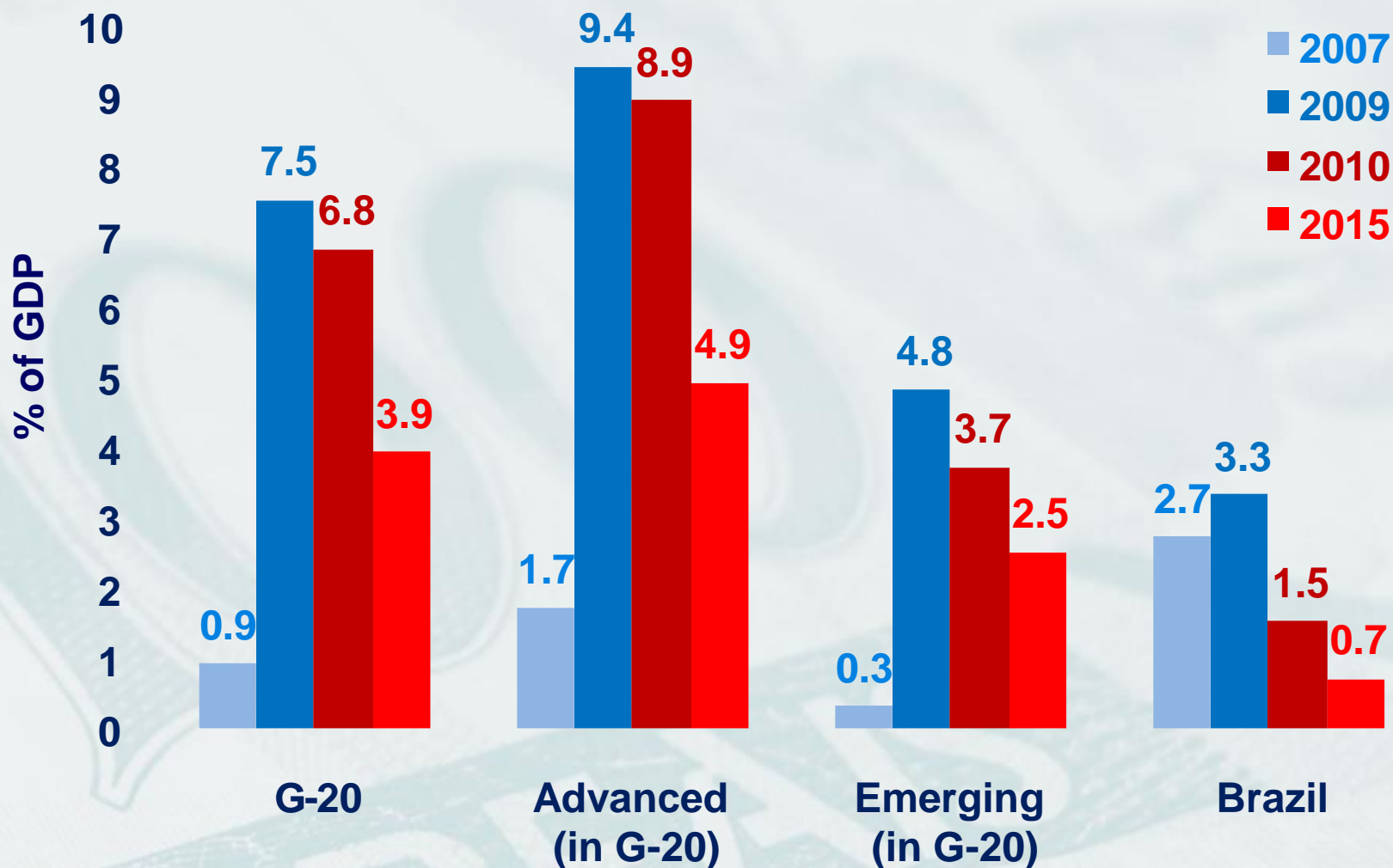
# Homes with computers and access to the internet



# Financial Stability: Basel Index

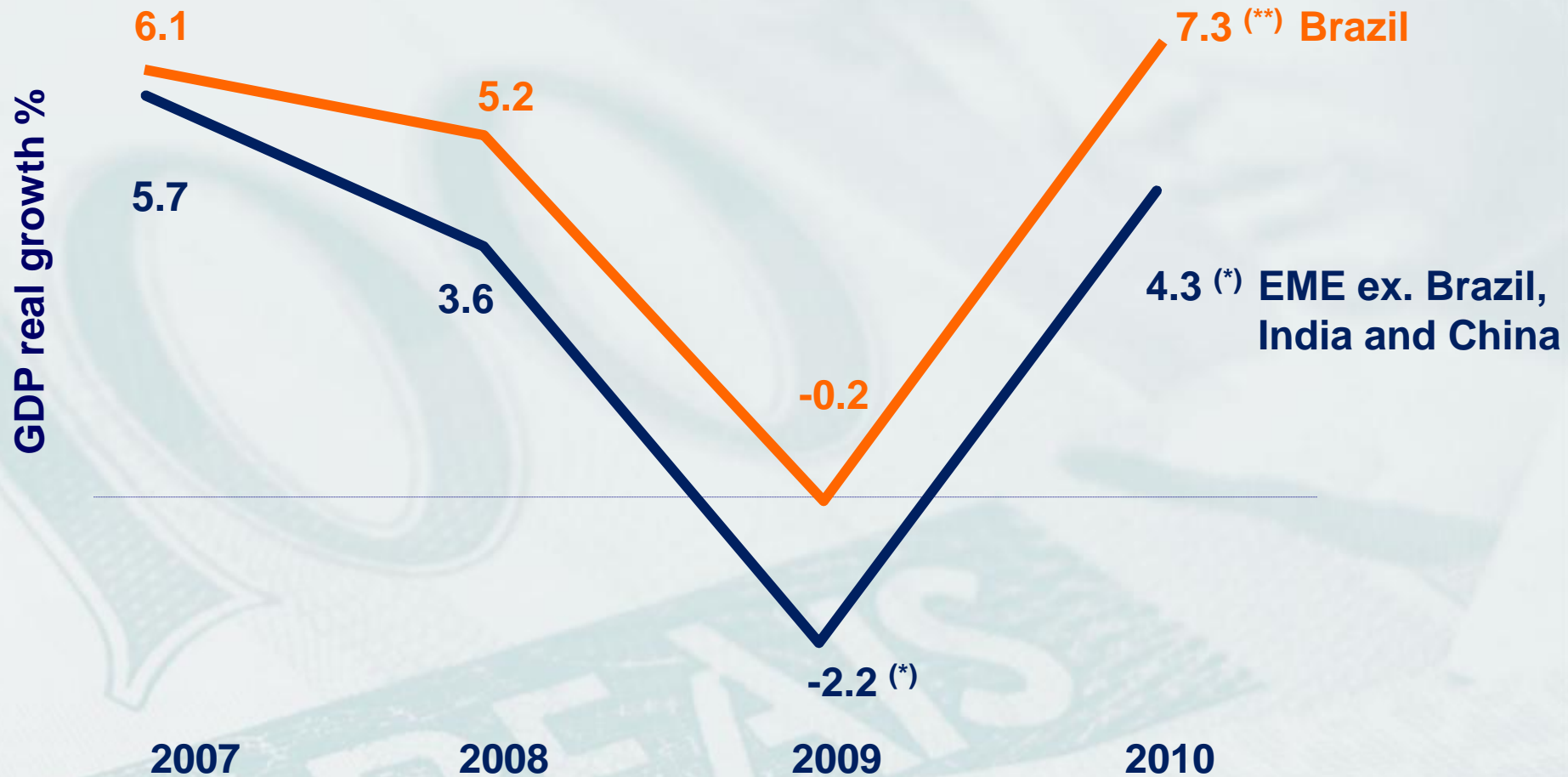


# Fiscal Deficit for G-20 Countries



# Performance Before and After the Crisis

compared to other emerging markets



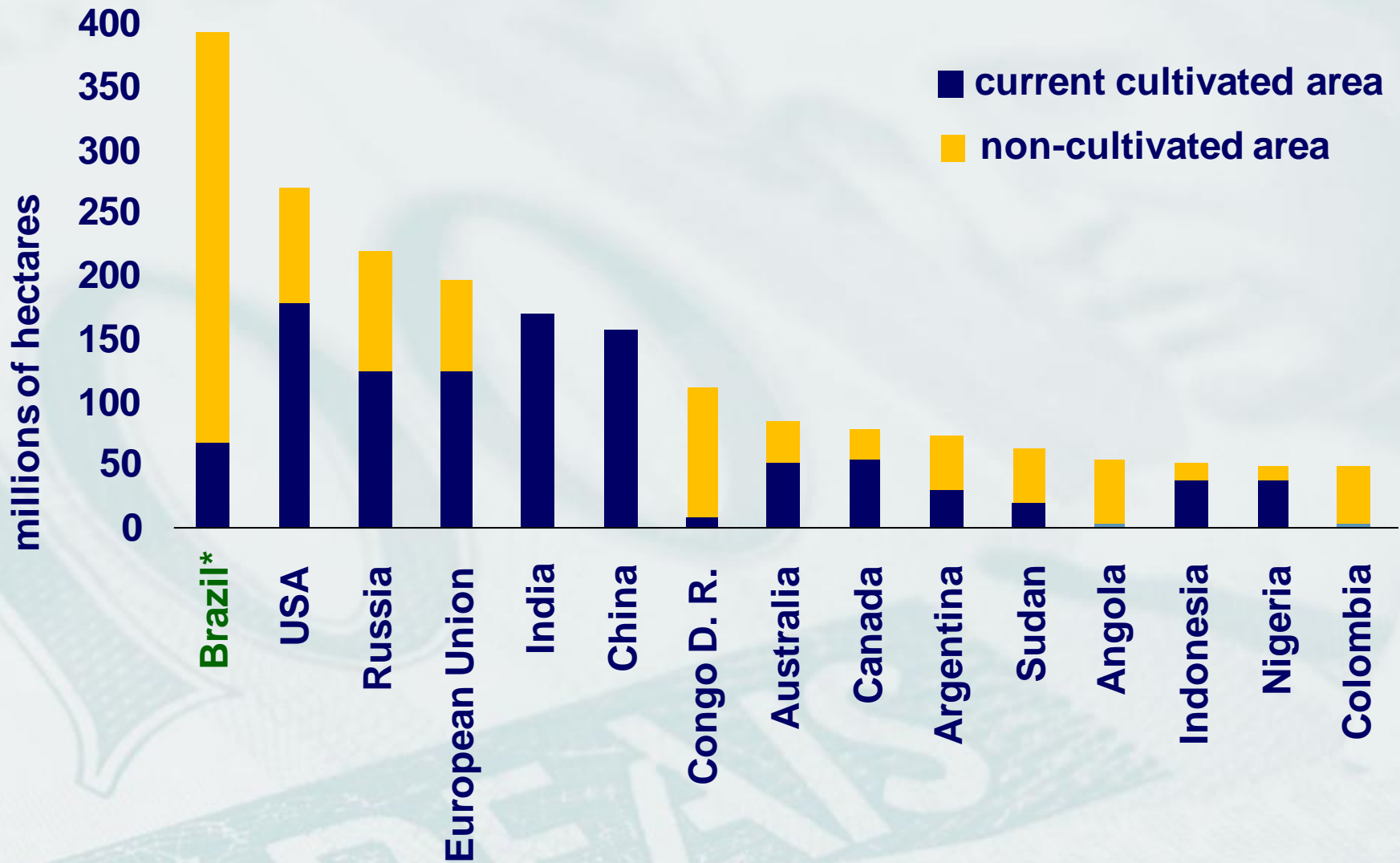
# Investment prospects - industry

	BRL billion		Growth
	2005-2008	2010-2013	%
Oil and Gas	160	340	112.9
Mining	53	52	-2.7
Steel	26	51	99.5
Petrochemical	20	34	70.9
Automobile	23	32	37.8
Electric/Electronics	15	21	39.0
Pulp and Paper	17	19	10.6
<b>Total</b>	<b>314</b>	<b>549</b>	<b>74.8</b>

# Investment prospects - infrastructure

	BRL billion		Growth
	2005-2008	2010-2013	%
Electricity	67	98	45.2
Telecommunication	66	67	2.1
Sanitation	22	39	76.5
Railways	19	56	195.3
Highways	21	36	73.0
Ports	5	15	217.9
<b>Total</b>	<b>199</b>	<b>310</b>	<b>55.6</b>

# Availability of Arable Land





# Agenda for the Future

- **Level of Domestic Saving**
- **Quality of Public Expenditures**
- **Investment Rate and Infra-Structure**
- **Education**
- **Review and Simplification of the Tax System**
- **Legal Environment more favorable to Business**
- **Incentive to Long Term Investment**

# GDP Growth

annual real growth rate





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# Market expectation: a sustainable growing economy with inflation on target

real growth

