



**BANCO CENTRAL DO BRASIL**

# **Perspectives for the Brazilian Economy in the Next Few Years**

**Henrique de Campos Meirelles**

**University of Chicago  
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# Brazil in 2003

- 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 13%
- Minimum wage at US\$ 60

# 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**
- **Decrease in sovereign debt exposure on FX**
- **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



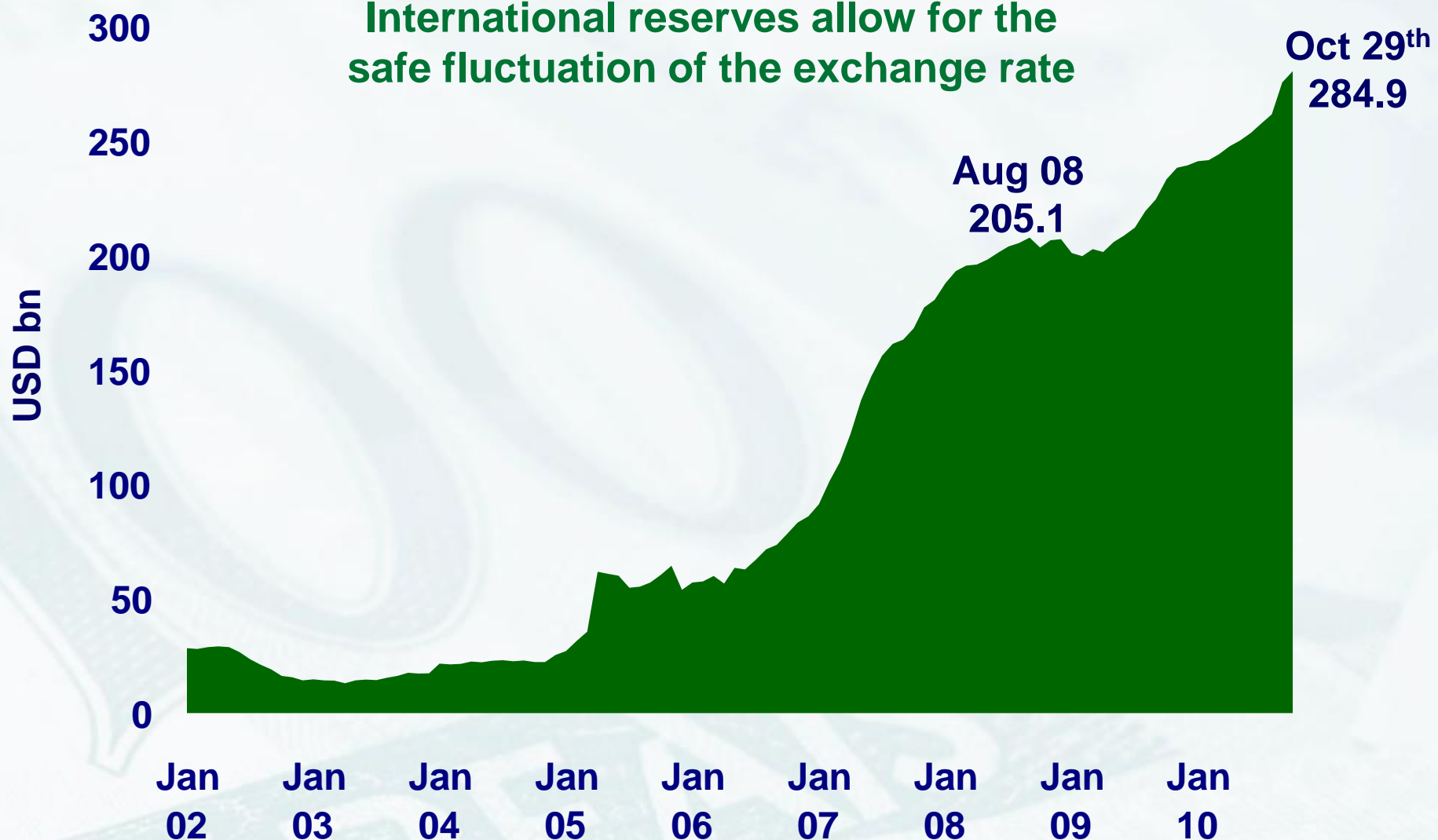
## ➤ Trade surplus

- Current account reversal: from -4% to +2% of GDP



# Floating Exchange Rate Regime and Build Up of International Reserves

International reserves allow for the safe fluctuation of the exchange rate



# Real Interest Rate

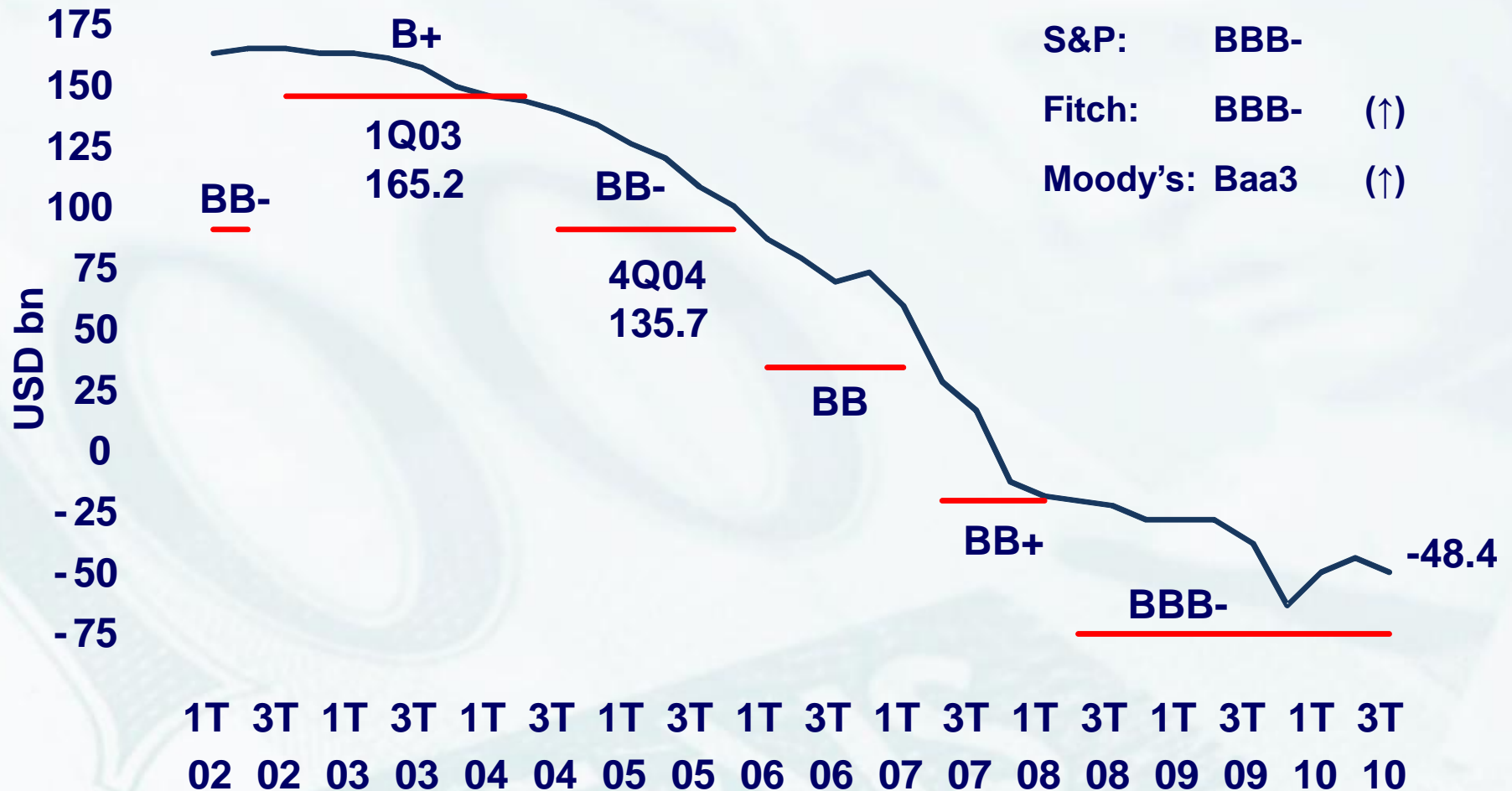


# Public Sector Net Debt



Source: Central Bank of Brazil

# Net External Debt and Risk





# Macroeconomic Responsibility

## Virtuous Circle:

inflation  
targeting



macroeconomic  
stability



lower inflationary  
risks

floating  
exchange and  
intl reserves



declining net  
foreign debt



reduced external  
risk

primary  
surpluses



decline in  
public debt



lower fiscal risk

amplified  
effect



reduction of  
interest rate  
with more  
credibility

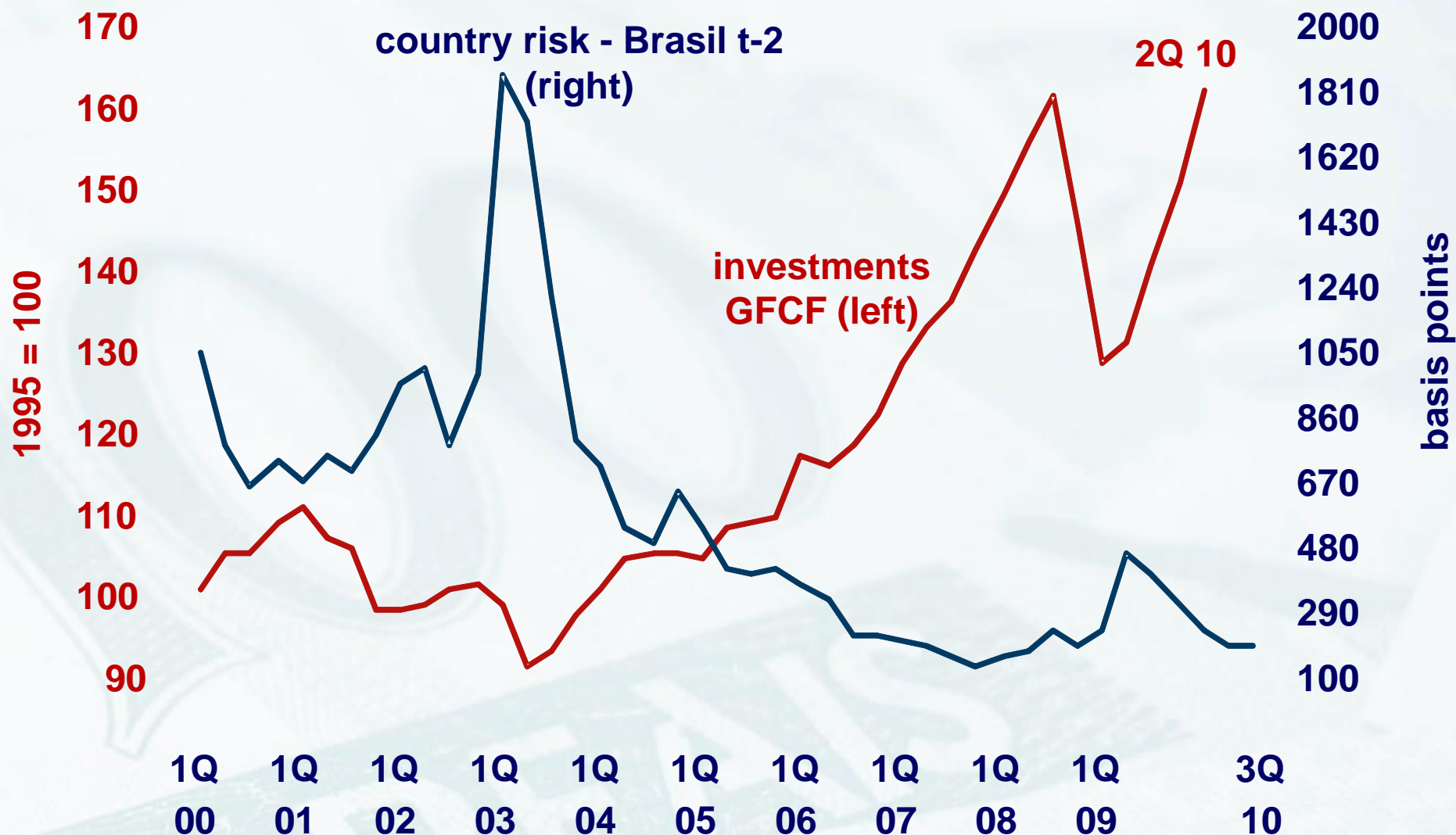


lower risk  
premiums

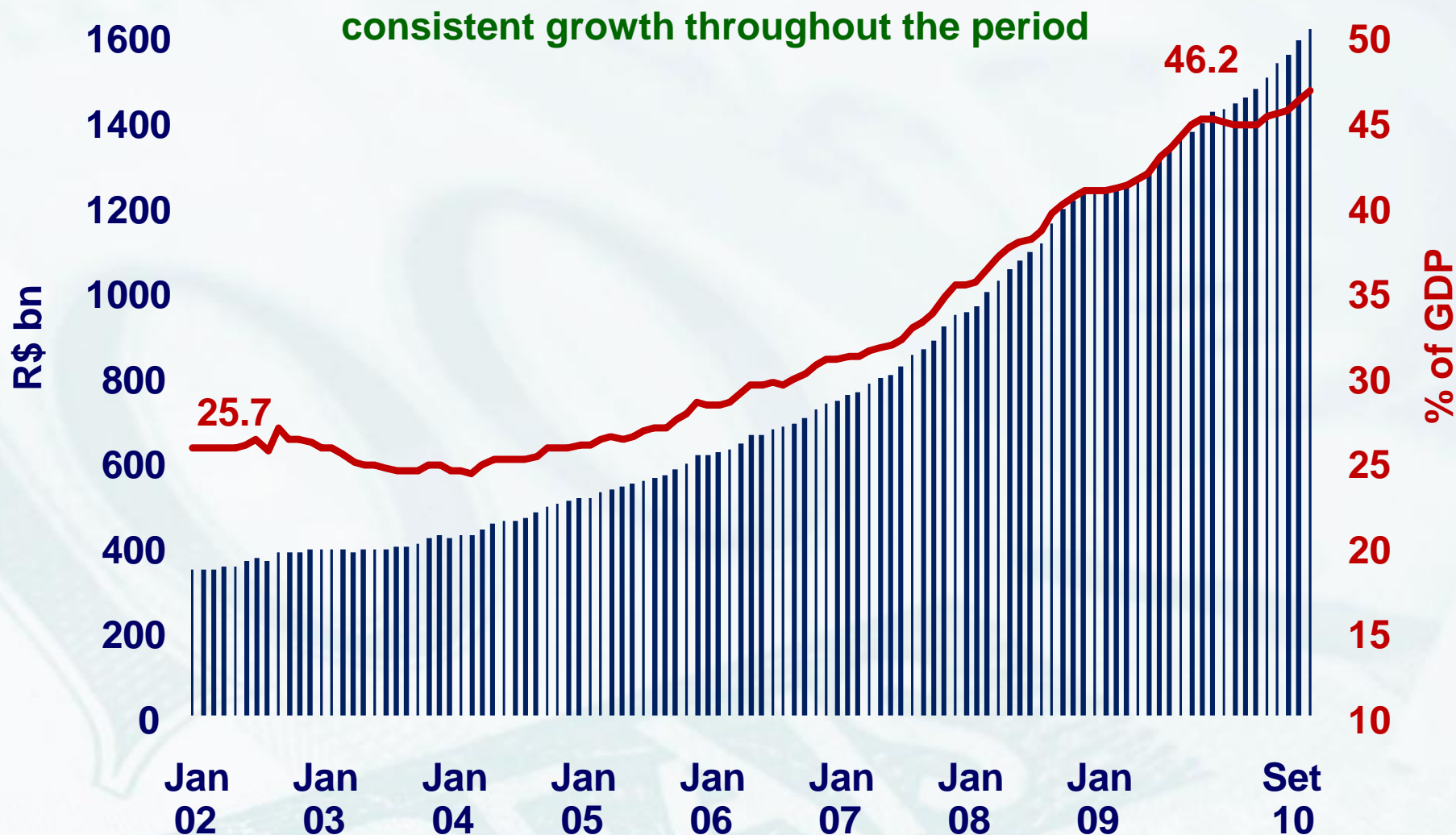
# Macroeconomic Policy Framework

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

# Investments x Country Risk

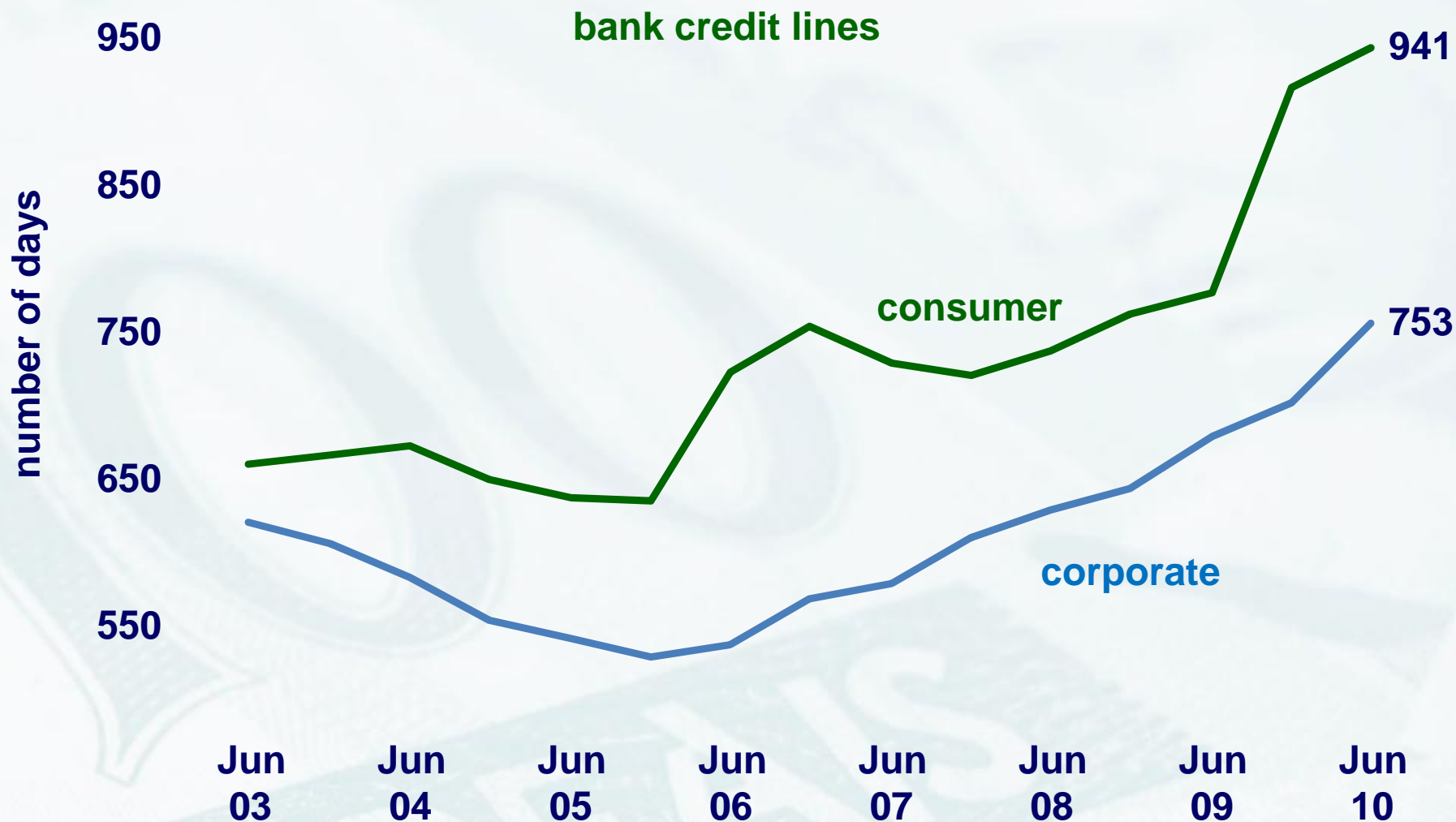


# Credit – Outstanding Balances

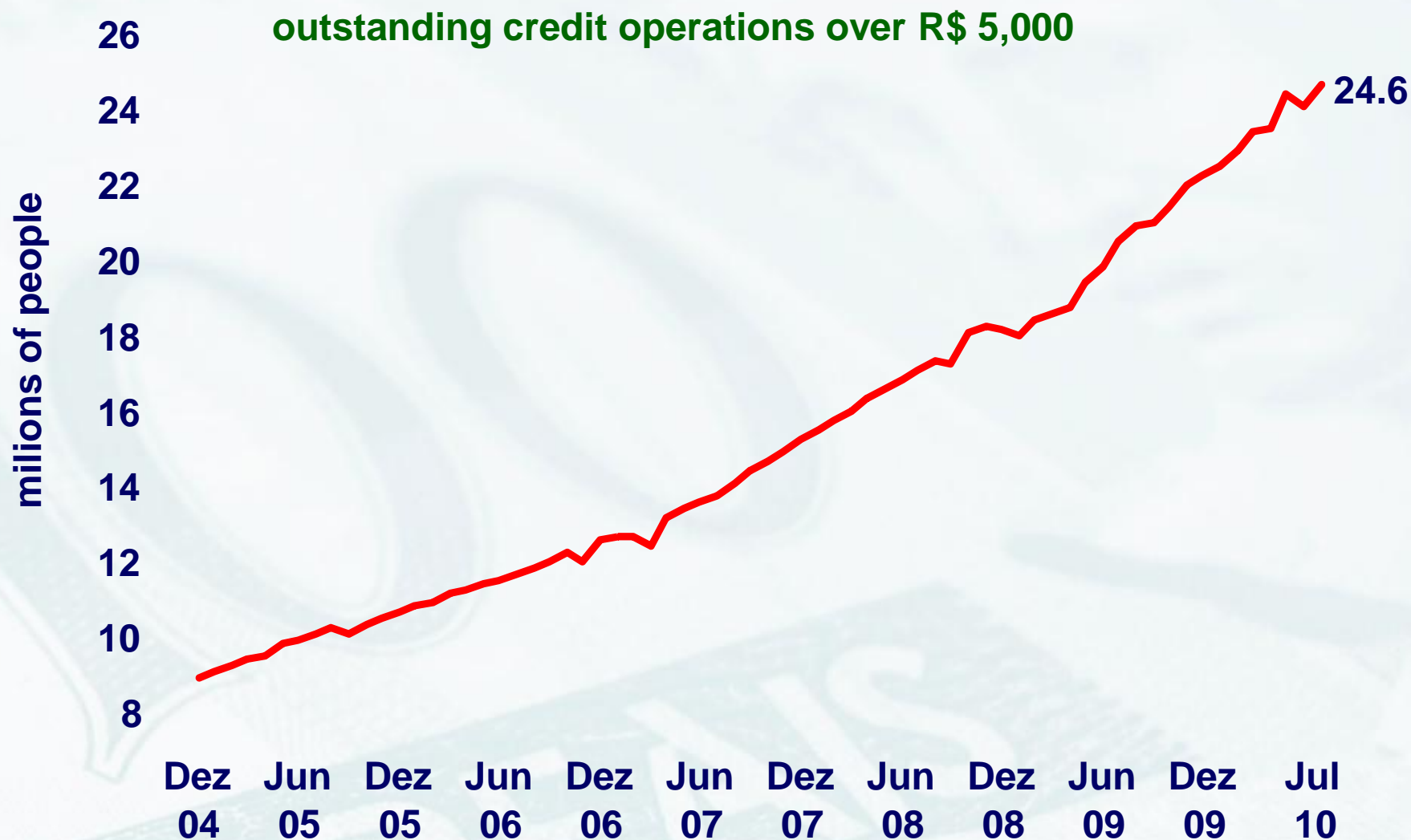




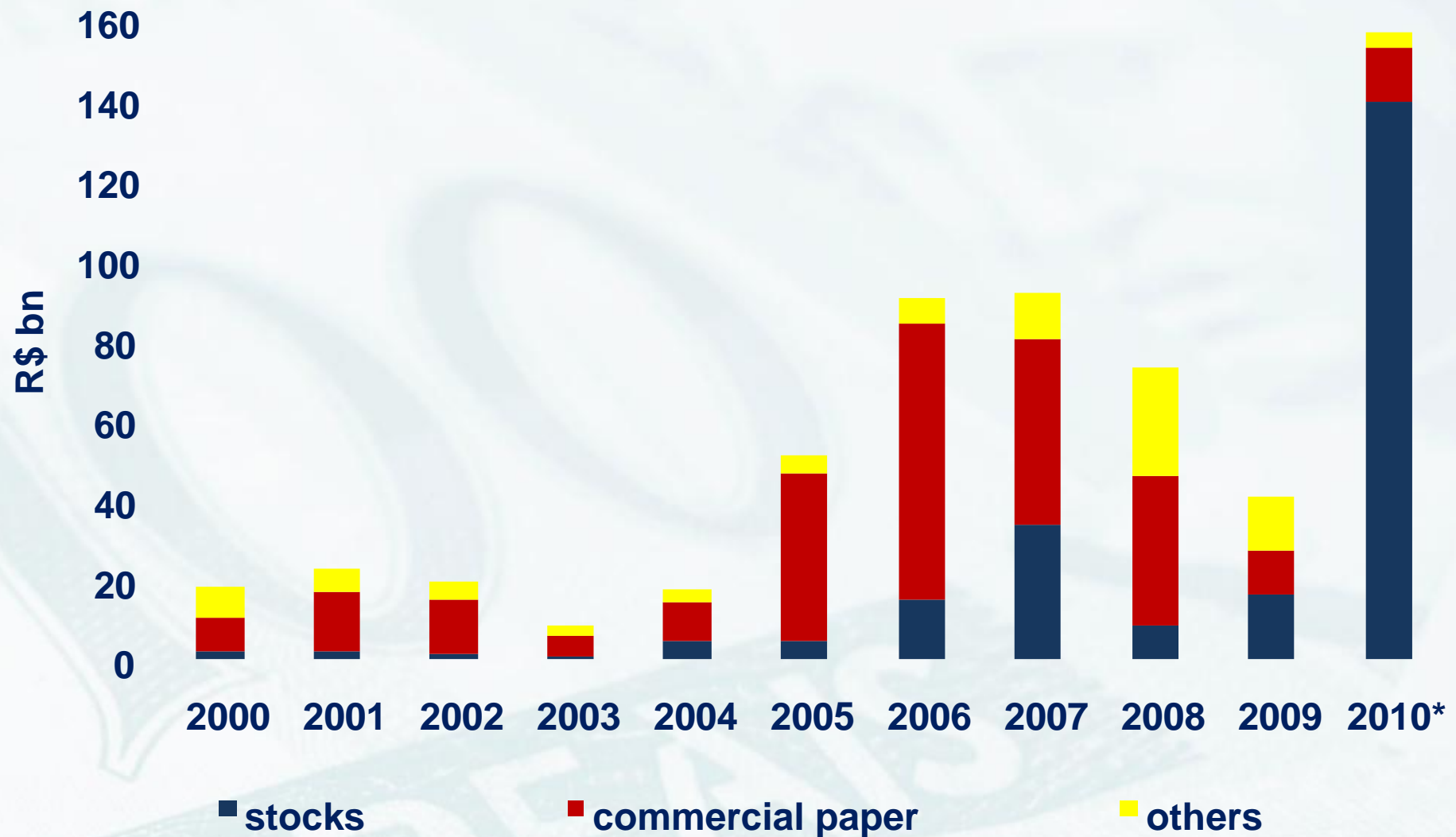
# Longer Credit Horizon



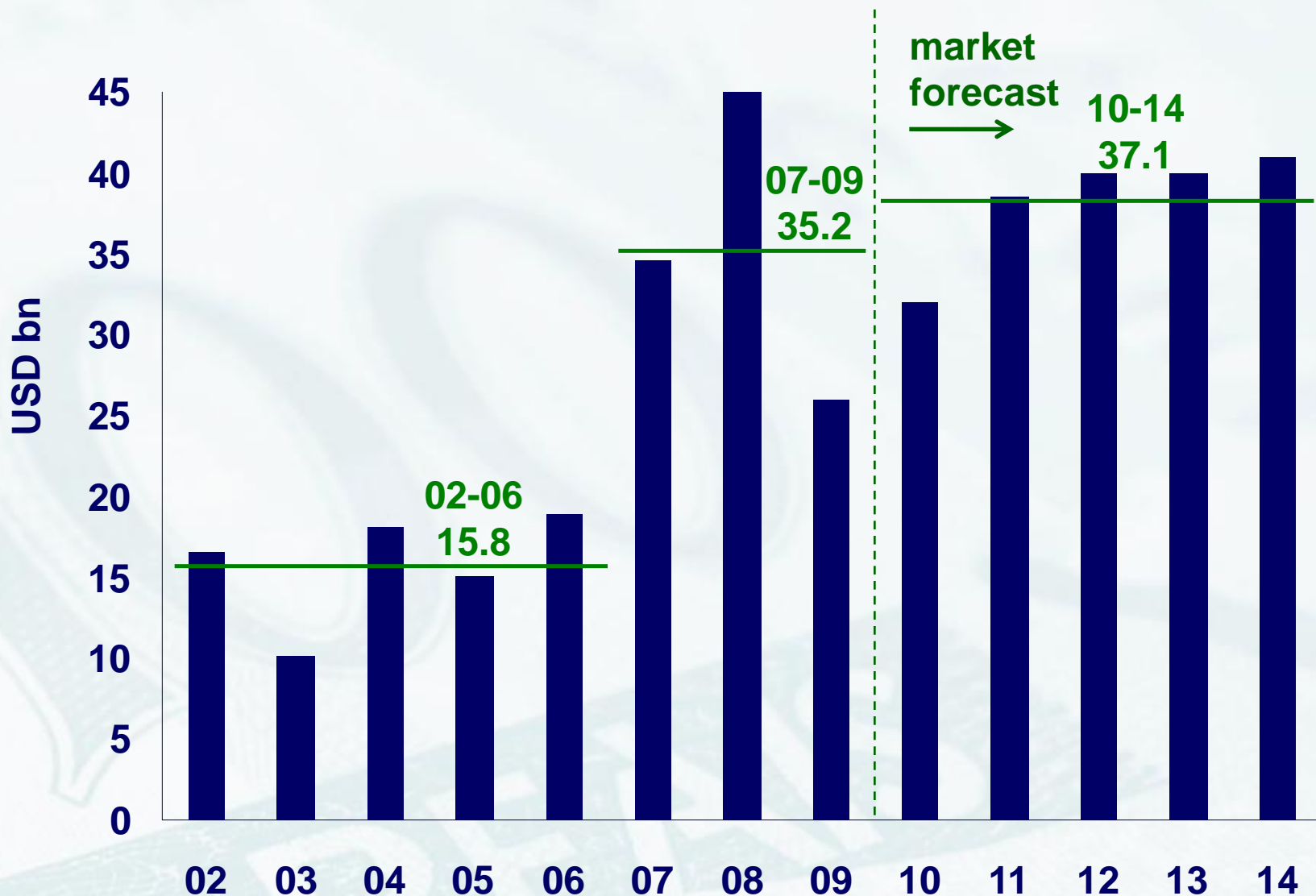
# Increased Access to Bank Credit



# Capital Market – Primary Issues

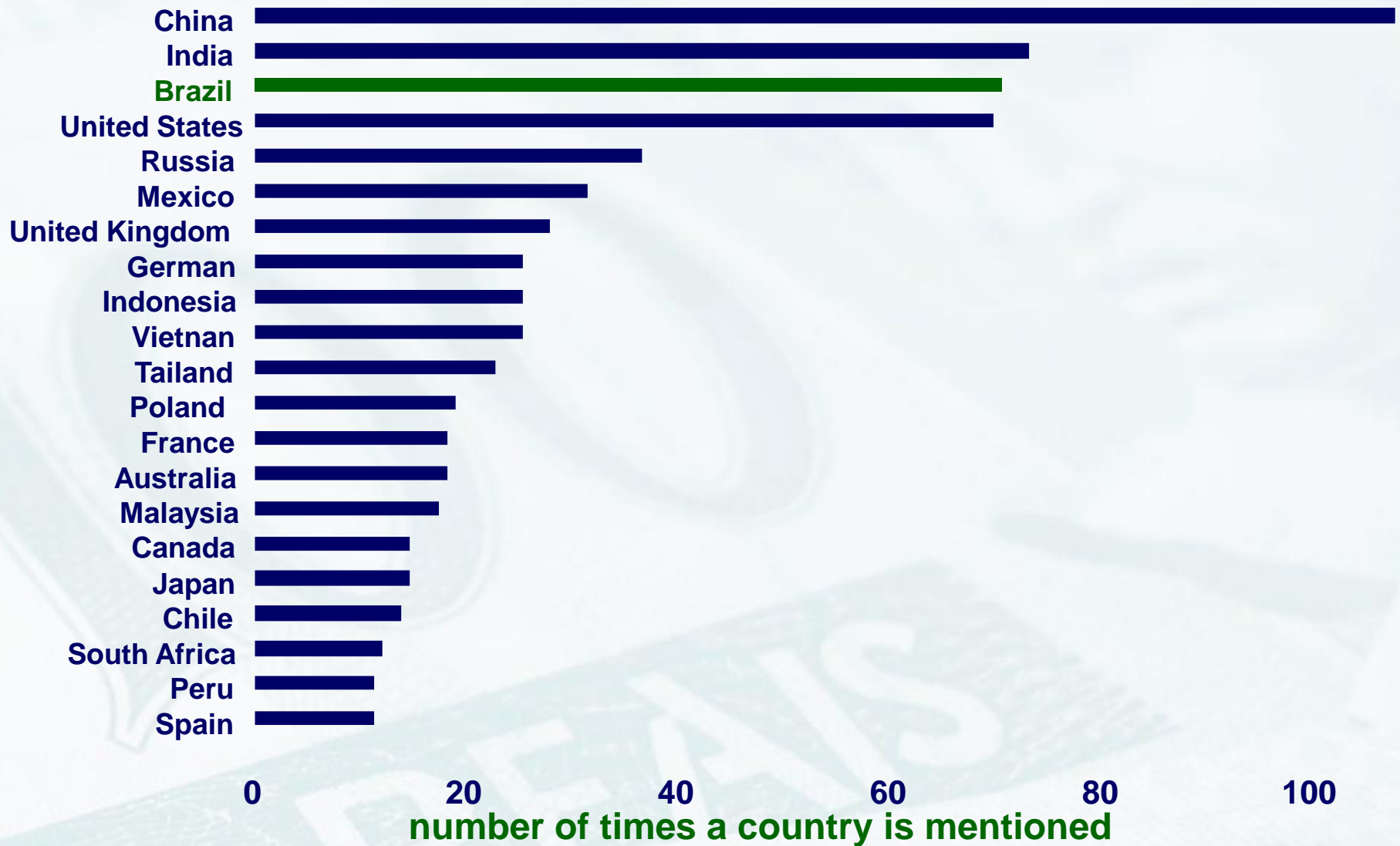


# Net Foreign Direct Investment

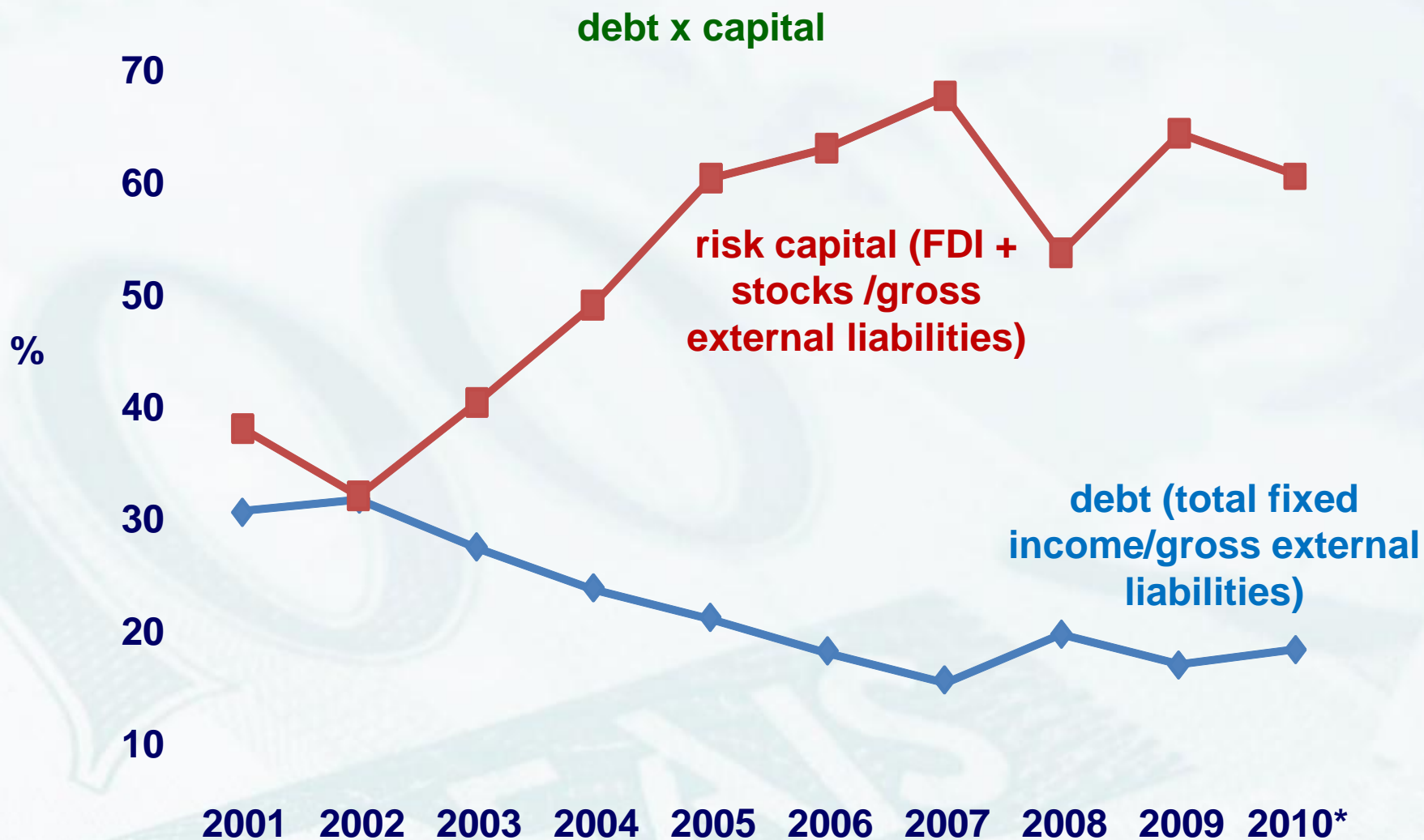




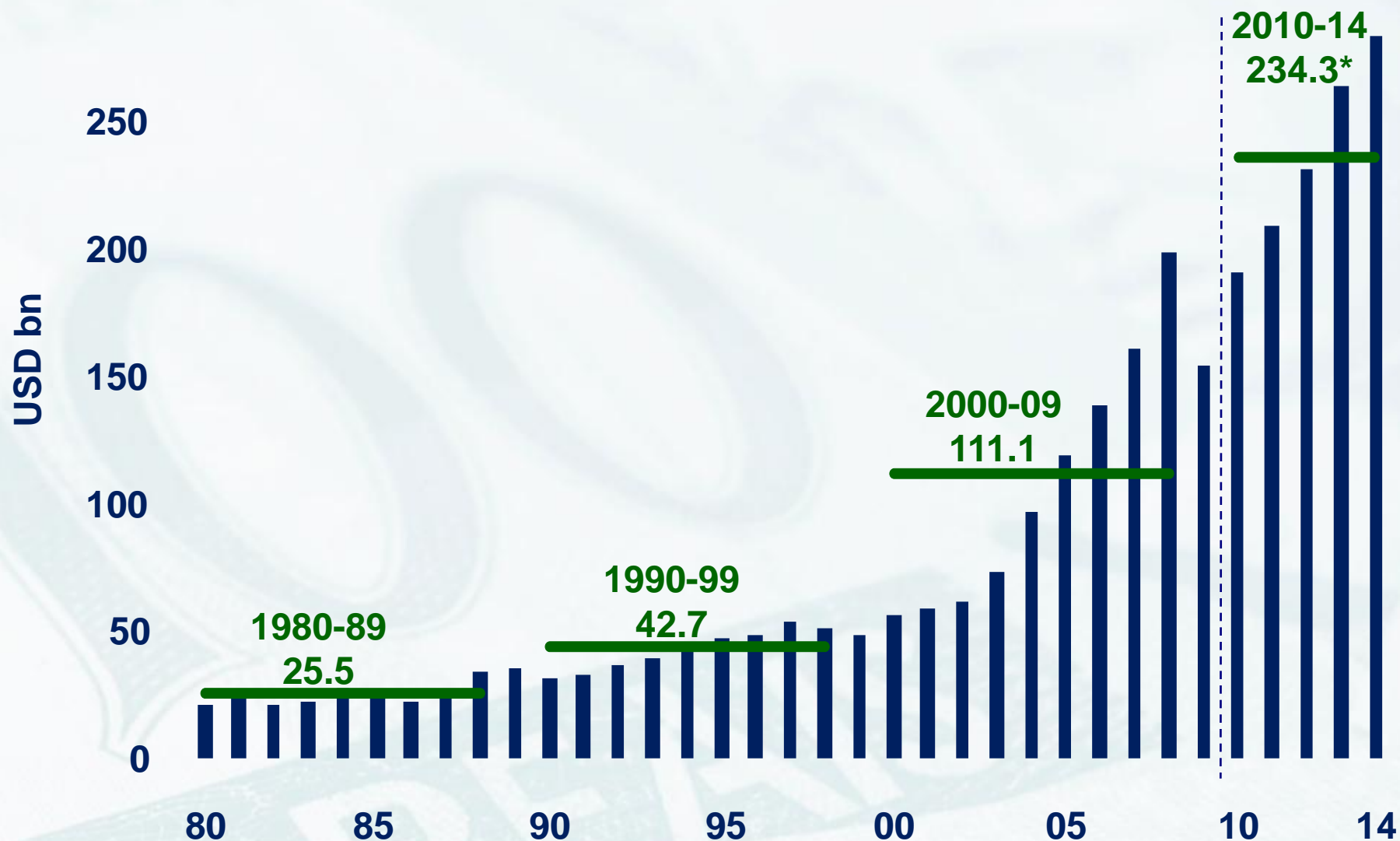
# 3<sup>rd</sup> Favorite Host Economy for FDI for the 2010-12 Period



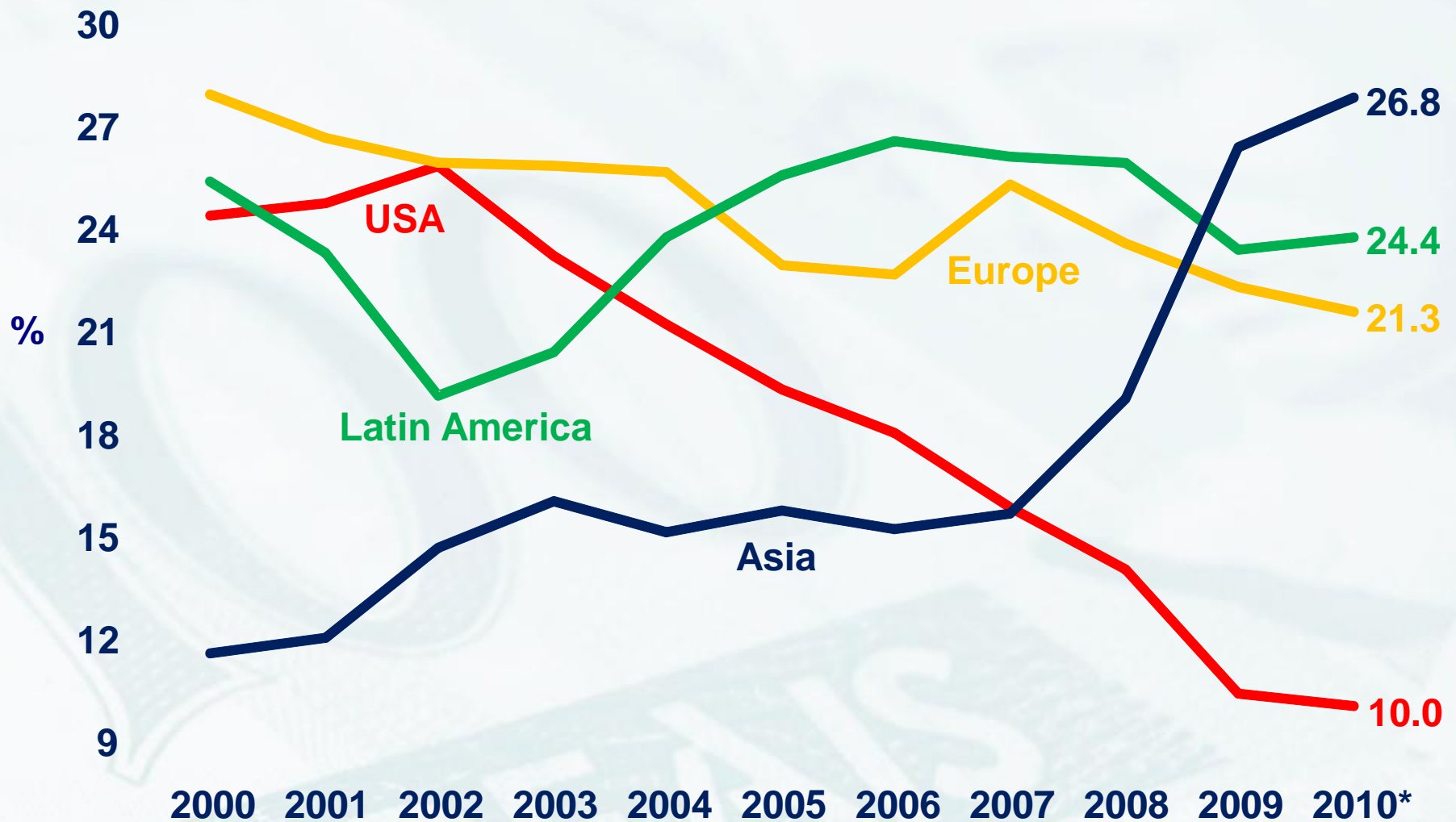
# Brazilian External Liabilities



# Exports



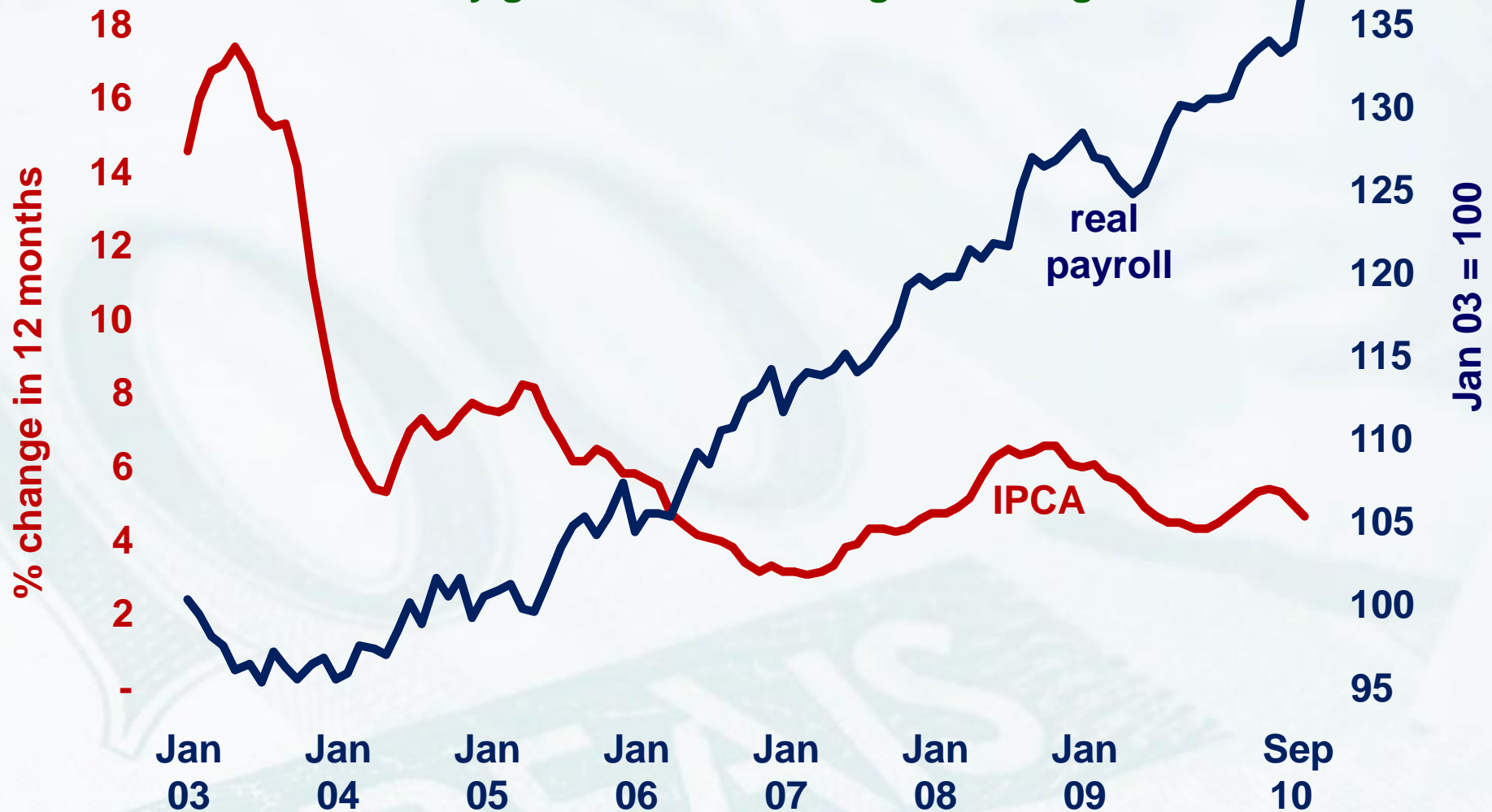
# Exports' Diversification





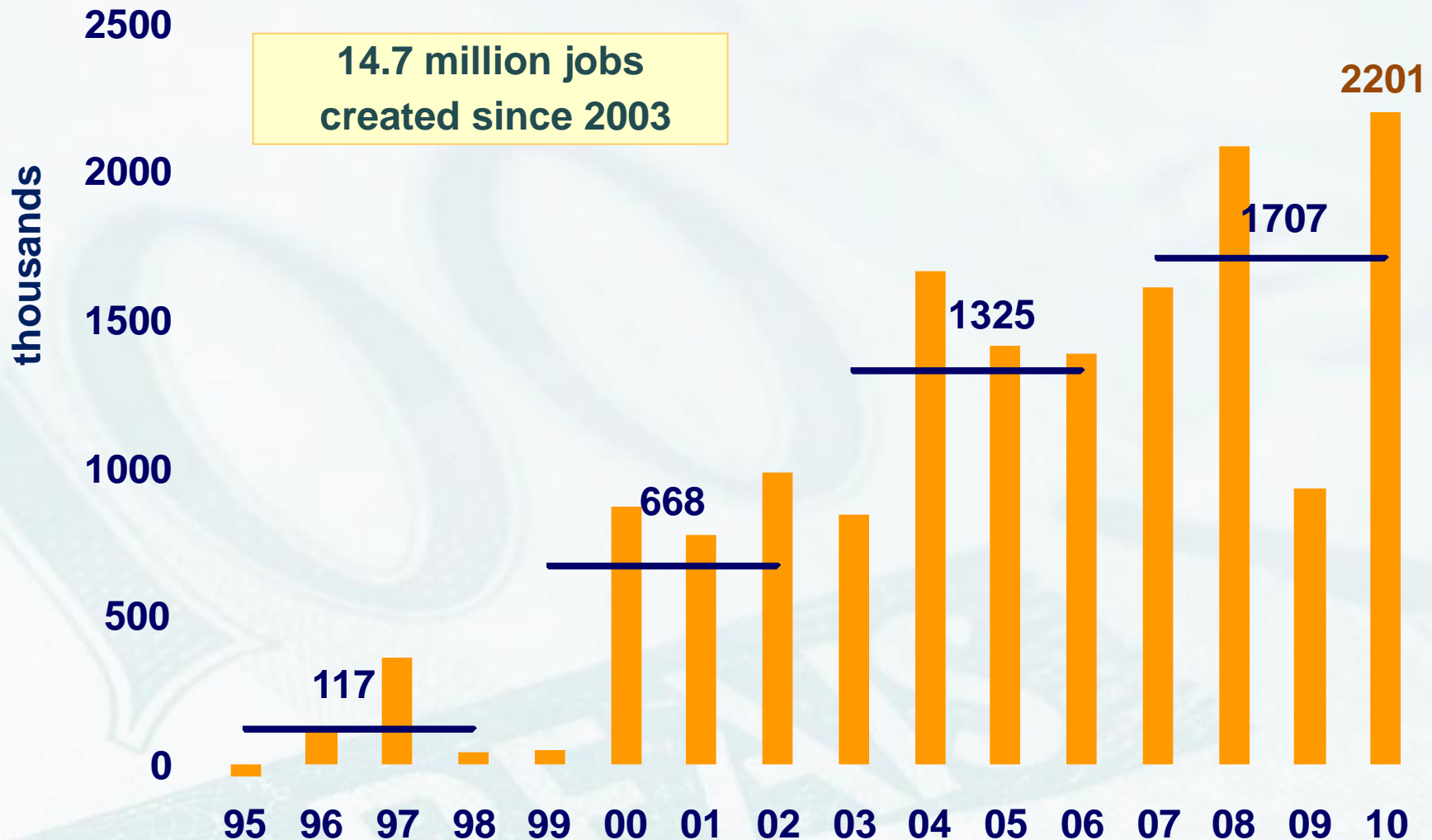
# Price Stability and Real Payroll Growth

stability generates increasing well-being



# Formal Job Creation

from January to September



# Unemployment in Brazil

seasonally adjusted



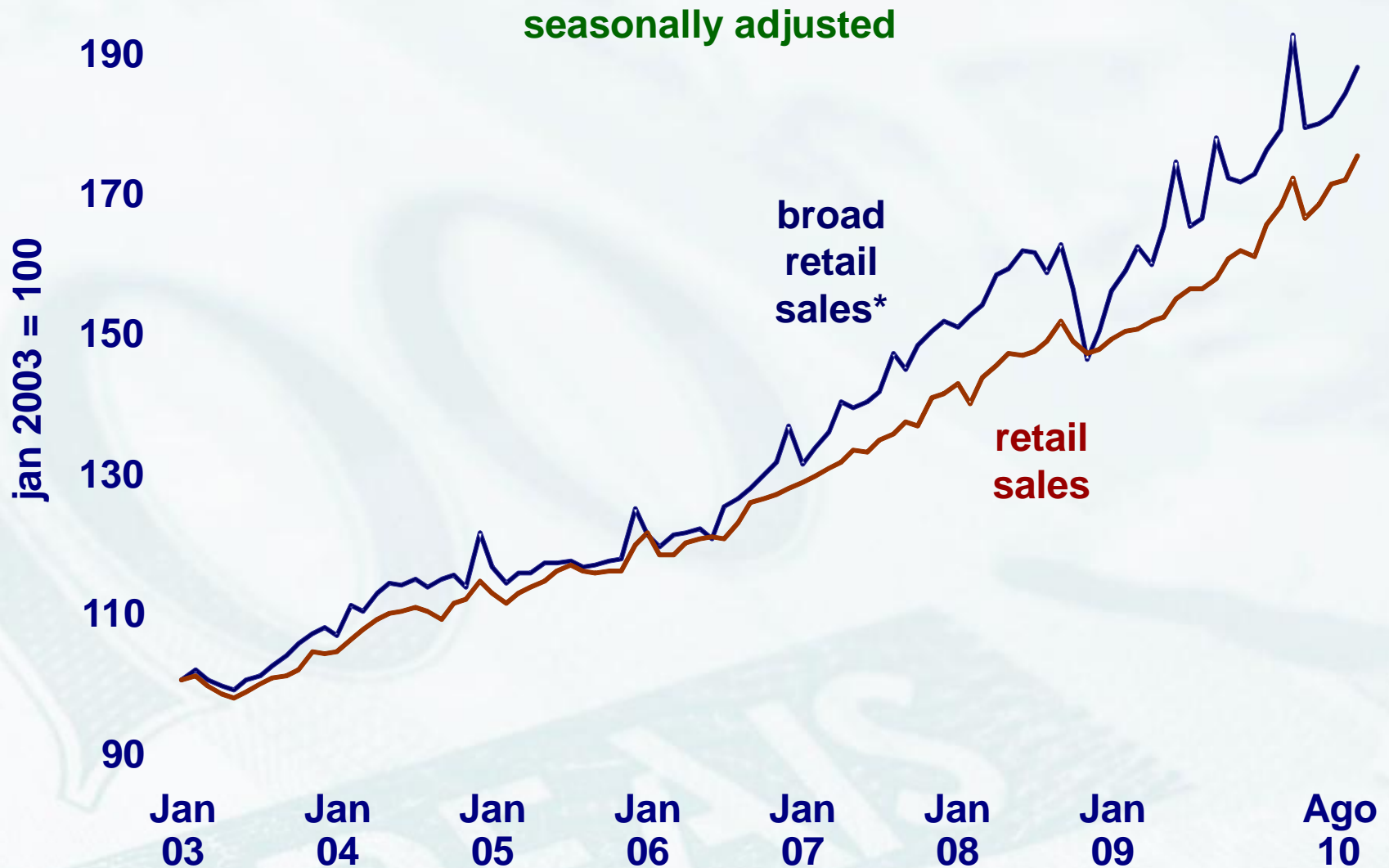
# Unemployment Rate



relatively dynamic  
labor market

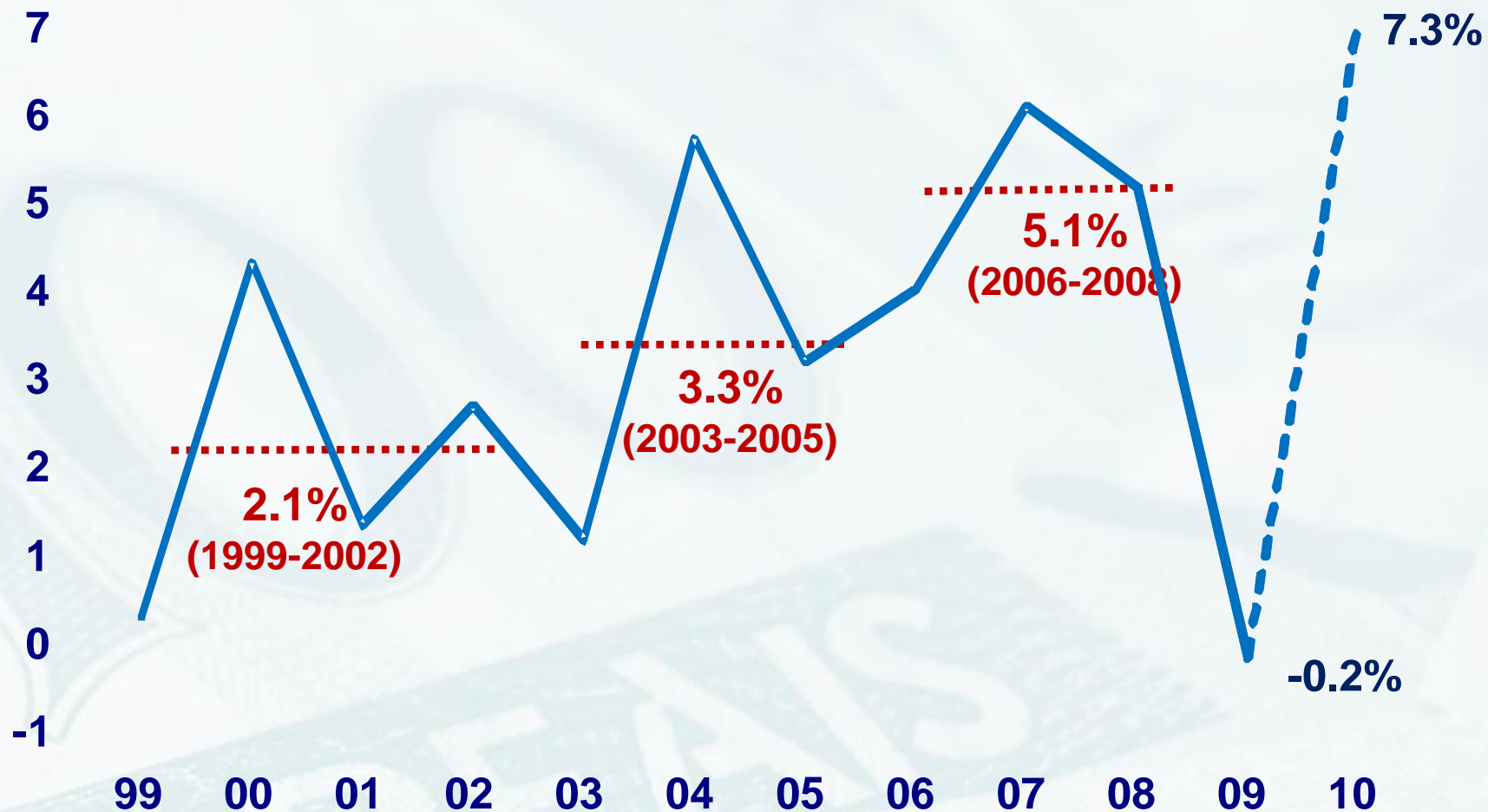


# Retail Sales



# GDP Growth

annual real growth rate



# Performance Before and After the Crisis

compared to other emerging markets



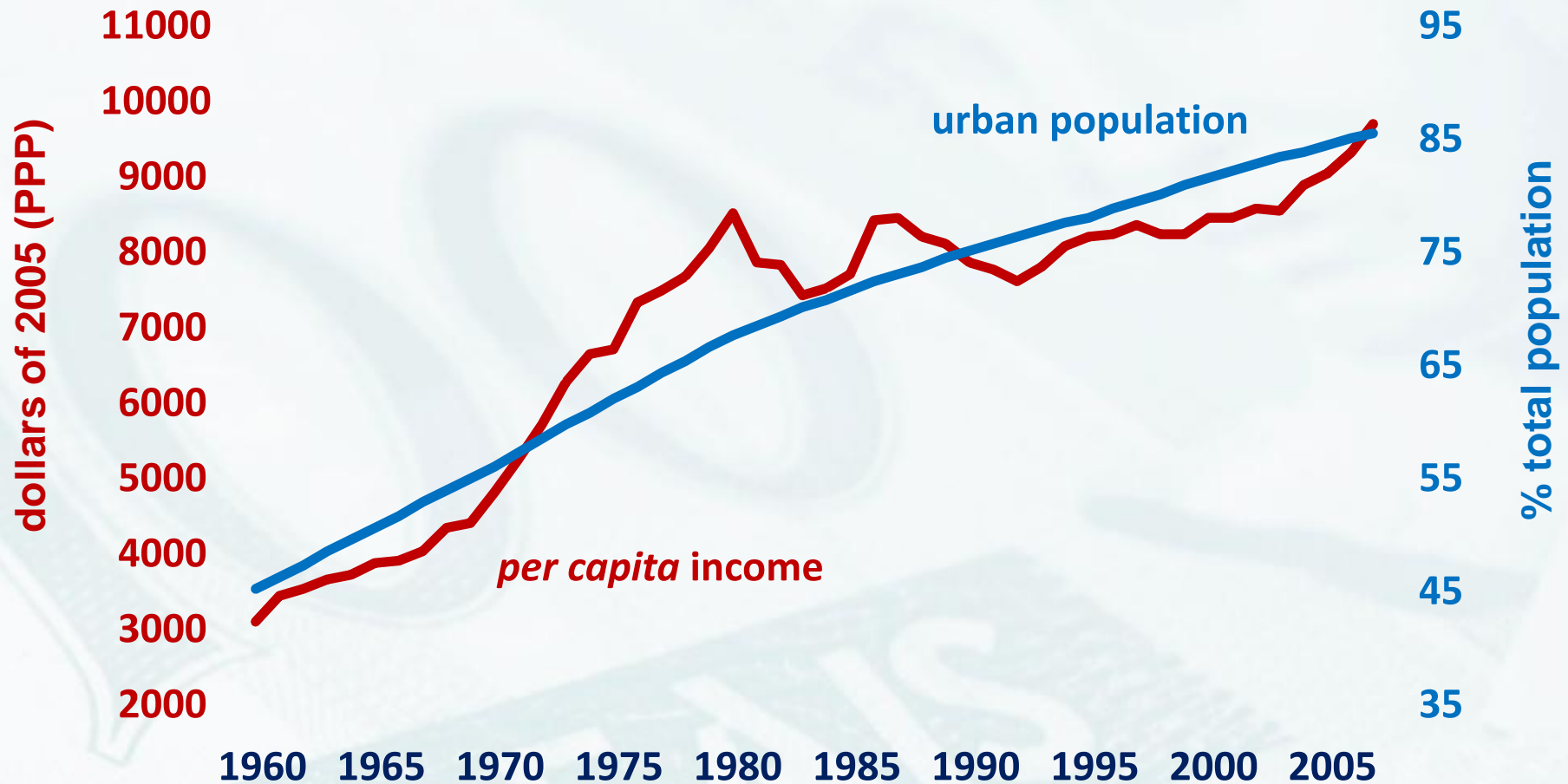
# GDP *per capita* Growth





# Income x Urbanization

Brazil, 1960-2007



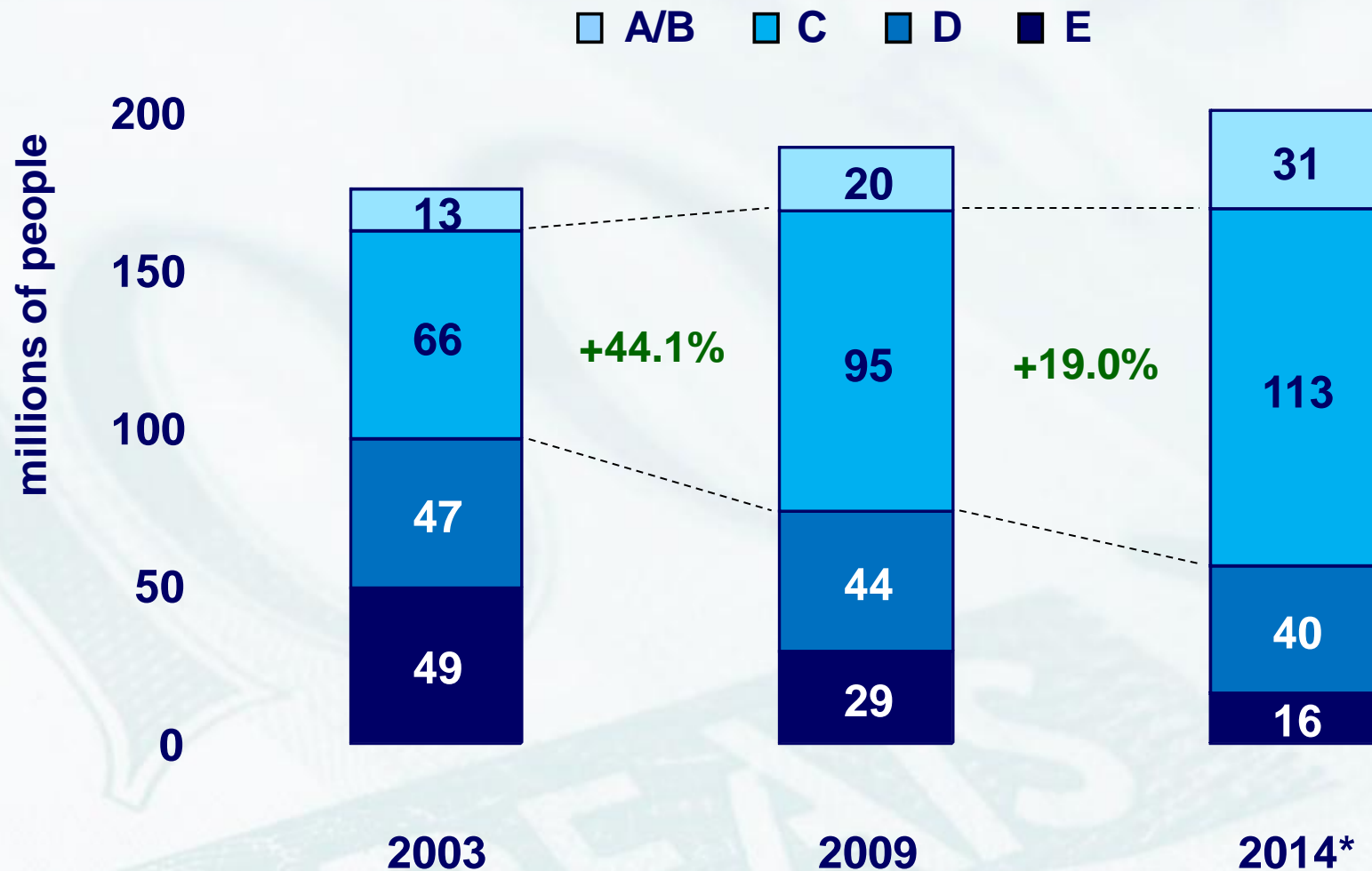
# Income Inequality Reduction



# Middle Class Growth and Poverty Reduction

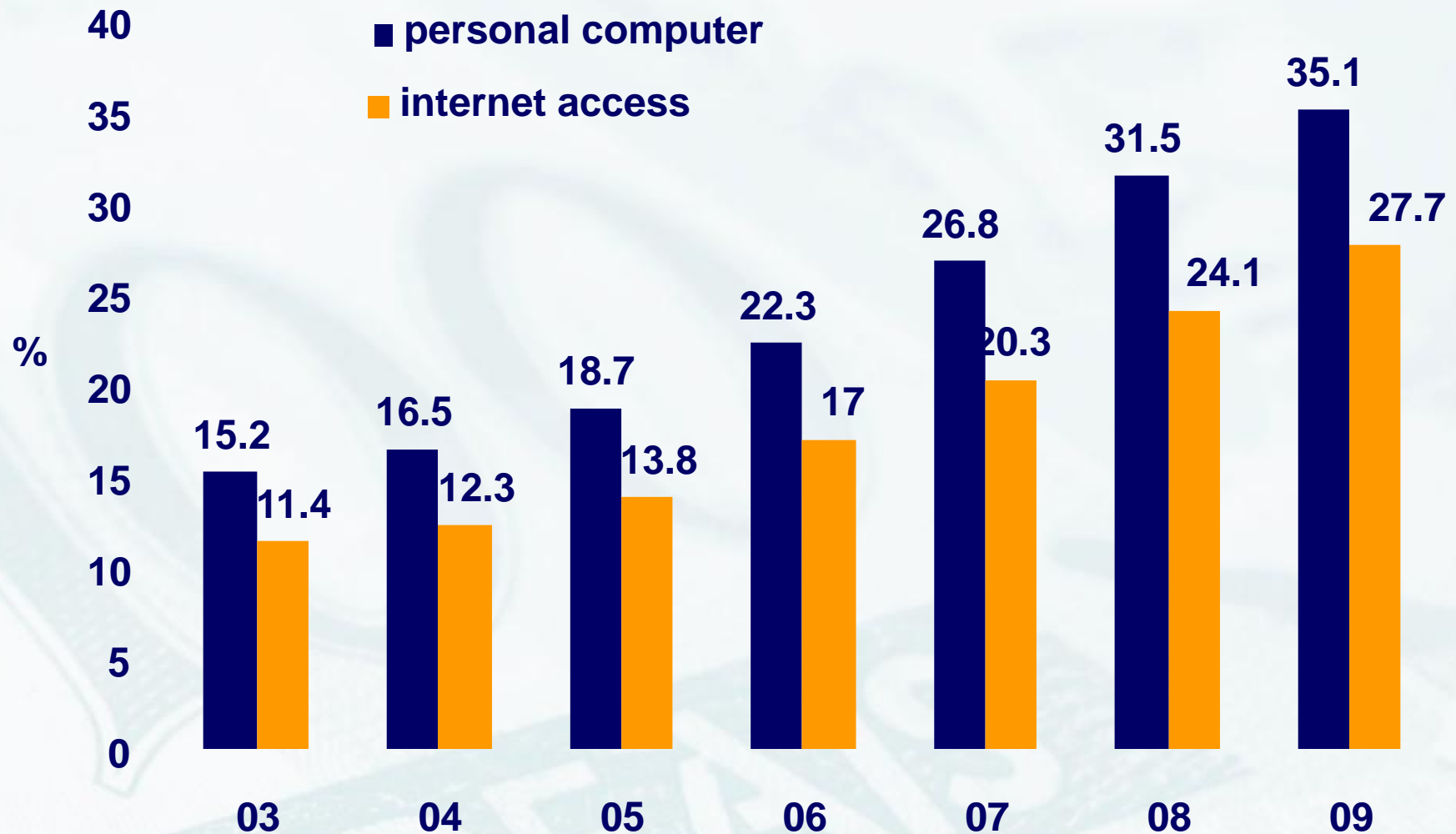
- From 2003 to 2009
  - 35.7 million people have entered the middle class
  - 20.5 million have crossed the poverty line upwards
- 2010-2014 forecast for the current trend
  - 36.0 million more will enter the middle class
  - 14.5 million more will come out of poverty
- Family Grant Program (Bolsa Família):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

# Social Mobility

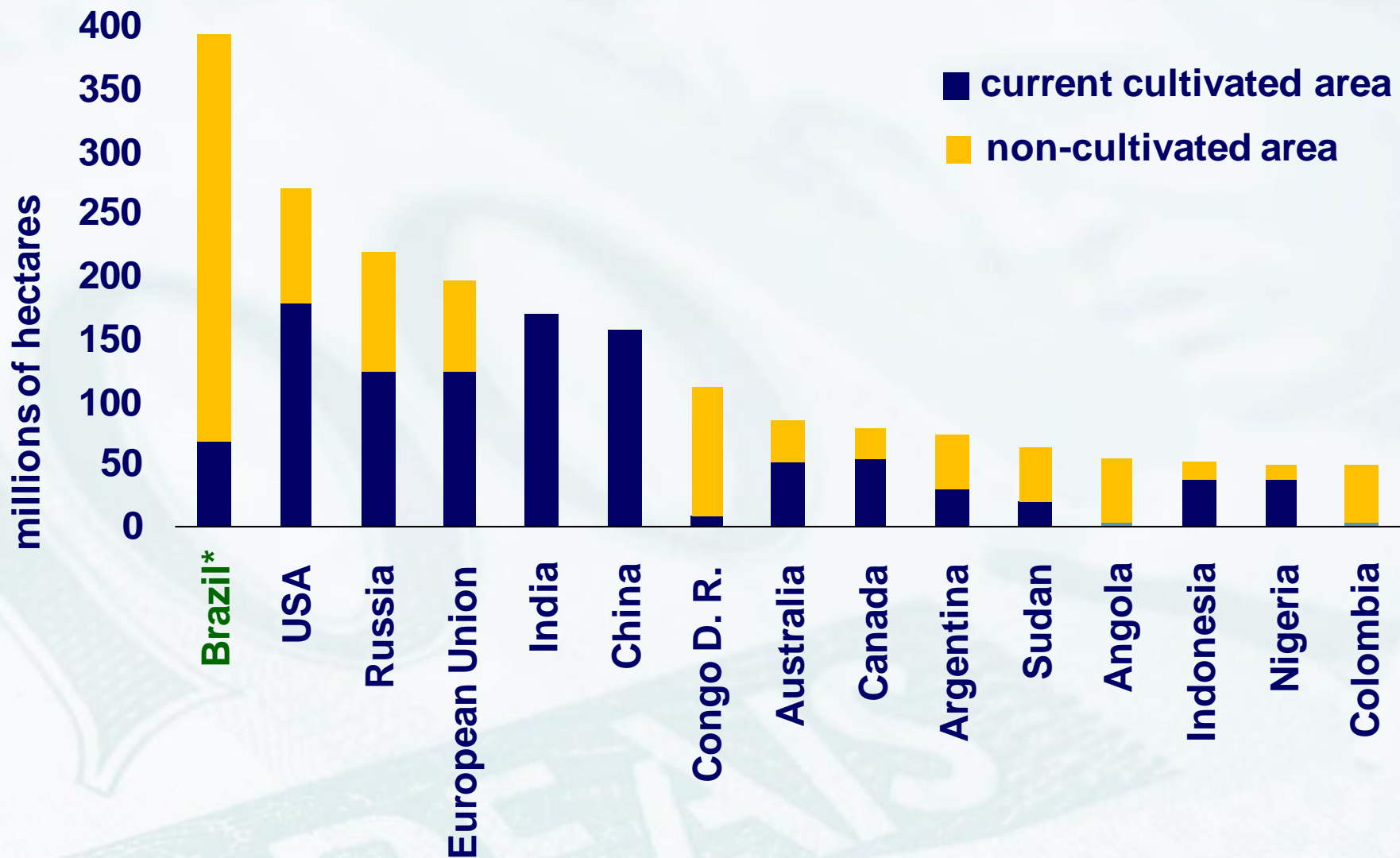




# Homes with PC and Access to the Internet



# Availability of Arable Land



# Long Term Challenges

## ➤ **1980-90s Decades**

- Succeeding crises and economic plans
- Changes in the monetary regime
- Limited long term planning

## ➤ **Last Decade**

- **Macroeconomic Stability → Long Term Planning**

## ➤ **Long Term Challenges**

- Increase of Saving / Investment Level
- Raising the Productivity

# Agenda for the Next Years

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



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