



BANCO CENTRAL DO BRASIL

Public Debt and Macroeconomic Vulnerability

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Cartagena, April 2005

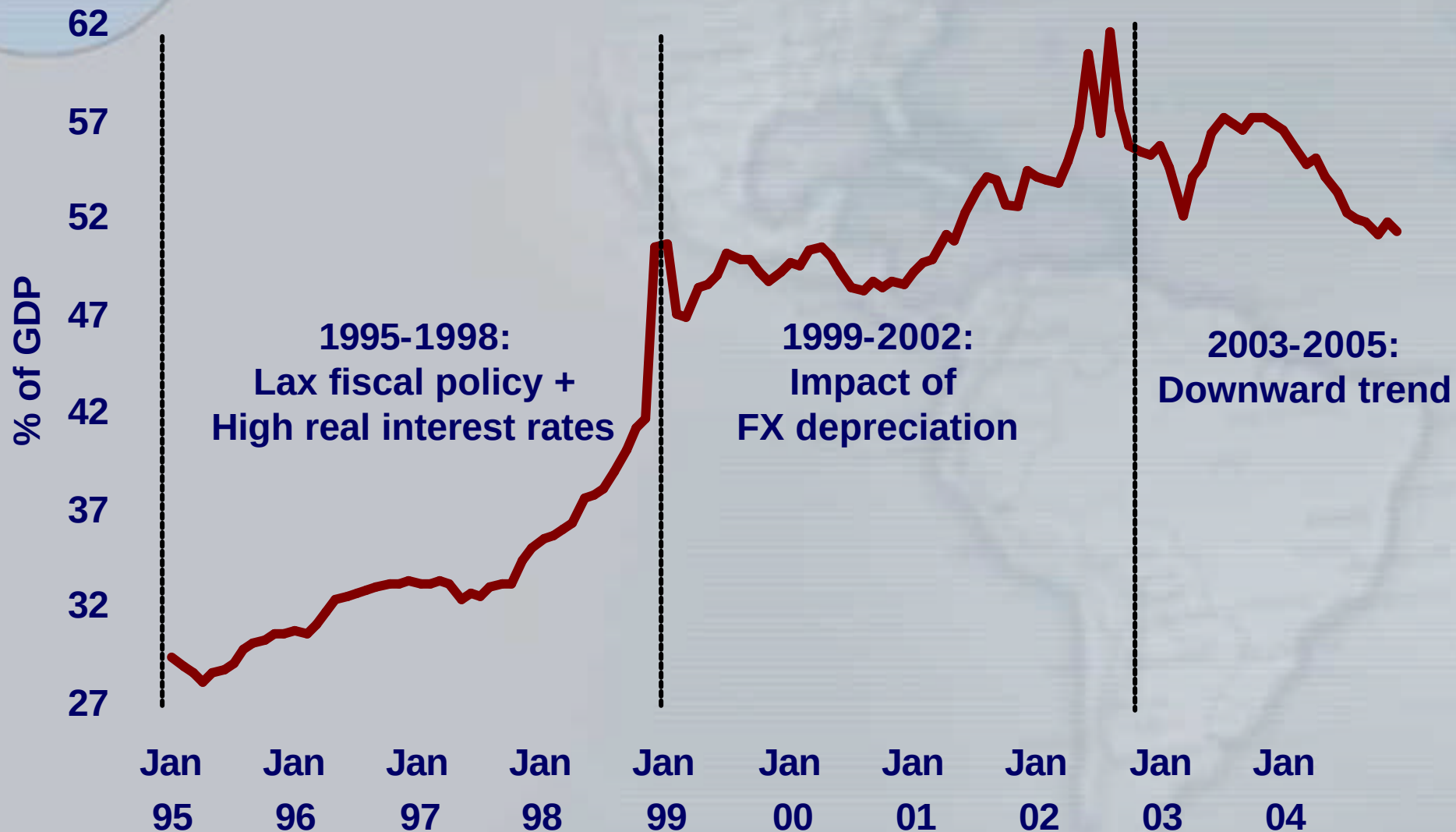


Public Debt and Macroeconomic Vulnerability

- Brazil is a good case study of the impacts of: (i) the macroeconomic framework; and (ii) external shocks on the net debt-to-GDP trajectory.
- In the 1995-2005 period, the net debt-to-GDP ratio followed three very different trends due to:
 - a. Fiscal stance and monetary policy regime;
 - b. Effects of external shocks.



Net Debt-to-GDP Ratio (1995-2004)



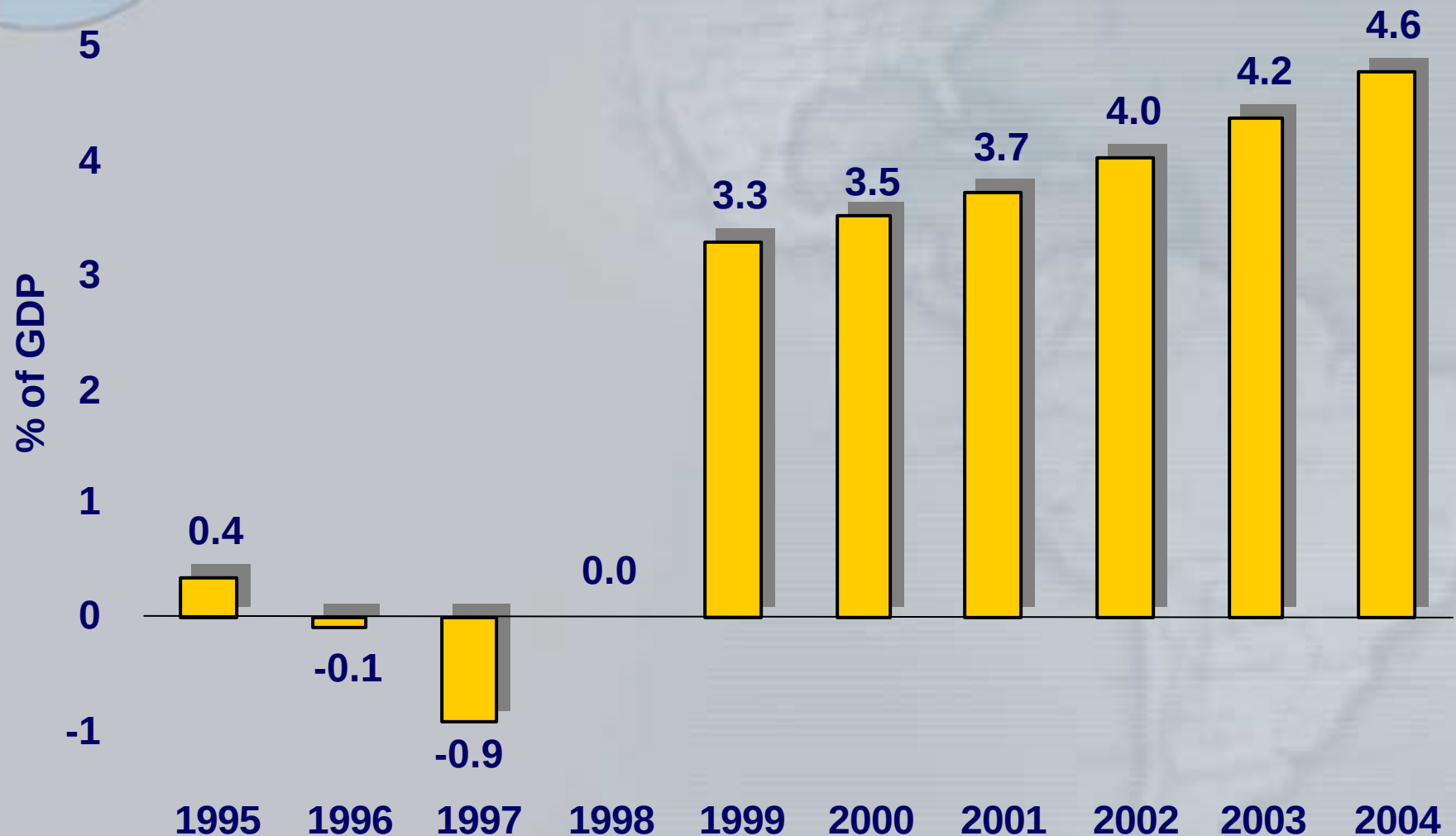


Debt Dynamics (1995/2004)

	95-98	99-02	2003	2004
Net debt increase	11.7%	13.8%	1.7%	-5.6%
1. Primary surplus	0.7%	-10.4%	-4.1%	-4.4%
2. Pure interest on the debt	21.2%	23.0%	9.1%	6.9%
3. Depreciation on domestic debt	0.8%	9.2%	-1.4%	-0.2%
4. Depreciation on foreign debt	1.2%	8.0%	-1.6%	-0.3%
5. Skeletons	4.5%	3.5%	0.0%	0.4%
6. Privatization proceeds	-3.3%	-2.1%	0.0%	0.0%
7. Effect of GDP growth	-13.5%	-17.4%	-0.3%	-8.0%
Memo:				
Debt dynamics (1+2+7)	8.4%	-4.8%	4.7%	-5.5%
Currency (3+4)	2.0%	17.2%	-3.0%	-0.5%
Net "skeletons" (5+6)	1.2%	1.4%	0.0%	0.4%

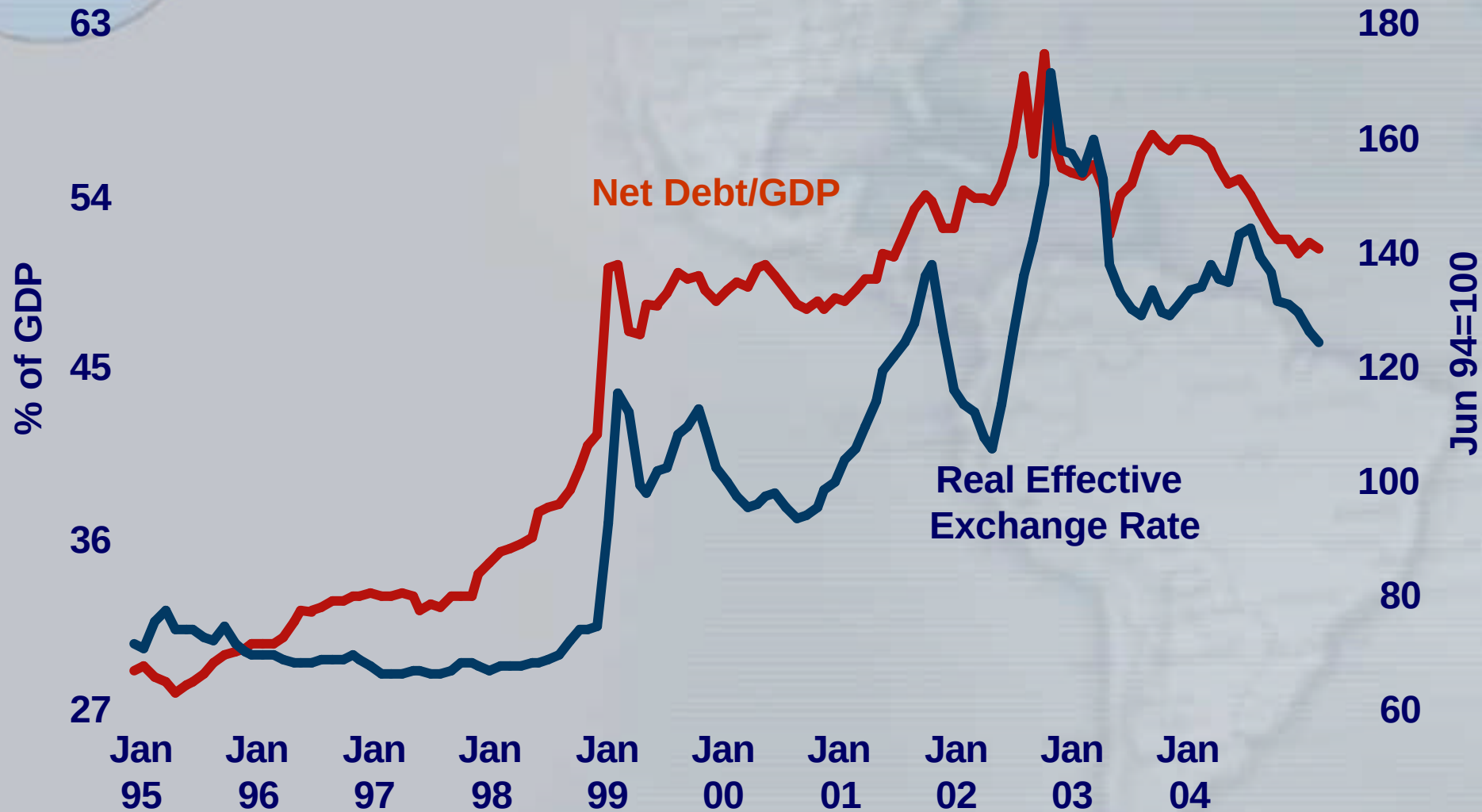


Public Sector Primary Surplus (1995-2005)



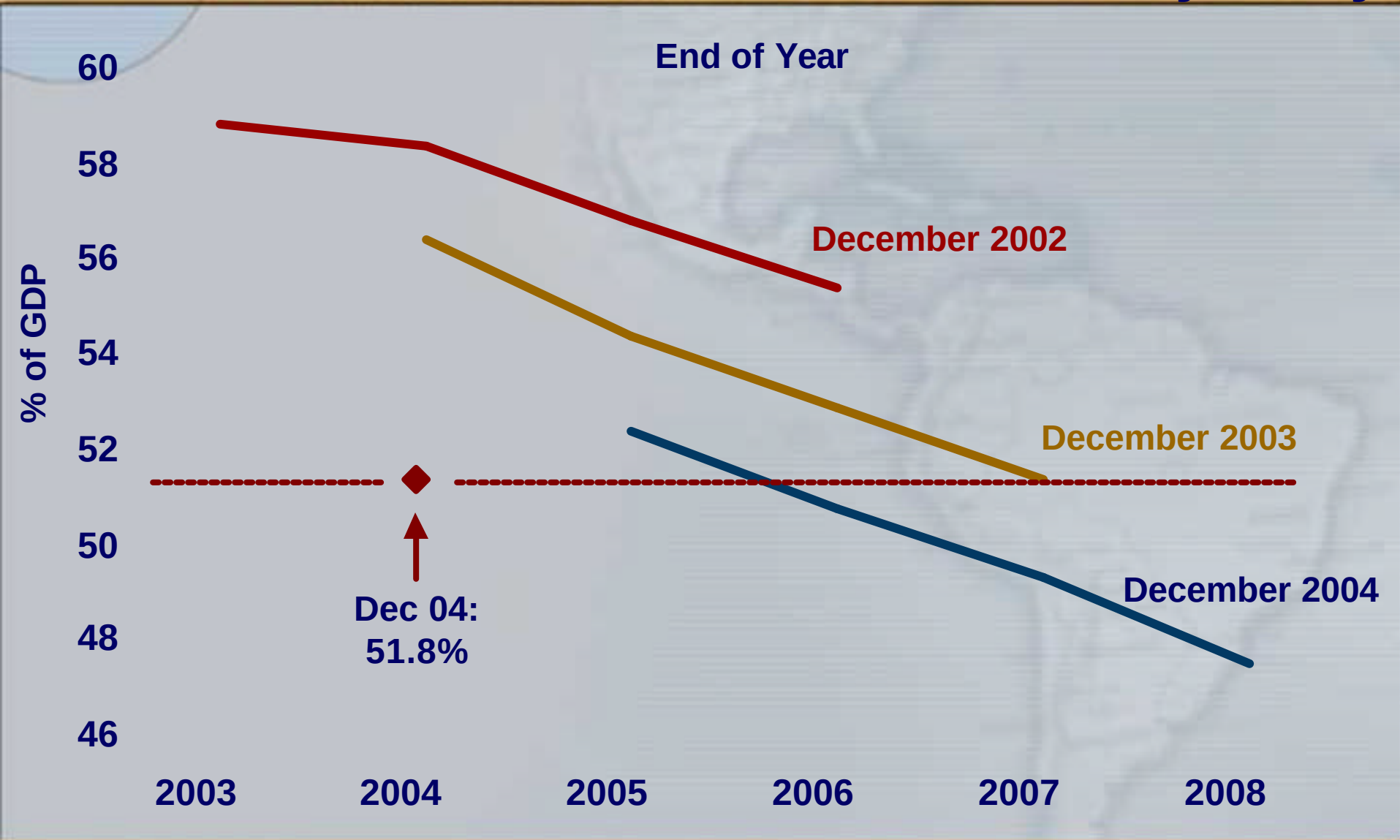


Net Debt-to-GDP Ratio vs. Real Effective Exchange Rate



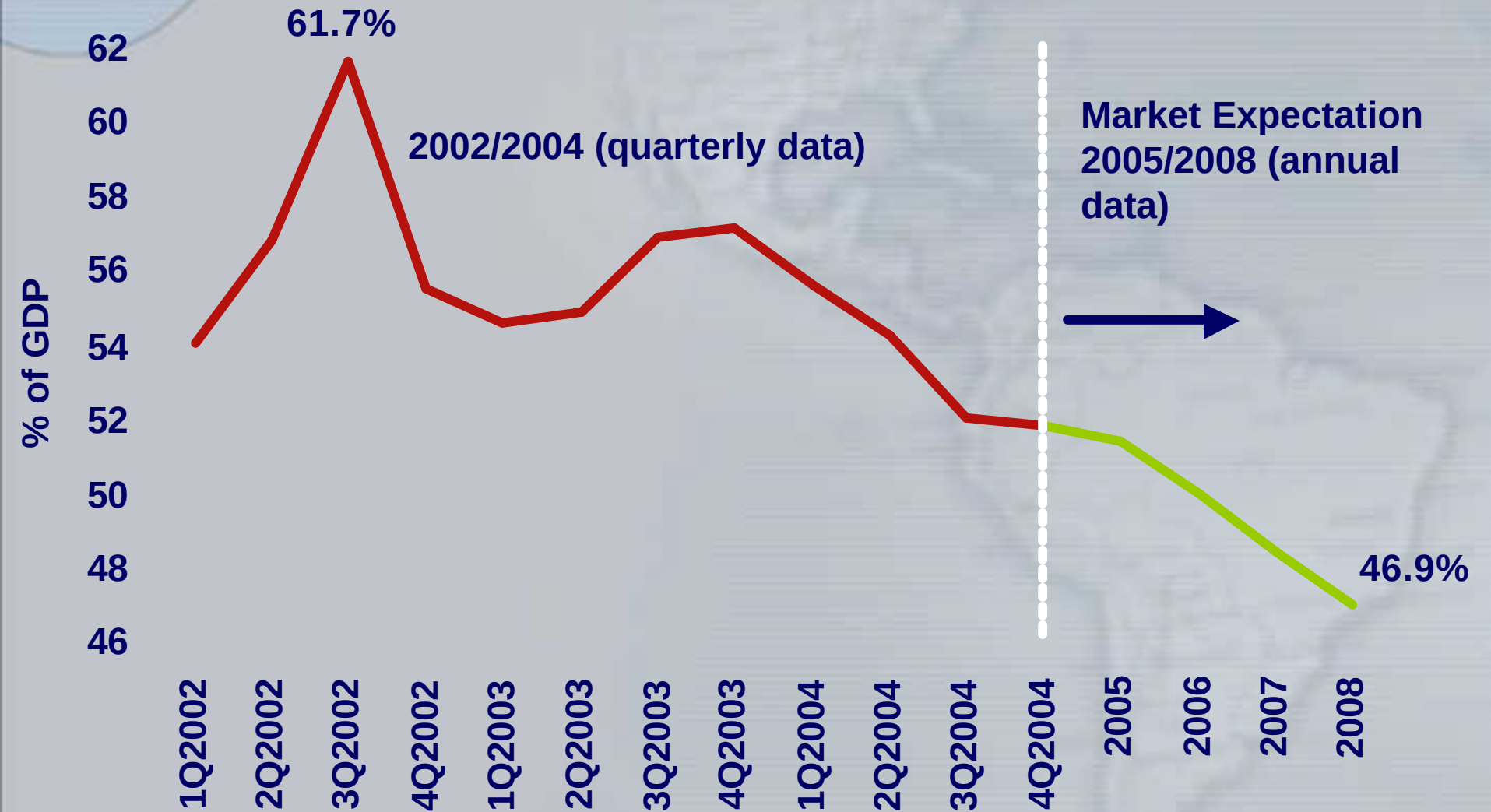


Market Consensus of the Expected Net Debt-to-GDP Trajectory





Debt-to-GDP Ratio Trend



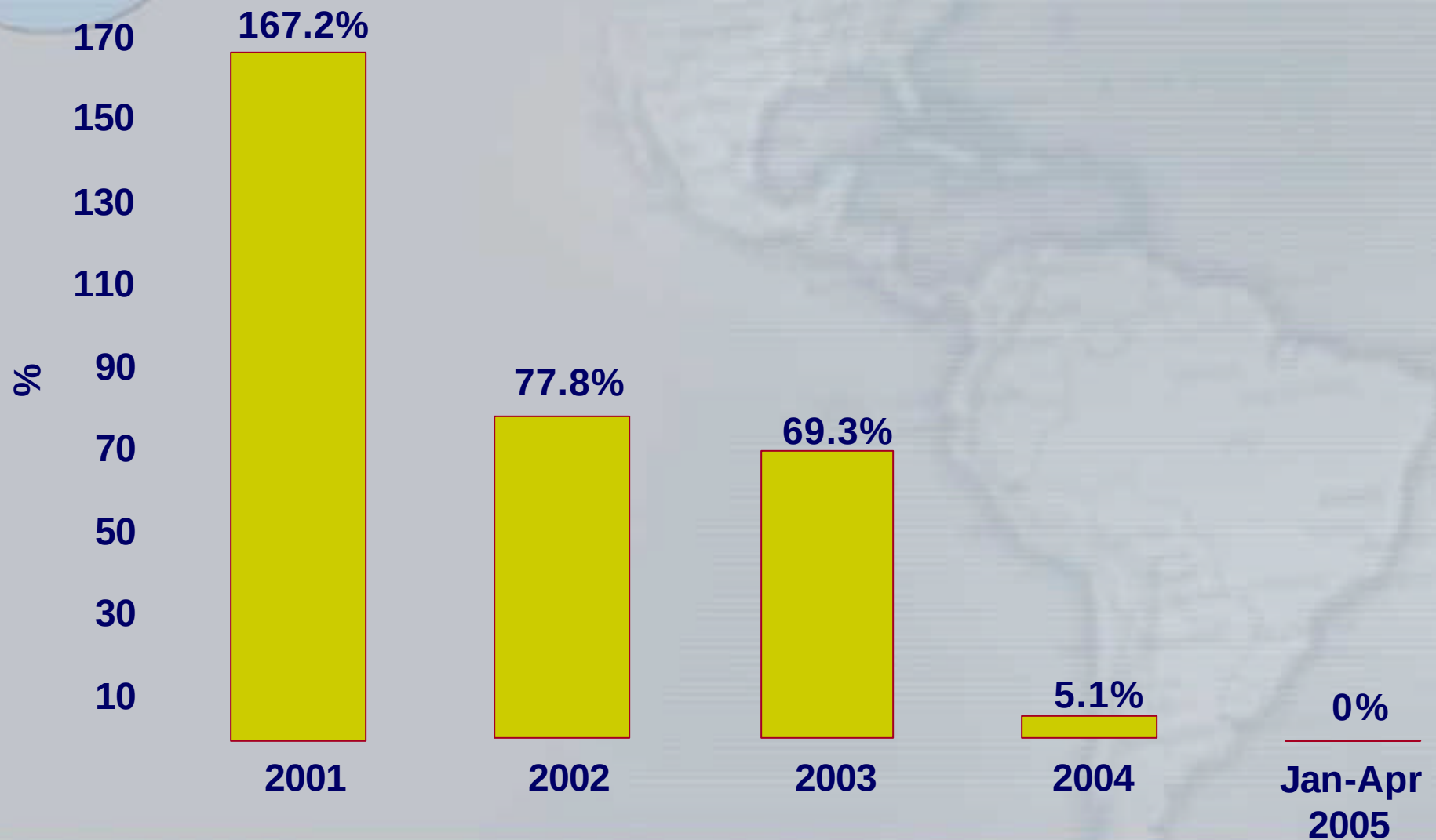


Public Debt and Macroeconomic Vulnerability

- The Brazilian experience shows that it is crucial to mitigate the FX risk exposure of the public sector debt

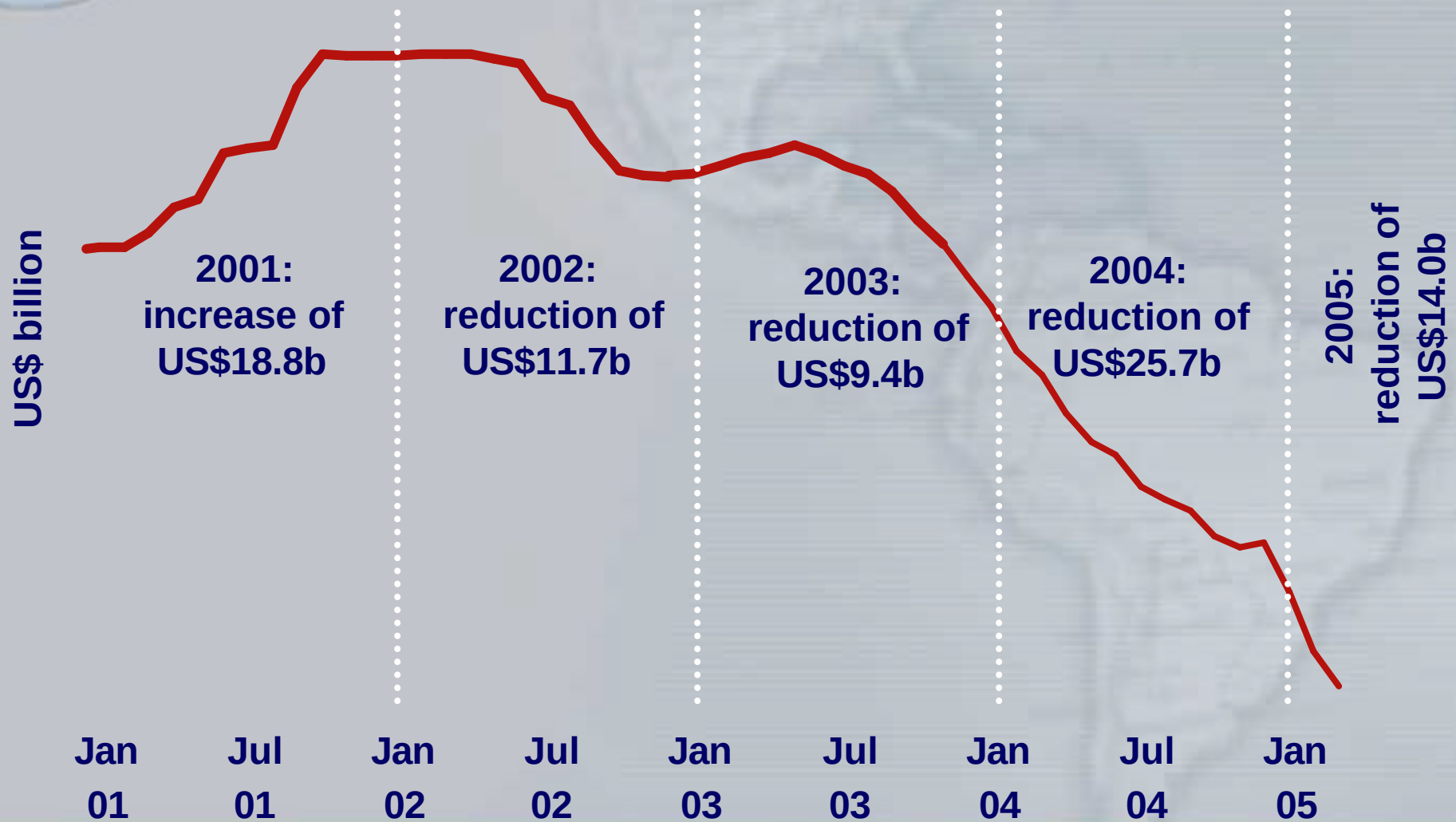


Rollover of FX-Linked Debt (2001-2005)



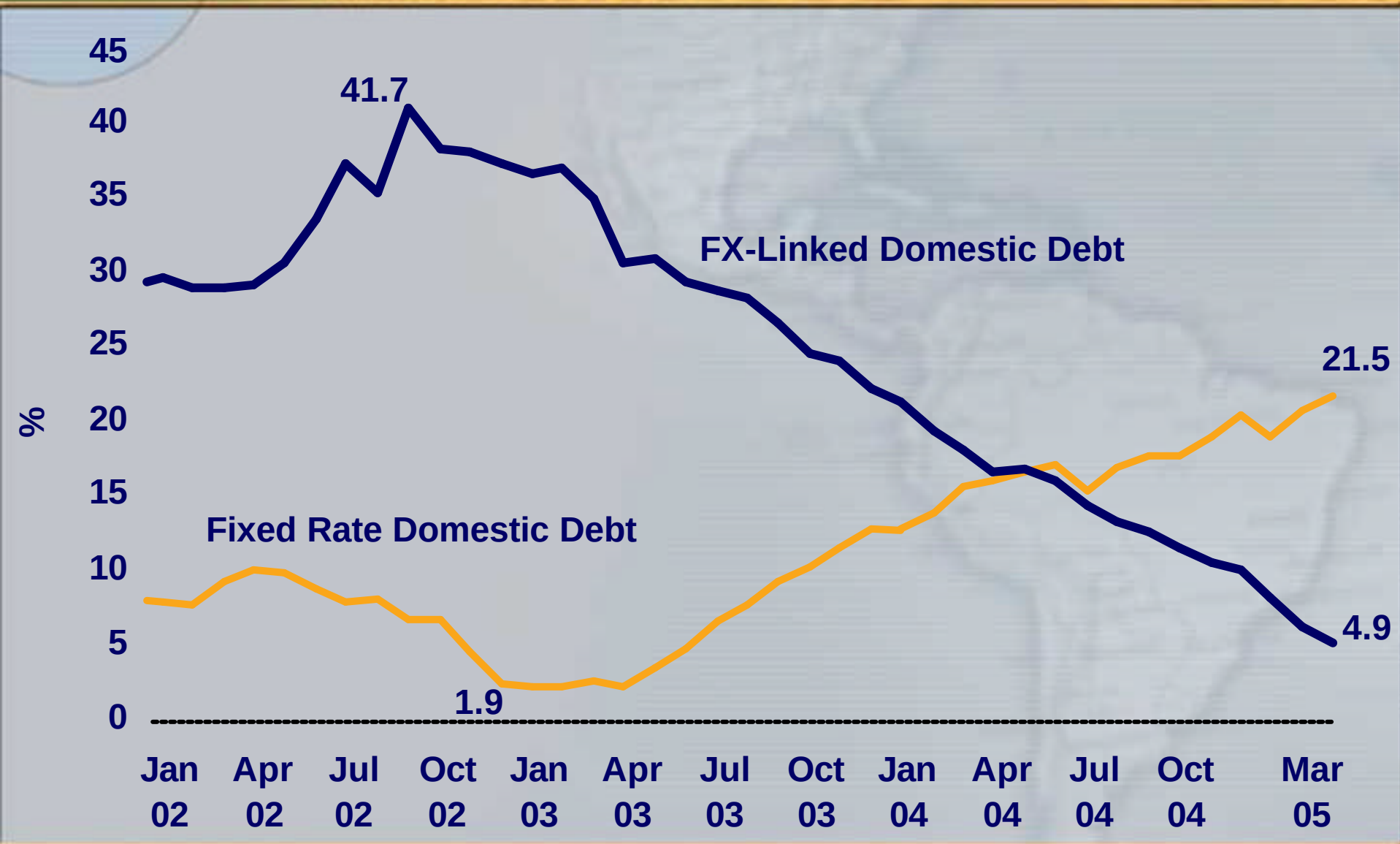


FX-Linked Debt (2002-2005)



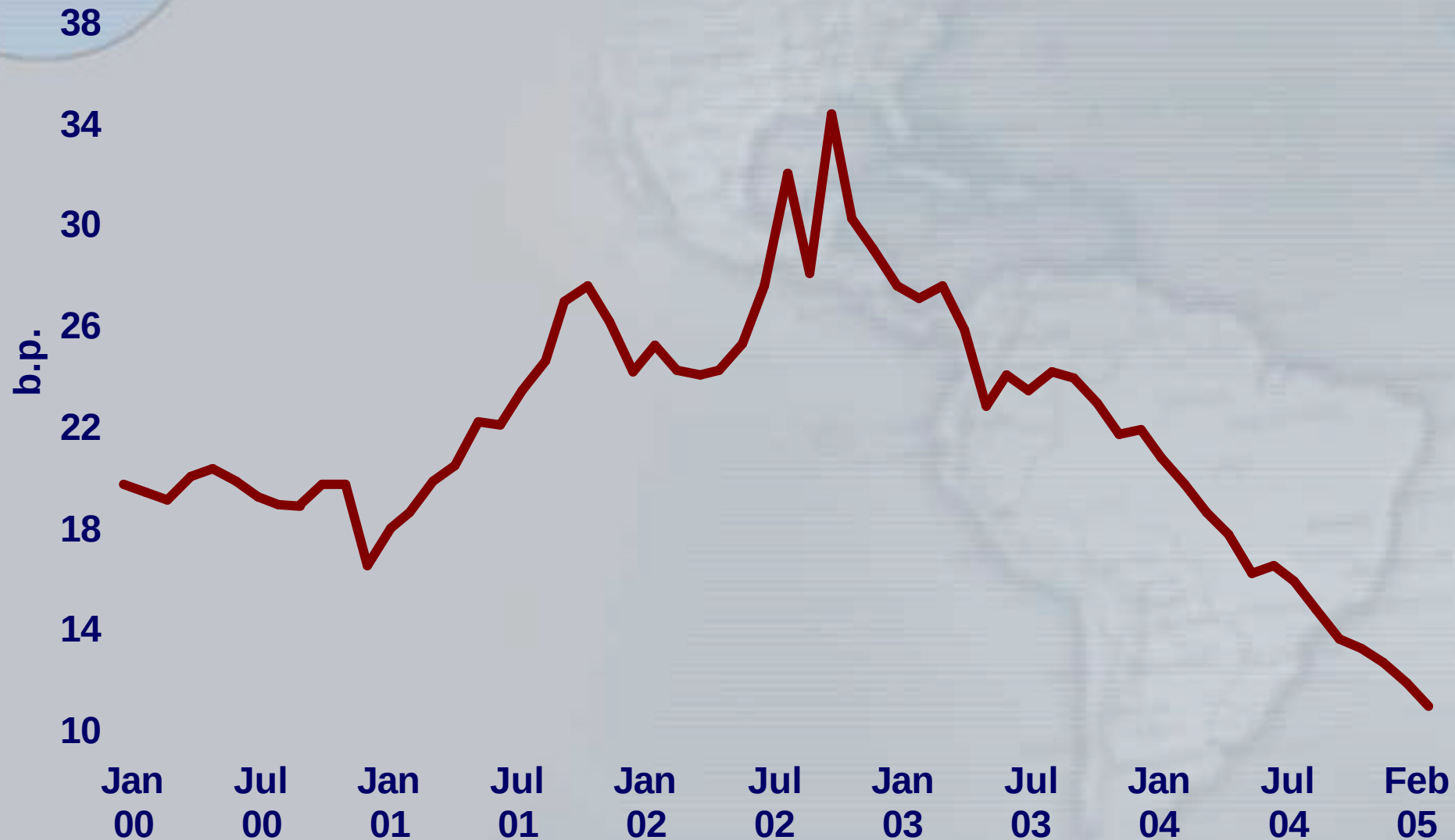


FX-Linked and Fixed Rate Domestic Debt as % of Total Domestic Debt





Impact of a 1% FX change on Net Debt-to-GDP ratio



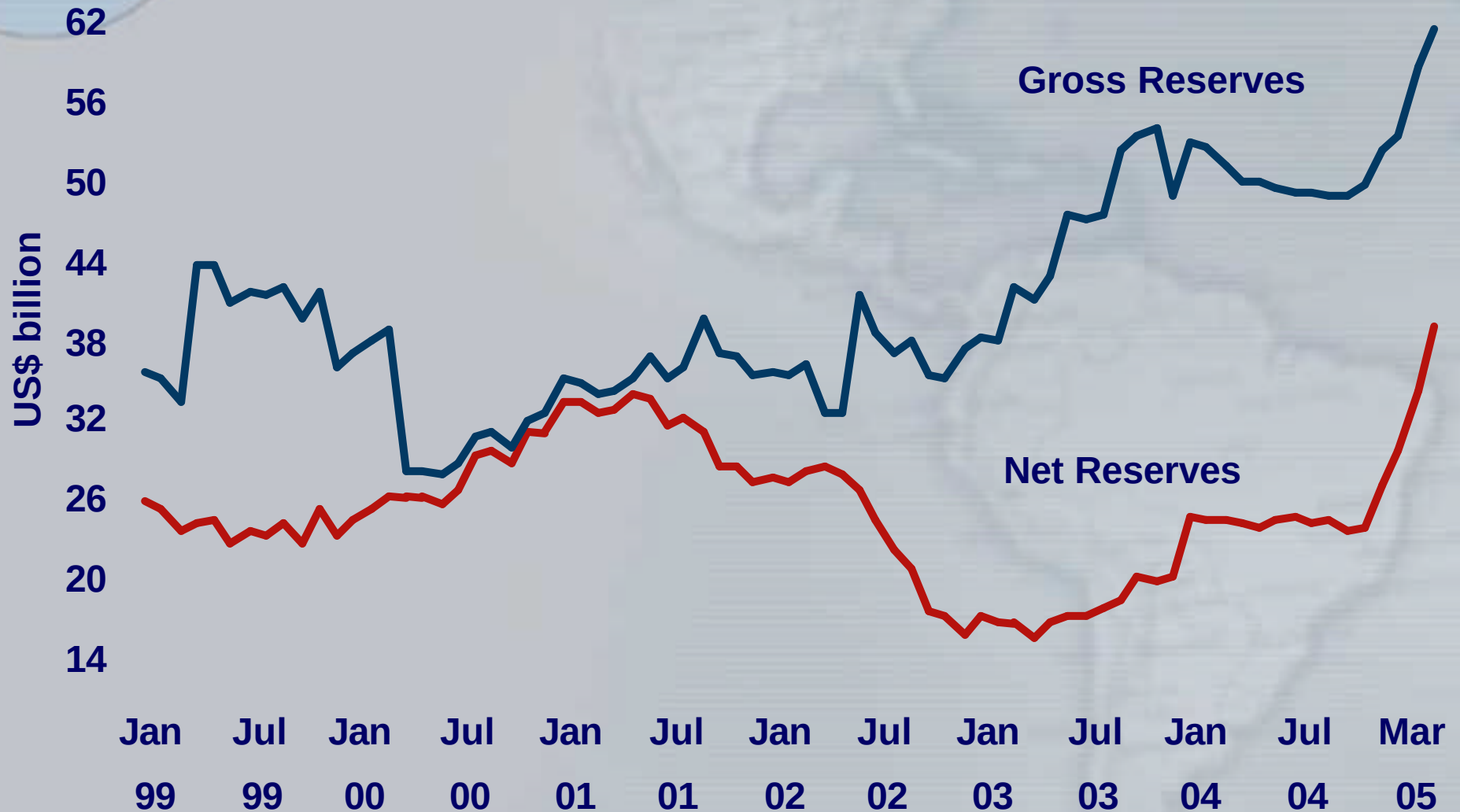


Public Debt and Macroeconomic Vulnerability

- Besides limiting the FX exposure of the public sector, it is also crucial to reduce the macroeconomic vulnerability to external shocks

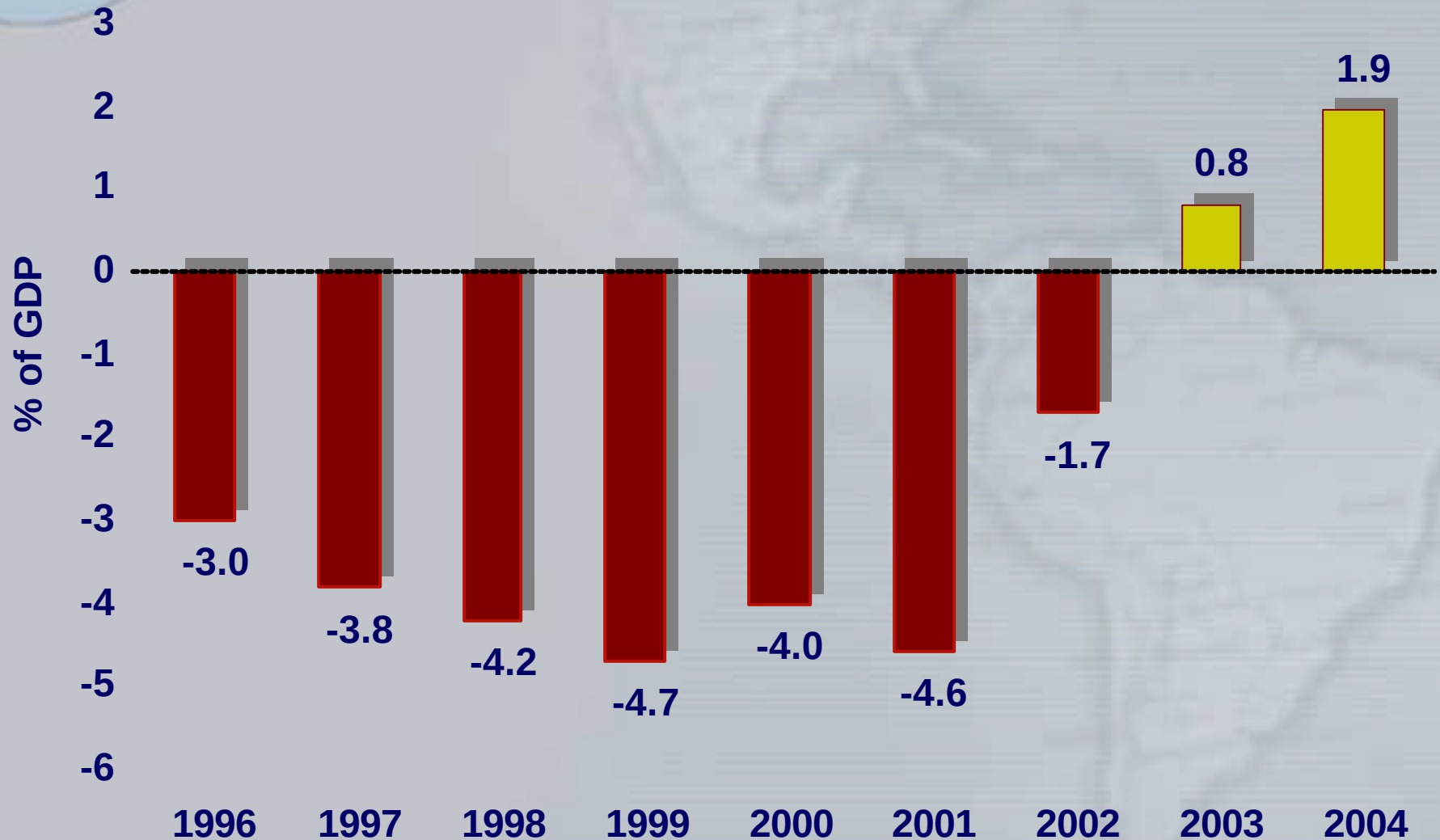


International Reserves



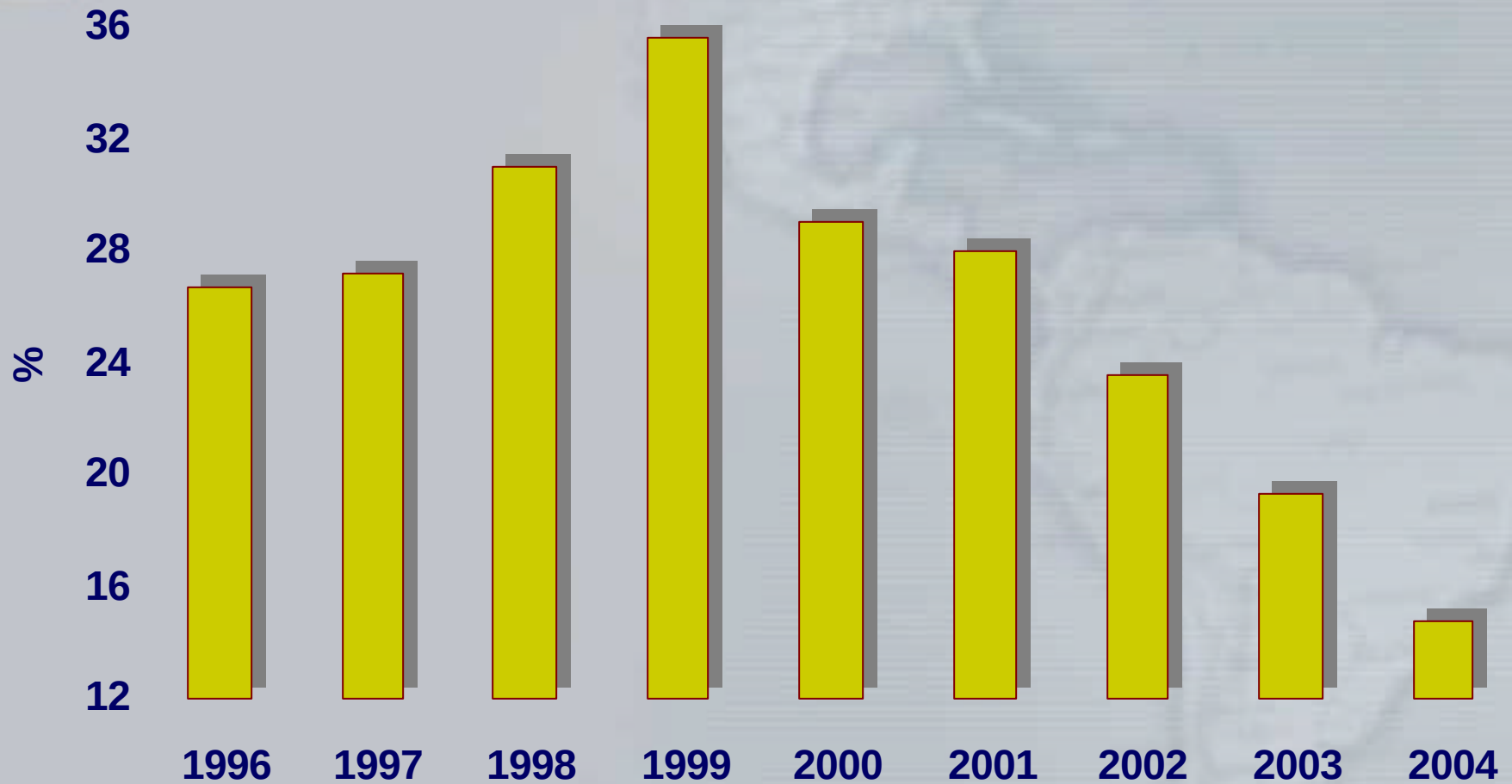


Current Account: 1996/2004



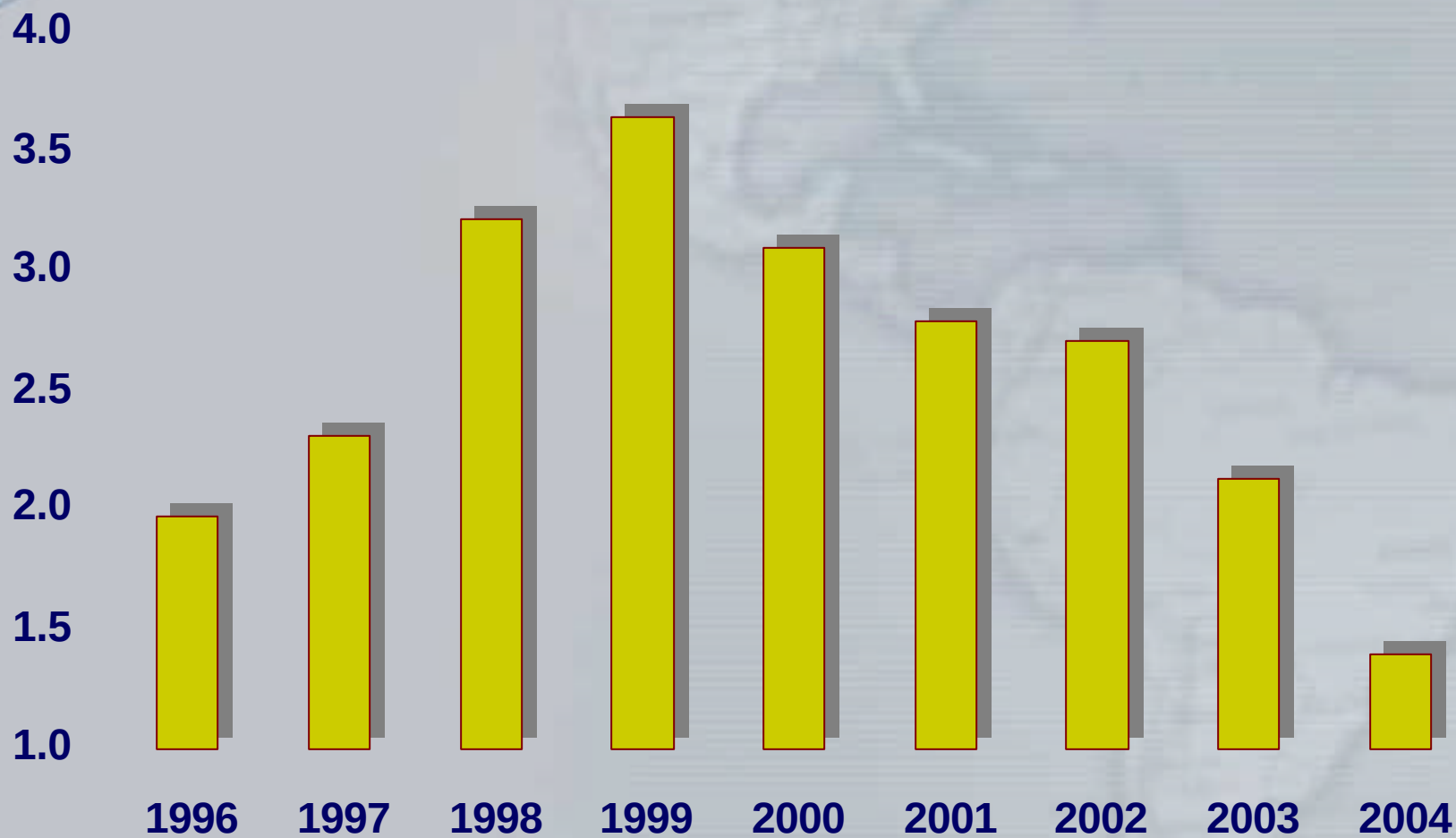


Interest Payments/Exports Ratio



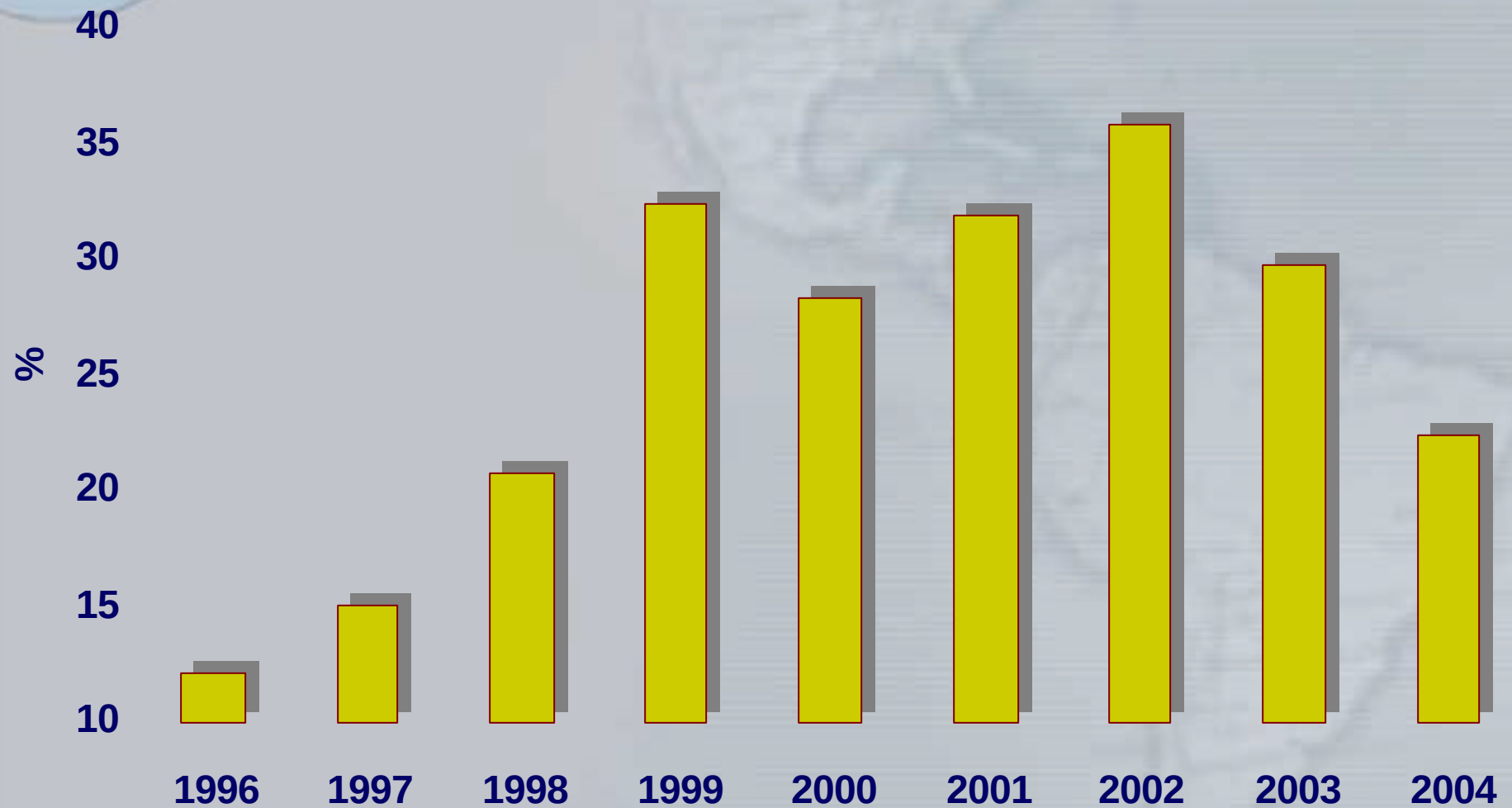


Net External Debt/Exports Ratio



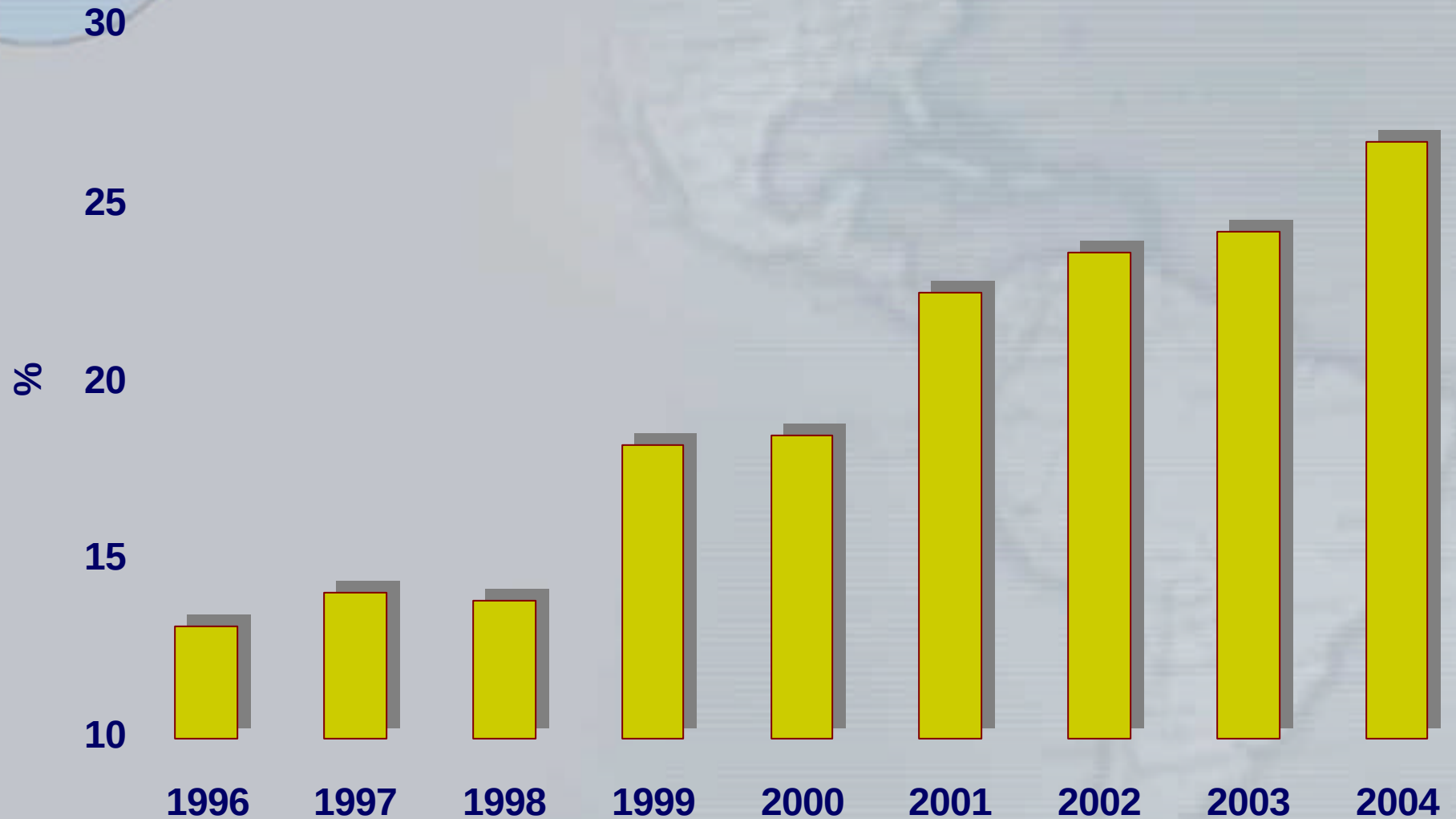


Net External Debt/GDP Ratio





Total external Trade/GDP Ratio





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