PRESIDÊNCIA DA REPÚBLICA
Governo Fernando Henrique Cardoso

Brazil's Macroeconomic Outlook

Presentation by Minister of Budget and Management

Pedro Parente

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PRESIDÊNCIA DA REPUBLICA
Governo Fernando Henrique Cardoso

BRAZIL'S MACROECONOMIC OUTLOOK

BRASÍLIA
1999

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SUMMARY

GROWTH, INVESTMENT AND INDUSTRIAL PRODUCTION

Main Economic Indicators

AVERAGE GROWTH RATES (%)

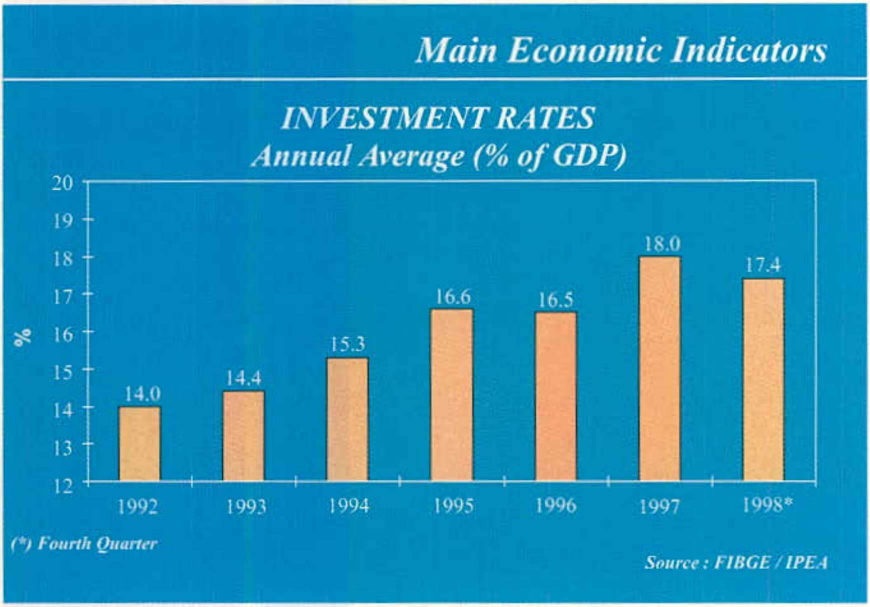
Period	GDP	Population	Per Capita GDP
1960-69	6.1	2.9	3.10
1970-79	8.8	2.6	6.00
1980-92	1.9	1.9	0.02
1993-98(*)	4.3	1.4	2.80

(*) From 1990 thru 1998 the series was modified and the new methodology was not compatible with the former one

Source: FGV/FIBGE

A significant reduction in the rate of population growth has been recorded since the Sixties, when the average level was 2.9 percent, until 1993-97, when the rate dropped to 1.4 percent. In that period the GDP average rates shifted from high levels (about 6 percent in the Sixties and almost 9 percent in the Seventies) to very low levels (almost 2 percent in the Eighties), and moderate levels of 3.6 percent in 1993-98. The comparison between the rates of growth of the GDP and the growth of the population shows that a moderate growth of the GDP in 1993-97 (average of 4.3 percent) coincides with a much lower population growth (1.4 percent). The GDP per capita rate of growth remained at a reasonable level of 2.8 percent in 1993-97, due to a lower level of population growth.

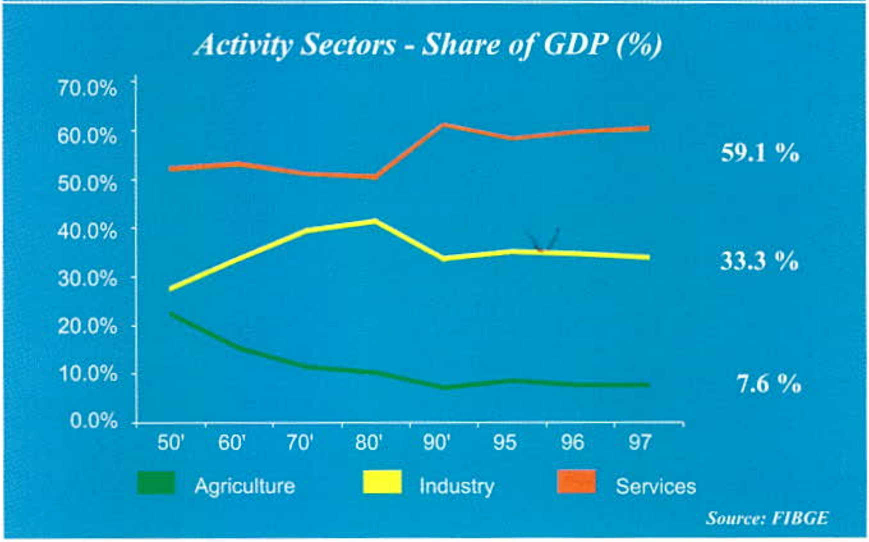
In 1998, the GDP grew 0.15 percent, which led to a negative result of the per capita GDP. It is estimated that higher rates of GDP growth will be resumed from the year 2000 onwards.



During the period of 1992 to 1997 the investment rate grew almost continually, rising from 14 percent to 18 percent, and dropping slightly in 1998, when the rate was 17.4 percent.

The comparison of the period of 1995-98 and 1992-94 shows a growth of 18 percent in the average rate of investment.

Main Economic Indicators

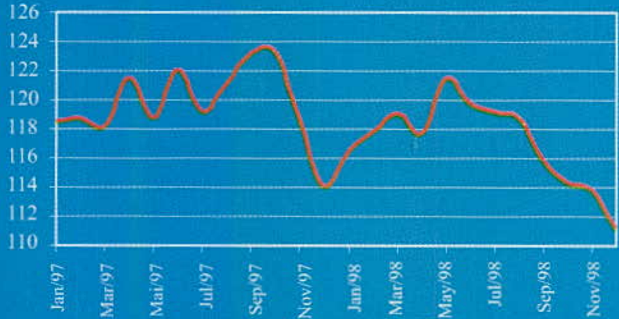


The agricultural sector share of the GDP declined in the long-term (1950-90), and has stabilized in the short-term (1990-97).

The industrial sector grew in the long-term (1950-80), dropped significantly in 1980-90, and has stabilized since then.

The decline in the industrial sector was offset by the increase in the service sector (between 1980 and 1990). The service sector, however, kept its share of the GDP rather stable since 1990.

Industrial Production - Seasonally Adjusted Data
Base:1992 Average=100



Industry Overall

Source: IBGE

In 1997 and 1998 industrial production reached its peak in September, 1997 (before the Asian crisis) and its trough in December, 1998 after the Russian crisis. The recovery trend after the Asian crisis began in December, 1997, and extended through May/July, 1998. Afterwards, there was a drop as a consequence of the Russian crisis.

The average level of 1998 industrial production was lower than the average level of 1997, which reflects a larger negative impact of the Russian crisis on the performance of the industrial sector.

Main Economic Indicators

INDUSTRIAL PERFORMANCE – BY SECTORS

Sectors	Month (Dec 98/ Nov 98)	Accumulated (Jan-Dec 98 /Jan-Dec 97)
Capital Goods	-7.1	-1.9
Intermediary Goods	-2.90	-0.9
Consumption Goods	-1.30	-5.7
Durables	-0.8	-20.5
Non-Durables	-1.5	-1.2
Industry – Overall	-2.4	-2.3

Source: IBGE Prepared by: MF/SPE

The industrial performance in 1998 shows small changes in the rate of growth, except in the production of durable consumption goods, which had a heavy drop of 20.5 percent. Since the demand for durable consumption goods depends upon financing, this declining performance is explained by the practice of high interest rates.

Physical Sales in the São Paulo Metropolitan Region (Seasonally Adjusted Data)

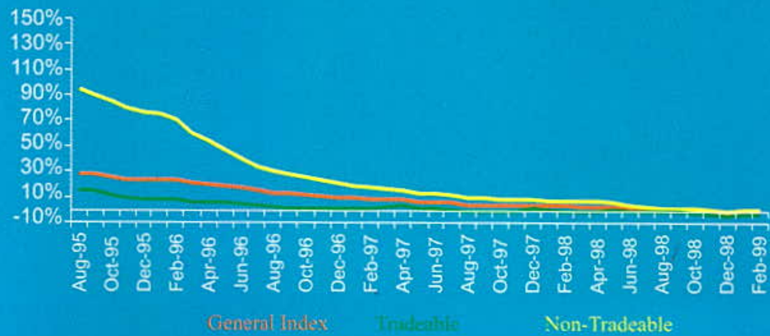
Description	% Jan-Dec/98 Jan-Dec/97
Commerce Overall	-9,5
Durables	2,3
Non-Durables	0,6
Vehicles	-25,7
Construction Materials	-16,6

Source: FCESP

The drop of sales in 1998 as compared to 1997 is explained by the bad performance of the automobile sector (minus 25.7 percent) and the civil construction sector (minus 16.6 percent). However, this performance was partially offset by the good performance of durable consumption goods (2.3 percent) and non-durable consumption goods (0.6 percent).

Main Economic Indicators

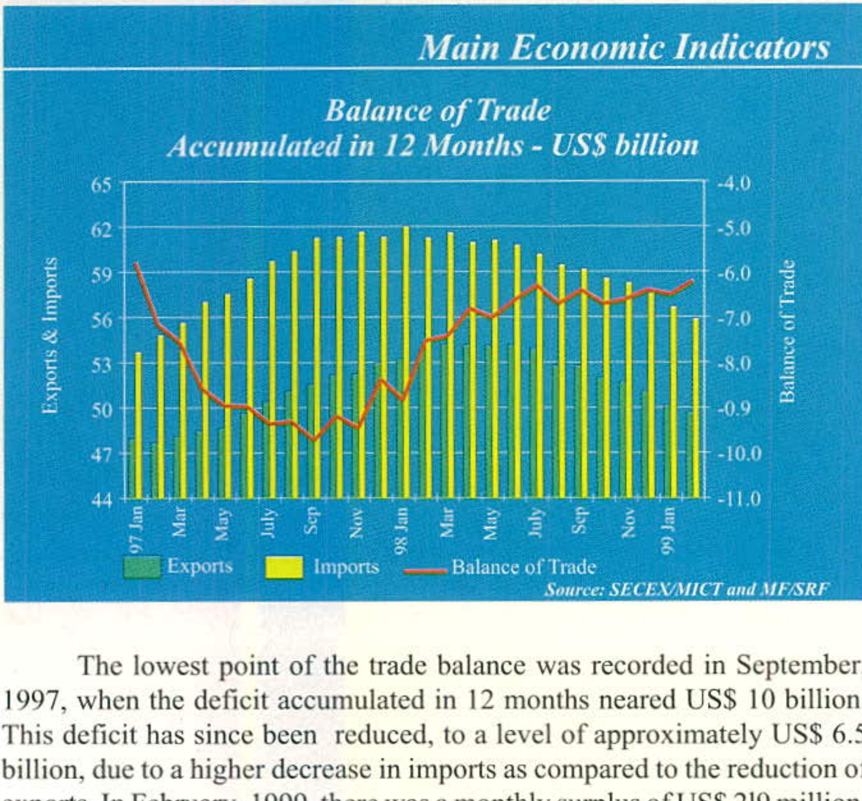
The "Real Plan" - Changes in the Dynamics of Brazilian Inflation
Convergence of Tradeable and Non-Tradeable Prices
Consumer Price Index - FIPE
Twelve-Month Moving Average (%)



Source: Fipe

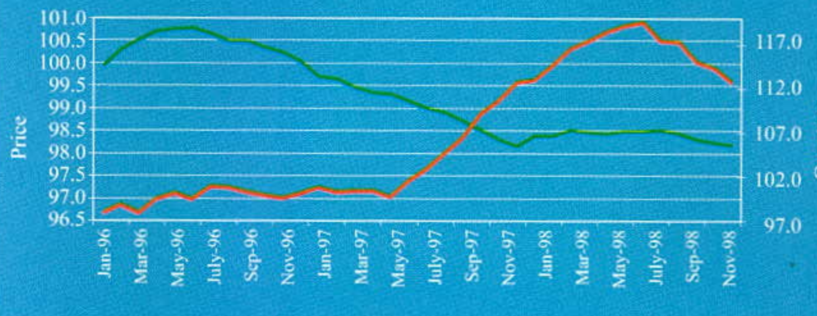
Early in the "Real Plan", the gaps in the rates of inflation of tradeable and non-tradeable products were very high. However, they have since been reduced considerably until reaching an almost complete convergency in mid-1998.

FOREIGN DIRECT INVESTMENT AND BALANCE OF PAYMENTS SUSTAINABILITY



The lowest point of the trade balance was recorded in September, 1997, when the deficit accumulated in 12 months neared US$ 10 billion. This deficit has since been reduced, to a level of approximately US$ 6.5 billion, due to a higher decrease in imports as compared to the reduction of exports. In February, 1999, there was a monthly surplus of US$ 219 million. It is estimated that the trade balance will continue recording surpluses for the remaining of 1999. The IMF agreement of March 8th anticipates a positive balance of US$ 11 billion for 1999.

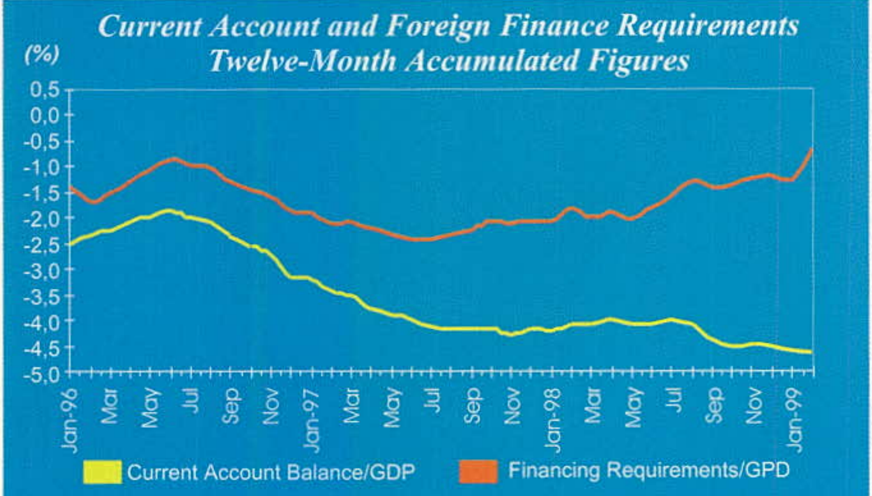
Price and Quantum Indices for Manufactured Exports Twelve-Month Moving Average (1996 = 100



Source : FUNCEX

Prices of exported manufactured goods have fallen since the begining of the second semester of 1996, and have been stable since January, 1998. The performance of export quanta, which was stable, started to grow significantly since June, 1997. This performance led to the recovery of the total value of exports and the trade balance at least until mid-1998, when the export quantum for manufactured goods started to fall, stabilizing the trade deficit as a consequence.

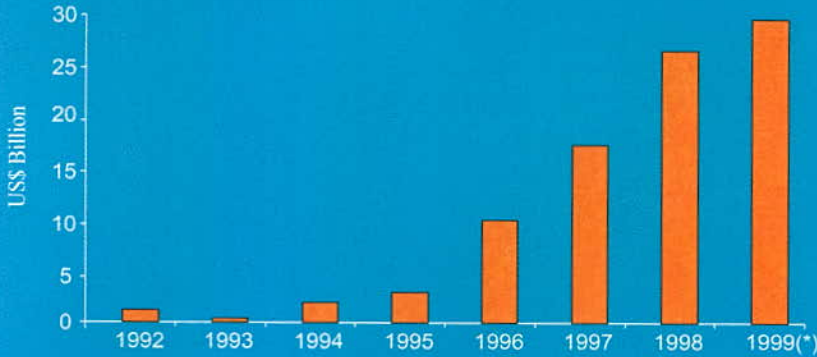
Main Economic Indicators



Source: Central Bank of Brazil

The current account deficit as a percentage of GDP has grown since June, 1996. However, the impact of the evolution of this variable on the foreign financing requirements was less than proportional, due to the inflow of foreign direct investment. Since mid-1998 the favorable inflow of this investment has led to an effective reduction in the foreign financing requirements as a percentage of GDP.

Net Foreign Direct Investment
US$ Billion



Note: Twelve-Month Accumulated Figures
(*) As of Febraury, 1999

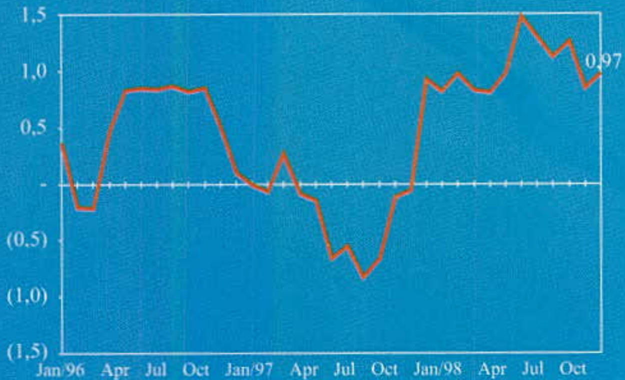
Source: Central Bank of Brazil

Foreign direct investment performance has been outstanding since 1996. In 1997, FDI was about US$ 20 billion, and reached US$ 26 billion in 1998. Even amidst the current crisis of the Brazilian economy a net inflow of US$ 15 to US$ 20 billion of FDI for 1999 is anticipated.

FISCAL ADJUSTMENT, CONSTITUTIONAL REFORM AND PRIVATIZATION

Main Economic Indicators

Public Sector Borrowing Requirements (PSBR)
Primary Results - (% of GDP)
Twelve-Month Accumulated Flows - Nov/98*

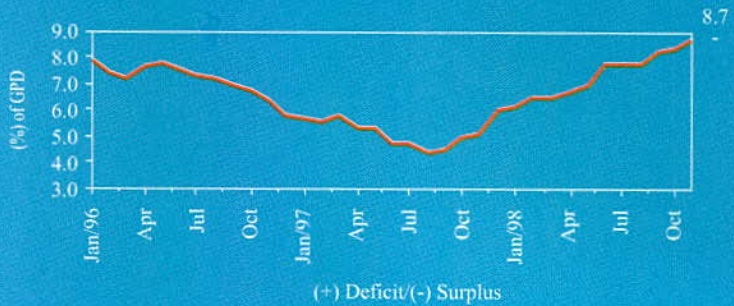


(*) Preliminary data (+) Deficit/(-) Surplus ***Source: Central Bank of Brazil***

The public sector primary result recorded a deficit throughout 1996. Surpluses were recorded in almost every month of 1997. Since 1998, primary deficits of around 1 percent of GDP have been recorded.

Main Economic Indicators

Public Sector Borrowing Requirements (PSBR)
Nominal Results (% of GPD)
Twelve-Month Accumulated Flows - Nov/98*

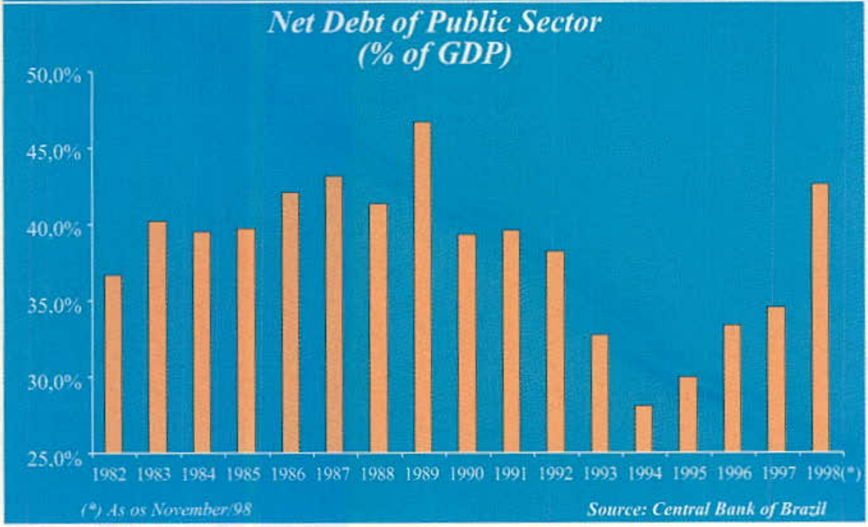


(*) Preliminary data

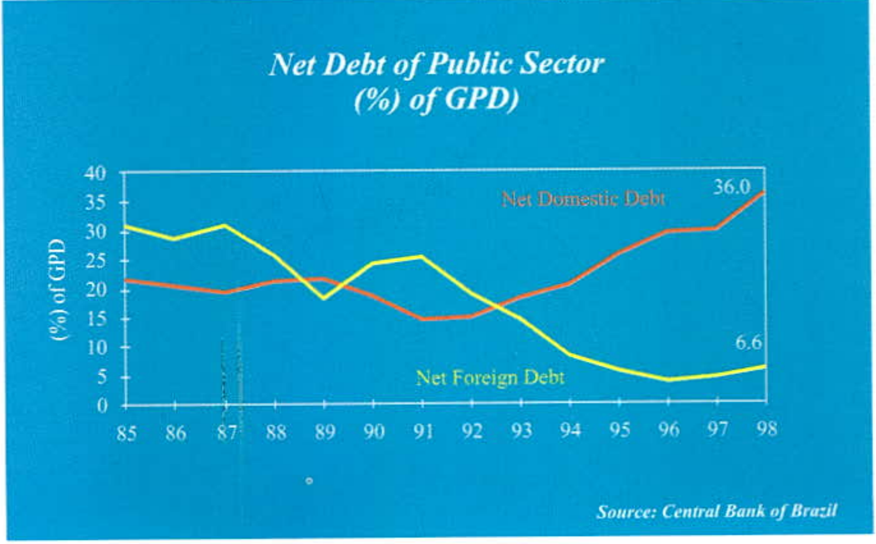
Source: Central Bank of Brazil

The nominal public deficit was reduced until October, 1997, when it reached 4 percent of GDP. Since then the trend was upwards until October, 1998, when it reached 8.7 percent. This increase was due to the incorporation of the states' public deficits and the deficits of the state official banks, in addition to the increase of interest rates on the debt.

Main Economic Indicators



The public sector debt was 42.6 percent of GDP in November, 1998, and still higher in 1989 when it reached 46 percent of GDP. Nevertheless, the public sector debt increased substantially in the recent past, for it was 27 percent of GDP in 1994.The reason for this increase was the incorporation of the states' debts and the debts of state official banks, in addition to the increase in interest rates. This level of public sector net debt is reasonable in comparison to international standards, since the criterion under the Maastricht agreement establishes the limit of 60 percent of GDP as a reference for public debt. In the IMF agreement of March 8th, a target of 44.3 percent of GDP was established for the year 2001.



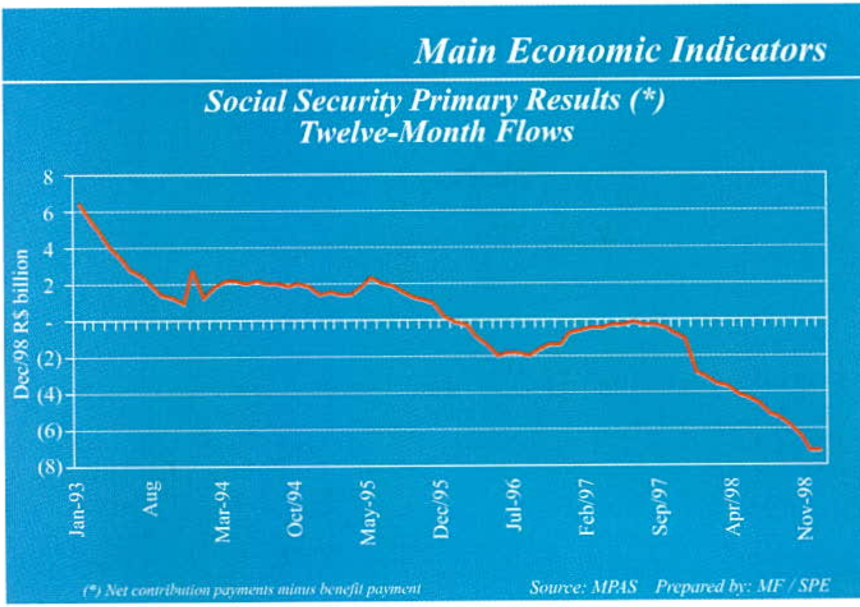
The public sector net foreign debt as a percentage of GDP has been reduced significantly since 1991 (when it was around 25 percent of GDP) until 1996 (when it reached approximately 5 percent of GDP). In 1998 it remained around 6.6 percent.

In contrast with this decline, the domestic net debt as a percentage of GDP increased since 1991 (when it was around 15 percent of GDP) until 1998 (reaching 36 percent of GDP).

Personnel Expenditures (including retirees)
(Accrual Basis)

Source: MF / STN *Prepared by: MF / SPE*

The public sector payroll increased substantially since 1992, especially the portion related to retirees, which represents around 43 percent of total expenditures.



Up to 1996 the social security primary result was positive. Comparing the end of 1998 (minus R$ 7 billion) and January, 1993 (plus R$ 6 billion), there is a deterioration of some R$ 13 billion. The reversal of this picture is absolutely essential for the success of the fiscal stabilization program. The social security reform promulgated in December, 1998 (followed by its regulation) will contribute decisively to this reversal.

Main Economic Indicators

Primary Surplus
Central Government

R$ Billion

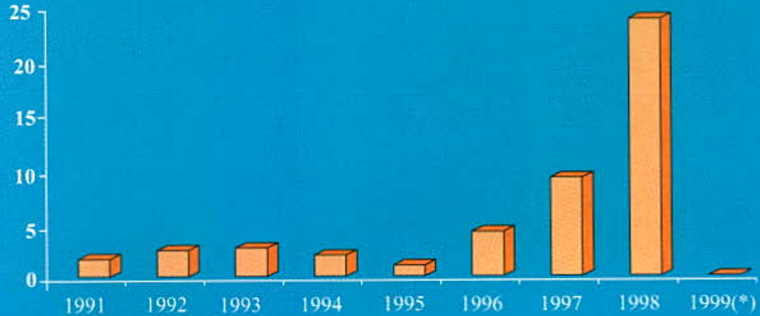
	1998	1999(2)	199(3)
PERFORMANCE CRITERION	5.0(4)	16.3	22.3
ACTUAL FIGURE (1)	5.8		

(1) Preliminary Result
(2) Budget for 1999
(3) New target – 03/08/99
(4) Target – 10/28/98

Source: MF/SPE

The central government managed to outperform its original primary surplus target for 1998 (R$ 5 billion), reaching the value of R$ 5.8 billion. The IMF agreement of March 8^{th}, 1999 established a new target of R$ 22.3 billion.

Privatization Program
Sale Revenues (not including debt transferred)
US$ Billion



(*) As of February, 1999

Source: BNDES

Privatization proceeds, not including debts transferred, reached the amount of R$ 25 billion in 1998. The privatization effort generated total proceeds of R$ 85 billion since its inception in 1991 and until February, 1999, after including debts transferred, and privatization, carried out by state governments. In the current year the following enterprises, among other ones, will be privatized: Brazilian Institute for Reinsurance (IRB); São Paulo State Bank (BANESPA); and the companies of the electric power sector.

Main Economic Indicators

Privatization Program
US$ Million
As of February, 1999

Sector	Companies	Sale Revenues	Debt Transferred	Total
Metallurgy	8	5,562	2,626	8,188
Petrochemical	27	2,698	1,003	3,701
Power	3	3,907	1,670	5,577
Railroads	7	1,698	-	1,698
Mining	2	3,305	3,559	6,864
Telecommunications	24	26,644	2,125	28,769
Others	16	1,401	343	1,744
Minority Equitities		1,040	-	1,040
Federal	87	46,255	11,326	57,581
State	28	22,736	5,223	27,959
Total	115	68,991	16,549	85,540

Source: BNDES

Out of the total R$ 85.5 billion generated by the privatization program, the federal public sector received R$ 57.6 billion and the states received R$ 28 billion. In sum, 87 federal public enterprises and 28 state public enterprises were privatized. The highest proceeds were collected from enterprises in the telecommunications, steel and iron, mining, and electric power sectors.

Main Economic Indicators

Privatization Revenues – 1991/1999*
US$ Million

Companies	Sale Revenues	Debt Transferred	Total
Federal Level	46,255	11,326	57,581
Telecommunications – Telebras System	26,644	2,125	28,769
PND (National Privatization Program)	19,611	9,201	28,812
State Level	22,736	5,223	27,959
Total	68,991	16,549	85,540

(*) As of February, 1999

Source: BNDES

Main Economic Indicators

Opportunities under the Privatization Process
Next Privatization Sales

- *Reinsurance Company (IRB)*
- *Public Offers: CVRD, Petrobrás and Light)*
- *Electric Sector*
- *Tollroads*
- *Water and Sewage Systems*
- *Banks*
- *Piped Gas*

Main Economic Indicators

Adjustment Required in the Fiscal Accounts for 1999
R$ Billion – Current Value

Description	1999
Primary Result - March, 1999 Fiscal Program	22.3
Primary Result (projected before measures of Dec. 29th, 1998)	9.7
Adjustment Required	**12.6**
Proposed Measures to Meet Targets	**12.6**
(Pre-collected Telebras Revenues; CSLL Increase in Revenues; IOF Increase in Revenues; Expenditures Reduction; Increase in Income Tax Receipts; Institution of a Social Security Contribution for the Millitary Personnet Personnel Expenditure Cuts)	
Results after Measures	**16.7**

Prepared by: MF/SPE

Main Economic Indicators

Targets Established on 03/08/99
Consolidated Primary Result (Percent of GDP)

Description	1999	2000	2001
Current Expenditures	2.30%	2.65%	2.60%
States/Municipalities	0.40%	0.50%	0.65%
Public Enterprises	0.40%	0.10%	0.10%
Total	**3.10%**	**3.25%**	**3.35%**

Prepared by: MF/SPE

Main Economic Indicators

Outlook

- *Inflation: increase in the short-run, followed by a significant decline throughout the year ("hump shaped curve");*
- *Exchange Depreciation: decline of initially exaggerated rates ("overshooting"), paving the way for the consistent reduction of interest rates in the mid and long -run;*
- *Current Account Deficit: recovery of exports, resulting in considerable improvements of the trade balance and the current account balance*

To Be continued...

Monthly inflation indices in 1999 are high (3.6 percent for the General Price Index for the Market - IGPM - in February). The IMF agreement of March 8^{th} displays an annual inflation target of 16.8 percent for 1999.

The Brazilian government will adopt an "inflation targeting" policy and is absolutely determined to fight resolutely any possibility of re-indexation.

One of the greatest fears on the part of the Brazilian population is the return of inflation.

The devaluation of the exchange rate shall lead to substantial trade surpluses, and an improvement of the current account deficits as a consequence.

Continued...

Outlook

- *Fiscal Deficit: higher primary surpluses, which combined with the reduction in interest rates and the leveling of exchange depreciation, will lead to the intertemporal adjustment in the public accounts (stabilization of the Debt/GDP ratio);*

- *Economic Growth: credibility restoration with the restart of productive investments and increase of employment rates.*

The increase of primary surplus, combined with a reduction in interest rates and the reversal of the "overshooting" of the exchange rate, are important prerequisites to the stabilization of the Debt/GDP ratio.

PRESIDÊNCIA DA REPÚBLICA
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