

Publication Date:

December 2005

Key Facts:**ISO code: 76****Capital City**

Brasilia

Government Type

Federal Republic

Head of State

President Luiz Inacio Lula da Silva

Head of Government

President Luiz Inacio Lula da Silva

Datamonitor Europe
T: +44 20 7675 7000
F: +44 20 7675 7500
eurinfo@datamonitor.com

Datamonitor USA
T: +1 212 686 7400
F: +1 212 686 2626
usinfo@datamonitor.com

Datamonitor Asia-Pacific
T: +852 2520 1177
F: +852 2520 1165
hkinfo@datamonitor.com

Brazil Country Profile

EXECUTIVE SUMMARY

Brazil is the largest and most populous country in Latin America, and fifth largest in the world. Over the years, the country has experienced widespread corruption, political instability, poor economic growth and abject poverty. However, since Luiz Inacio Lula da Silva's (popularly known as Lula) accession to the presidency in January 2003, the social and economic scenario has improved. Riding out investor worries during the campaign, Lula's first three years in power have been characterized by a mixture of financial orthodoxy to please the investment community and pro-poor proposals aimed at meeting his campaign promises.

After sluggish growth experienced in recent years, the economy bounced back in 2004, with GDP recording a growth of 3.2%. Despite a tightening of monetary policy in September 2004, economic activity increased in 2005. The growth has been driven by strong domestic demand supported by increasing personal income and favorable credit conditions. The Brazilian GDP is estimated to grow by 3.8% in 2005. In the medium-term, the economy is expected to record a compound annual growth rate (CAGR) of 3.7% during 2004-09. In the short-term, GDP growth is expected to maintain its momentum and is expected to remain around 3.5%, with interest rates expected to fall steadily.

Outside the context of the immediate economic problems, the key issues for Brazil are increasing its international competitiveness in the context of upcoming hemispheric trade liberalization, and overcoming deep-seated income inequality that has bred significant levels of crime and held back social development.

TABLE OF CONTENTS

INTRODUCTION	2
KEY FACTS AND OVERVIEW	3
POLITICS & GOVERNMENT	7
Summary	7
Elections and Government Makeup	8
Policy and Business	9
External Relations	10
ECONOMY	12
Summary	12
Economic Performance	13
Major Trading Partners	14
Key Issues	15
Prospects	16
MACROECONOMIC DATA	17
GDP	17
Population by age and gender	23
Consumer Price Index	25
Exchange rate	26
Employment	27
Unemployment	28
Working women	30

INTRODUCTION

This report provides a detailed analysis on Brazil, providing an overview of its political, economic and business environment, represented both textually and in graph and tabular formats.

By combining macroeconomic and market data, this country profile gives access to country data points, trends and analysis including:

- the country's political and government make-up
- the country's economic performance and GDP
- the potential for development
- detailed market and industry analysis of the country's business environment

The report would be of use to executives involved with or looking to enter the Brazilian market, or industry analysts and academics needing raw data or in-depth analysis on Brazil.

Contents

The report commences with the Executive Summary, which highlights the important facts of the report. The bulk of the report, comprising four chapters, including a macroeconomic data section, assesses the Brazilian market in detail:

- **Key Facts & Overview** - At-a-glance information, including basic political and geographical facts, as well as key demographic data. The overview provides global context and serves as an introduction to the rest of the report.
- **Politics & Government** – Details the nation's current internal and external political situation and climate. It also provides a background to the current government make-up and its relation to business.
- **Economy** - Information about Brazil's economic background, performance and major trading partners. Provides extensive analysis of major monetary issues and assesses the country's prospects for future economic growth.
- **Macroeconomic Data** - Statistics about Brazil represented both graphically and in tabular format. Gives detailed economic information ranging from GDP and population size, to employment and working hours.

KEY FACTS AND OVERVIEW

Key Facts

Capital City

Brasilia

Government Type

Federal Republic

Head of State

President Luiz Inacio Lula da Silva

Head of Government

President Luiz Inacio Lula da Silva

Geography

Brazil is located in eastern South America, bordering the Atlantic Ocean. It borders Argentina, Bolivia, Colombia, French Guiana, Guyana, Paraguay, Peru, Suriname, Uruguay, and Venezuela.



Source: CIA World Factbook

Language

The official language is Portuguese, but English and Spanish also are spoken in business circles.

Ethnic Composition

The majority of the population is Portuguese or European. Another large part of the population is mixed African and European. The country also has a minority African population.

Major Religions

Most Brazilians are Catholic, but Protestant churches are growing rapidly.

Overview

Brazil is the largest and most populous country in Latin America, and fifth largest in the world. The country spans a huge area between central South America and the Atlantic Ocean, bordering every South American nation except for Ecuador and Chile. Brazil is home to both extensive agricultural lands and rain forests. Exploiting vast natural resources and a large labor pool, it is a leading economic power and a regional leader in South America.

As the only country in the Americas colonized by Portugal, Brazil enjoys a unique history and cultural heritage. However, Brazil shares many of the problems common in Latin America. These include weak and often corrupt civil institutions, political instability, glaring income inequality and poverty, over-dependence on volatile export commodities and persistent macroeconomic vulnerability.

In common with much of the continent, Brazil's problems can be traced back to the colonial period. In the wake of the country's invasion in 1500, Portugal established a slave-based economy aimed at exploiting abundant land and natural resources. Following independence in 1822, slavery was maintained up to the late 1880s. One result of the slave economy was the concentration of ownership of land and other resources in a few hands, leading to massive income and wealth inequalities that still exist. Partially offsetting this, immigration from Europe in the late nineteenth century helped to build up a more prosperous middle class.

Inevitably conflicts between the powerful landed oligarchy and the mass of the population led to an unstable government and persistent clashes over redistribution of land and wealth. Between the 1930s and 1950s power alternated between populist leaders and authoritarian military rule, with intermittent coups and associated violence and repression. During the 1950s and 1960s, the political instability lessened somewhat, and economic growth picked up. Although military rule was re-established in the mid-1960s, the relatively strong economic performance continued into the 1970s. However, a prolonged build-up of external debt, driven primarily by economic expansion, eventually proved unsustainable. The suspension of debt repayments in 1982 heralded more than a decade of minimal economic growth and fiscal imbalances characterized by inflation of up to 2,500% per year.

In 1994, the hyperinflation was successfully brought to a close by the introduction of a new currency, the real. The success of the 'real plan', spearheaded by the then finance minister Fernando Cardoso, propelled him to the presidency in elections later in the year. Cardoso was re-elected in 1998, following reforms to the constitution allowing sitting presidents to run for a second term. Although drawn from the broadly centrist Social Democratic wing of Brazilian politics, Cardoso continued the liberalizing policy agenda of his predecessor. Fiscal stabilization and price stability were key successes of his presidency. However, policies of privatization and liberalization failed to deliver the promised economic renaissance.

Financial turbulence during 2002 had its roots in the volatility in global capital markets around the time of the East Asian financial crisis and Russian default in 1998-99. The subsequent speculative pressure on the Brazilian currency eventually led to the floating and devaluation of the real in January 1999. Although the Brazilian economy showed renewed signs of strength in 1999 and 2000, the weaker currency led to an increased public sector debt burden, as dollar-denominated debt liabilities became more costly. Worries over the increased debt burden combined with the domestic repercussions of the global slowdown and investor jitters over the Argentine economy led to renewed weakness in the real during 2001.

The Brazilian economy successfully weathered a period of financial turbulence in 2002. The pressure on the exchange rate and the government's fiscal sustainability, manifested in rising inflation in the second half of the year, was caused by a number of factors. These included global economic uncertainty and the October 2002 presidential elections, which seemed increasingly likely to deliver a leftist president. However, the popular left-wing president Luiz Inacio Lula da Silva (known as Lula in Brazil) has confounded his critics in the investment community by maintaining a conservative macro-policy stance,

combined with pro-poor social measures. Although investor sentiment improved during 2003, the tough macroeconomic policy stance eroded economic growth, precipitating a mild recession. However, growth picked up towards the end of the year and into 2004 and has continued in 2005.

As a result, investor sentiment has improved markedly, although it remains volatile. Economic growth remains sluggish and unemployment is still high. Despite some despondency at the slow pace of change, Lula still enjoys good approval ratings amongst a population desperate for better times ahead. Brazil faces testing times ahead as Lula's administration attempts to make good on its promise to juggle pro-poor growth and macroeconomic stability.

POLITICS & GOVERNMENT

Summary

October 2002 witnessed historical national elections, dominated by the presidential victory of the popular left-winger Luis Inacio Lula da Silva (known as Lula). A one time shoe-shine boy and trade union activist, Lula's rise from poverty to Brazil's top job, in a country where opportunity is largely determined at birth, already makes him a hero. It certainly marks a distinctive break from the closed political elites of the past. Lula defeated his closest rival with more than 60% of the votes in the run-off poll for the presidency, on a turnout of 80%. His Workers' Party (PT) also did well in congressional elections, taking 91 seats in the 513-member lower house and 9 seats out of 54 up for election in the 81-member senate.

Riding out investor worries during the campaign, Lula's first three years in power have been characterized by a mixture of financial orthodoxy to please the investment community and pro-poor proposals aimed at meeting his campaign promises. So far he has largely succeeded in squaring the competing demands of these two disparate constituencies, although the compromises necessary to sustain investor confidence have steadily eroded his popularity with his core supporters. Nevertheless, Lula's mix of fiscal probity and social action has so far gone down well among Brazil's international partners, not least the International Monetary Fund (IMF) and World Bank who are helping to fund programs.

Brazil's fluid political scene can make it difficult for investors to predict the direction of policy over the medium-term. Party loyalty is minimal, and it is the norm for politicians to change parties frequently over the course of a legislative term. Corruption is also endemic. Inevitably for such a vast and diverse country, regional and sectional interests often drown out consideration of the national interest. As democracy beds down, the diverse and loosely-formed mass of political groupings can be expected to coalesce around more robust and ideologically consistent policy platforms.

Elections and Government Makeup

Although democracy became well-established in Brazil in the 1990s, the political system remains extremely fractured. This is reflected in the representation of 19 political parties in Congress. Politics is also heavily based on personality and rivalry rather than deep-seated principle, and party discipline is extremely weak.

This makes it difficult for the electorate to differentiate between policy platforms, and also makes the establishment of coherent and long-term programs for the full term of government almost impossible. As a result, politicians can promise the electorate almost anything, confident in the knowledge that a ready excuse for their failure to deliver is easy. The high degree of political uncertainty engendered by the system is also deeply unnerving to financial markets, as witnessed by the present crisis. Overseas investors in particular find it difficult to read the political runes at election time and work out what different candidates' policy platforms really imply for their investments.

Former president Cardoso's economic reform program was driven through by a majority in Congress for his center-right coalition government. In the October 1998 presidential poll Cardoso polled about 53% of the votes, convincingly defeating his two main left-wing challengers. In the concurrent elections to the lower chamber of Congress, Cardoso's Social Democrats (PSDB) took 99 of the 513 seats. The other major partners in the coalition that has governed since 1995, the center-right Liberal Front (PFL), took 106 seats. Several smaller center-right and centrist parties are also members of the ruling coalition. The coalition also had a majority in the Senate.

The 2002 presidential and congressional elections saw a marked shift to the left. The headline result was the election of the left-winger Luiz Inacio Lula da Silva to the presidency. The former shoe-shine boy, who helped to galvanize Brazil's trade union movement in the early 1980s and had run for the presidency on three previous occasions, took 61% of the votes for the presidency, defeating his PSDB challenger Jose Serra. The former PSDB president, Fernando Cardoso, was prevented from running by a constitutional bar on seeking more than two terms in office. Lula's Workers' Party (PT) increased its representation in the lower house of Congress to 91 seats. The PFL and PSDB saw their representation fall.

Lula has been careful to cultivate a more centrist image. His vice-president Jose Alencar is from the centrist Liberal Party (PL). His first three years in office have been characterized by fiscal and monetary orthodoxy which has already produced some signs of strain within his party. For instance, in June 2004 the government managed to push

through Congress proposals to limit the increase in the minimum wage, which won it plaudits from investors but caused widespread anger amongst its supporters. Much-needed proposals to reform the expensive and unfair public sector pensions system have also proved unpopular amongst some of the president's core supporters. In addition, tentative steps towards the reform of Brazil's grossly unequal distribution of land ownership have been criticized for being too little, too late. Land grabs by the impoverished and the landless were at their highest level for twenty years during 2003. More than seventy people lost their lives in bloody confrontations over land during the course of the year.

In September 2005, the Vote Buying parliamentary commission presented its first report on corruption. The report charges 18 Brazilian deputies and the former deputy Valdemar Costa Neto (who resigned in August 2005) of illegal campaign finance activities, receiving cash payments in exchange for voting with the government in the Brazilian Congress.

Policy and Business

The Cardoso administration followed a broadly liberal economic agenda. On the structural side, this included reform to pensions, fiscal consolidation, privatization and liberalization of the closed and state-dominated economy. International institutions have been critical of the slow pace of the reform program, particularly with respect to privatization, where the momentum gained in previous years seems to have been lost. On the other hand, substantial political opposition to over-rapid liberalization can explain the authorities' caution, particularly given the government's precarious congressional majority due to the mercurial nature of Brazil's political class.

On the fiscal side, high public indebtedness remains an important source of vulnerability. In the medium-term, a surplus of at least 4.5% of GDP is required to ensure a steady decline in the debt-to-GDP ratio. The debt-to-GDP ratio was reduced by 5% in 2004, as compared with 2003.

Lula has indicated a desire to maintain the orthodox macroeconomic policy direction favored by his predecessor. Despite a chorus of complaints from some within his administration, the autonomous central bank has been given free rein to get to grips with the burgeoning inflationary problem. High interest rates have added to the tightness of the overall policy stance, leading some to question the sustainability of the combined fiscal and monetary squeeze, particularly since higher rates increase the government's debt service liabilities.

In recent months, the Brazilian central bank has started reducing the lending rate. The bank reduced the lending rate by 25 points to 19.5% in September 2005 from a two-year high of 19.75%. This is the first reduction in 17 months, following a period of nine rate increases since September 2004 that stopped a surge in inflation. The reduction in interest rate was triggered by decline in the annual inflation rate to a 15 month low of 6%. Brazil's 19.5% lending rate is more than double the 9.5% benchmark rate in Mexico and the 3.5% rate in the US. The Brazilian authorities have indicated they plan to reduce the lending rate further.

The interest rate differential between Brazil and other countries has attracted money to the country's fixed-income market, sparking a recovery in the currency. As a result, the country's real has gained 25% (as of November 2005) in the past 12 months, helping slow inflation by reducing the cost of imports.

As of July 2005, the average Brazilian corporate borrowing rate was 33%. This has resulted in companies focusing on increasing sales abroad to become eligible to receive subsidized export-project loans from the state development bank.

External Relations

Brazil is the second most populous country in the western hemisphere. In recent years it has maintained a friendly relationship with the US, particularly given the liberal economic policies favored under Cardoso. However, Brazil has spearheaded the Southern Common Market (Mercosur, consisting of Argentina, Brazil, Paraguay and Uruguay) efforts to make the transition to a hemispheric free trade area as gradualist as possible. US efforts to have the creation of the Free Trade Area of the Americas (FTAA) fast-tracked to 2003 have been thwarted by Brazil and other Latin American states, who have argued for maintenance of the 2005 timetable. Brazil and other nations have argued that their less competitive industrial base means that their companies need longer to adjust to a more liberal trading regime. Washington's own free-trade credentials have been somewhat dented in recent years by the introduction of protectionist measures against steel and timber imports.

Ties have also been tested by Brazil's opposition to the US-led invasion of Iraq and Lula's long-standing friendship with Latin America's other leading left-wingers, Venezuela's Hugo Chavez and Cuba's Fidel Castro. However, the US has adopted a largely pragmatic and supportive attitude to Lula's administration, demonstrated by the

distribution of largesse by the IMF and World Bank, nominally independent institutions which in reality have strong links to the US Treasury.

Brazil's trade links with the EU are more significant than those with the US, accounting for around one-third of Brazil's total trade. The EU and Mercosur (of which Brazil is by far the largest member) commenced work on a trade agreement in 2001, although the completion of the agreement is still some way off. The EU is also involved in a number of aid projects, particularly related to safeguarding Brazil's vast tropical rain forests, which the EU sees as a global resource.

In recent years Brazil has also attempted to increase its links with other global players. In January 2002 President Cardoso visited Russian President Vladimir Putin in Moscow, amid signs of increasingly friendly ties between Brazil and Russia. Russia has offered to support Brazil's bid for a permanent seat on the UN Security Council, the only present member of the five-country grouping to offer such support. The two leaders promised to work towards better trade links, and military ties between the countries are also increasing.

During 2004, the Brazilian president strengthened ties with key Asian players during trips to China and India. Trade between Latin America and Asia is increasing rapidly. Mercosur signed a trade agreement with India during Lula's visit to New Delhi, and the president was also able to boast increased bilateral trade deals as a result of his Beijing trip.

Following the official visit of Russian President Vladimir Putin, the country received the Canadian Prime Minister, Paul Martin, in November 2004, which is expected to defuse misunderstandings due to the dispute between the aircraft manufacturers Embraer and Bombardier. The Canadian government filed a complaint with the World Trade Organization (WTO), accusing Brazil of altering its export credit policy for aircraft sales in 2002. The Bombardier Company of Canada competes with Embraer in the regional jet market. This was followed by Brazil submitting a \$3.6 billion retaliation request to the WTO.

Brazil's dominant role in Mercosur can make the other members resentful. The Brazilian currency devaluation since 1999 caused consternation in Buenos Aires in particular, since it played a significant role in pushing Argentina's economy over the edge in 2002. The two countries have historically been fierce rivals, not least on the soccer pitch, where the Argentines have long yearned, without success, to depose the Brazilians as the world's greatest exponents of the game.

ECONOMY

Summary

The 1990s saw the conquering of Brazil's traditional economic malady, inflation, through the introduction of a new and more stable currency, the real. However, tight monetary and fiscal policies hampered growth and led to increases in unemployment. The recent global slowdown, oil price hike and turbulence in financial markets have again caused problems for Brazil. However, continued IMF support in the form of a precautionary standby arrangement has helped to sustain investor confidence.

Since Lula's accession to the presidency, the investor climate has improved. The trade balance received a sharp boost from a big rise in exports, largely as a result of the currency weakness during 2002. The central bank maintained a tight interest rate stance in the face of inflationary pressure, and subsequently to maintain investor confidence during 2002 and 2003, resulting in a sluggish growth.

After sluggish growth experienced in recent years, the economy bounced back in 2004, with GDP recording a growth of 3.2%. Following a stable growth towards the end of 2004, Brazilian economic growth increased to 3.9% in the second quarter from the 2.9% recorded in the first quarter of 2005. Despite tightening of monetary policy in September 2004, economic activity has increased. The growth has been driven by strong domestic demand supported by increasing personal income and favorable credit conditions. The Brazilian GDP is forecast to grow by 3.8% in 2005.

In the medium-term, the economy is expected to record a CAGR of 3.7% during 2004-09. In the short-term, GDP growth is expected to maintain its momentum and is expected to remain around 3.5%, with interest rates expected to fall steadily.

Outside the context of the immediate economic problems, the key issues for Brazil are increasing its international competitiveness in the context of upcoming hemispheric trade liberalization, and overcoming deep-seated income inequality that has bred significant levels of crime and held back social development.

Economic Performance

1994 was year zero for the modern Brazilian economy. The then finance minister Fernando Cardoso tamed Brazil's traditional economic curse, massive inflation, through the introduction of a new currency, the real. Inflation peaked at almost 2,500% in 1993. By 1994 the introduction of the real had reduced the rate to 900% on an annual basis. By the following year it was down to a little over 20%.

The renewed optimism around the time of the real plan helped to boost output growth to 6% in 1994. However, as the new currency bedded down it became clear that many of the underlying problems of the Brazilian economy had not been addressed. In particular, the taming of inflation robbed the fiscal authorities of valuable seigniorage revenue, exposing the underlying fiscal shortfall that had been at the heart of the inflation problem. Following re-election in 1998, Cardoso successfully turned around the fiscal position, increasing taxation and taming expenditure at the federal and state level to produce a substantial fiscal surplus by 1999.

However, the real economy failed to respond to the improved fiscal outlook. The tight fiscal and monetary stance dictated by the stabilization efforts helped to strangle growth. Real interest rates were almost 30% in 1998. Although they subsequently fell back to around 10% from 1999, the implied borrowing costs for the private sector made investment unattractive. In 1998 and 1999, Brazil was hit by the fallout from the East Asian financial crisis and the Russian default, as turbulence spread to all emerging markets. As a result, real GDP growth fell back, and unemployment crept up from around 7% at the end of 1996 to over 9% in 1998 and 1999.

As the emerging markets crisis threatened to destabilize the currency and wider economy, Cardoso turned to the IMF for assistance, entering the first of a series of standby arrangements to prop up foreign exchange reserves and help roll over the country's massive external debts. The IMF help and interest rates of up to 50% were insufficient to halt growing speculative pressure on the currency. Eventually the government was forced to float the real in international currency markets and allow a substantial slide in the value of the currency. However, despite seeing the new currency fall from grace and losing two central bank governors early in the year, Cardoso managed to steer the economy cannily in 1999 and 2000, avoiding economic and financial meltdown. The currency slide was halted, and economic growth bounced back to 4% in 2000.

In 2001 the global economic slowdown and the emerging crisis in Argentina led to renewed doubts over the strength of the Brazilian economy. Real GDP growth fell back

sharply, while the currency depreciated further on international markets. The economy fell briefly into recession during 2001, with falls in GDP during the second and third quarters of the year. The output position stabilized somewhat in the fourth quarter and continued to strengthen in 2002. However, growth for 2001 and 2002 averaged only about 1.4%. With a growing population, output on a per capita basis effectively stagnated.

During 2003, the economy was hit by the global economic volatility and the continued tightness of the policy stance. Market worries about the government's ability to implement its reform program given opposition in Congress also impeded growth. The economy grew by only 0.4%, despite stronger exports (up more than 20% in US\$ terms). The strong growth in exports, combined with slower import growth, helped to shift the external current account from a deficit equivalent to around 1.5% of GDP to a 1% surplus. Year-on-year Consumer Price Index (CPI) inflation fell back to just over 9%. Unemployment remained at around 10% during the course of the year.

After the sluggish growth experienced in recent years, the economy bounced back in 2004, with GDP recording a growth of 3.2%. As a result of reform initiatives undertaken by the governing authorities since January 2003, domestic demand picked up, with improved consumer and business confidence.

Following stable growth towards the end of 2004, Brazilian economic growth increased to 3.9% in the second quarter from the 2.9% recorded in the first quarter of 2005. Despite tightening of monetary policy in September 2004, economic activity has increased. The growth was driven by strong domestic demand supported by increasing personal income and favorable credit conditions. The Brazilian GDP is forecast to grow by 3.8% in 2005. Investment along with the labor market has witnessed improvements in the first two quarters of 2005. At the end of second quarter, the unemployment rate stabilized at 9.4%, recording a decline of 1.9% during the first half of 2005, as compared with the same period during 2004. Inflation in 2005 was estimated to be about 5.6%.

Major Trading Partners

Brazil's large size and history of protectionist economic policies leave it a relatively closed economy, with exports of goods and services accounting for only around 17% of GDP. However, the liberalizing agenda of the Cardoso administration and policies to promote bilateral and multilateral trading relations have seen the expansion in both exports and imports outstrip economic growth over the last decade. Brazil's largest single trading

partner is the US, accounting for about 26% of total exports. The fifteen pre-2004 EU countries make up another 25%, with the Netherlands (5%) and Germany (4%) being the country's principal European trading partners. China (4%), Mexico (4%) and Japan (3%) are other important export markets. Argentina's recent economic woes have hit Brazilian exports to the country hard, down from 12% of Brazil's total exports to a meager 4%.

On the other side of the trade account the US has a 22% share of total Brazilian imports. The EU-15 countries account for 28%, with Germany (9%) and Italy and France (4%) being the major source countries. Argentina, with 10%, is Brazil's other major trading partner with respect to imports. Japan and China have 5% and 3% share, respectively.

Key Issues

Outside the context of the immediate economic problems, the key issues for Brazil are increasing its international competitiveness in the context of upcoming hemispheric trade liberalization, and overcoming deep-seated income inequality that has bred significant levels of crime and held back social development. Decades of protectionist policies have left many producers uncompetitive. Although the decline in the value of the real during 2002 (subsequently partially reversed) has increased the economy's overall level of competitiveness, and both exports and imports have increased as a share of GDP in recent years, some protectionist policies still hold the economy back. For instance, tariffs on imports from outside Mercosur, the South American common market, are still relatively high.

Brazil's massive social problems relating to the high level of income inequality are a further cause for concern. The resultant high level of crime, illiteracy and environmental degradation all act as a drag on economic development.

Fiscal reform undertaken by the current government has helped in reducing public indebtedness from over 58% of GDP in 2003 to around 52% of GDP in 2004. Though the improvement looks impressive, it has been achieved predominantly by hiking taxes and cutting back public investment. This has seen tax ratio rise by nearly 7% since 1995 to about 35% of GDP in 2004, which is much higher than average for emerging markets.

From a long-term perspective, a key challenge for the government remains boosting investor confidence. The current government has formulated a framework to address regulatory insecurity in the network industries, such as oil, gas and electricity. However, implementation of these frameworks remains to be seen.

Prospects

In the medium-term, the economy is expected to record a CAGR of 3.7% during 2004-09. In the short-term, GDP growth is expected to maintain its momentum and is forecast to remain around 3.5%, with interest rates expected to fall steadily.

Over the longer term, Brazil's prospects look largely promising. The financial system is fairly sound, comparing favorably with those of other Latin American countries. Although Brazilian society remains fundamentally divided, the political and social situation seems set to improve, avoiding the total breakdown experienced in Argentina, Colombia and other Latin American states.

In the long term, the massive social divide needs to be narrowed if the see-sawing between populist and liberal policy-makers is to be overcome and a degree of long-term political and economic stability achieved. However, good fundamentals, including a diversified manufacturing base, growing trade links and vast natural resources, point towards future prosperity.

MACROECONOMIC DATA

GDP

Table 1: Brazil real GDP (BRL billion), 1999-2004

	GDP (BRL billion)	% growth
1999	684	
2000	712	4.0%
2001	722	1.4%
2002	731	1.3%
2003	734	0.4%
2004	758	3.2%
CAGR		2.1%

**GDP at constant prices, base year 1995*

Source: Datamonitor **DATAMONITOR**

Figure 1: Brazil real GDP (BRL billion), 1999-2004

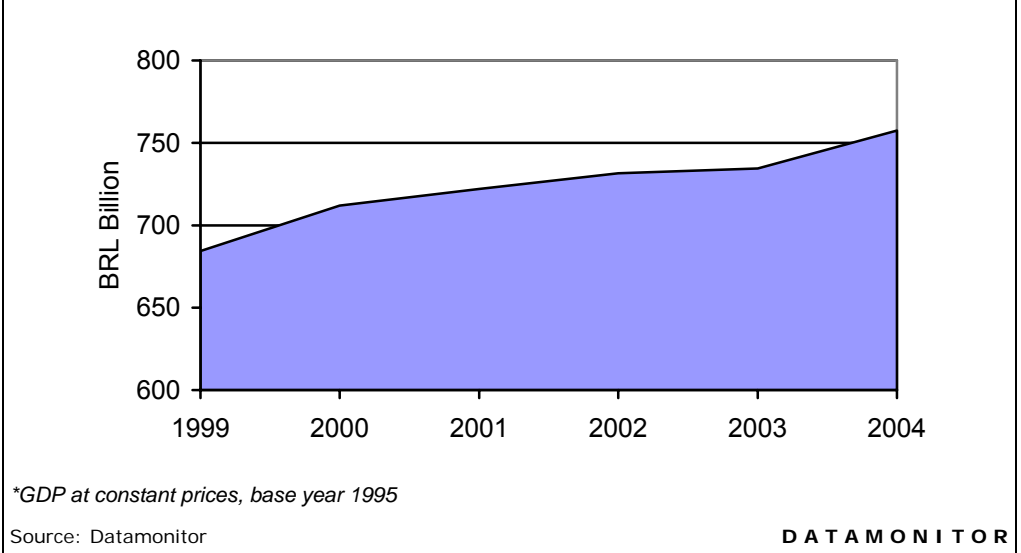


Table 2: Brazil real GDP forecast (BRL billion), 2004-2009

	GDP (BRL billion)	% growth
2004	758	
2005	786	3.8%
2006	813	3.4%
2007	842	3.5%
2008	870	3.3%
2009	907	4.2%
CAGR		3.7%

**GDP at constant prices, base year 1995*

Source: Datamonitor **DATAMONITOR**

Figure 2: Brazil real GDP forecast (BRL billion), 2004-2009

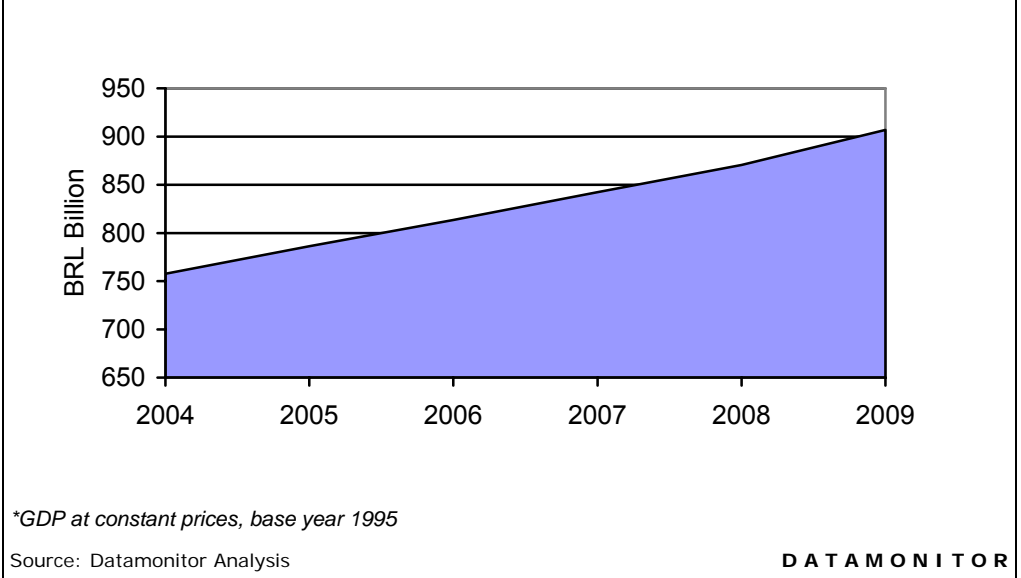


Table 3: Brazil real GDP (US\$ billion), 1999-2004

	US\$ billion	% growth
1999	709	
2000	738	4.0%
2001	749	1.4%
2002	758	1.3%
2003	761	0.4%
2004	785	3.2%
CAGR		2.1%

**GDP at constant prices, base year 1995*

Source: Datamonitor **DATAMONITOR**

Figure 3: Brazil real GDP (US\$ billion), 1999-2004

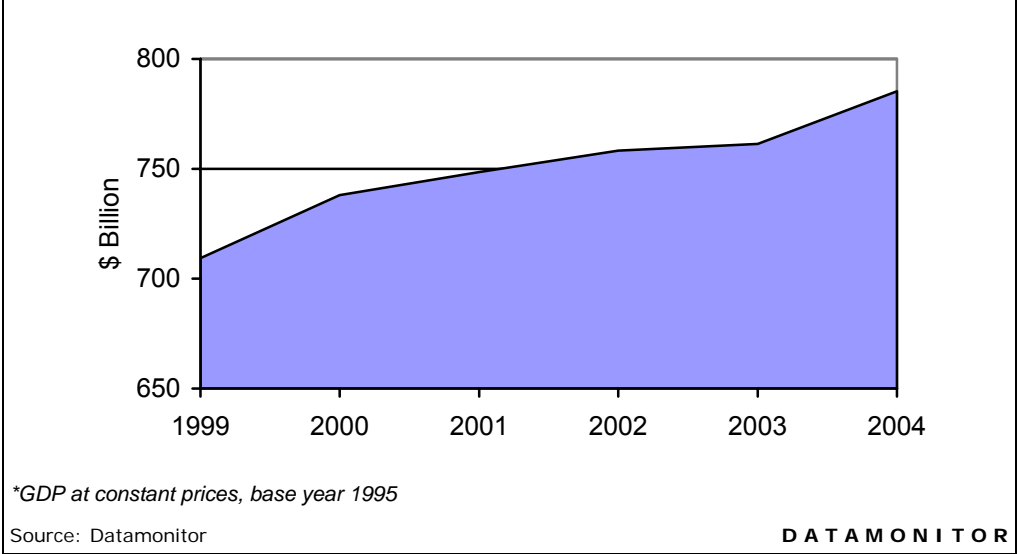


Table 4: Brazil real GDP forecast (US\$ billion), 2004-2008		
	US\$ billion	% growth
2004	785	
2005	815	3.8%
2006	843	3.4%
2007	873	3.5%
2008	902	3.3%
CAGR		3.7%

**GDP at constant prices, base year 1995*

Source: Datamonitor **DATAMONITOR**

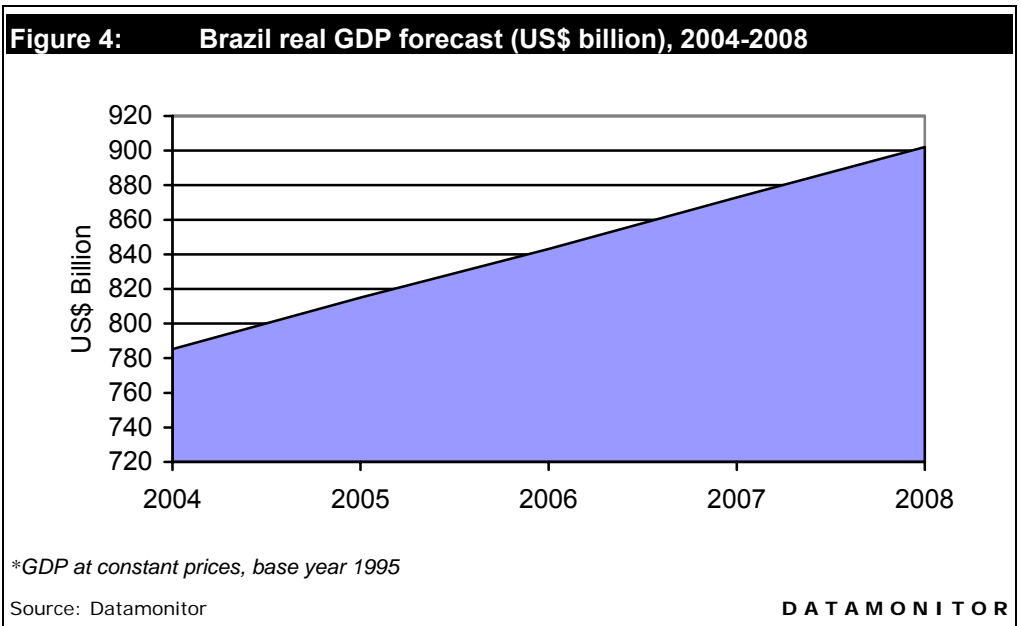


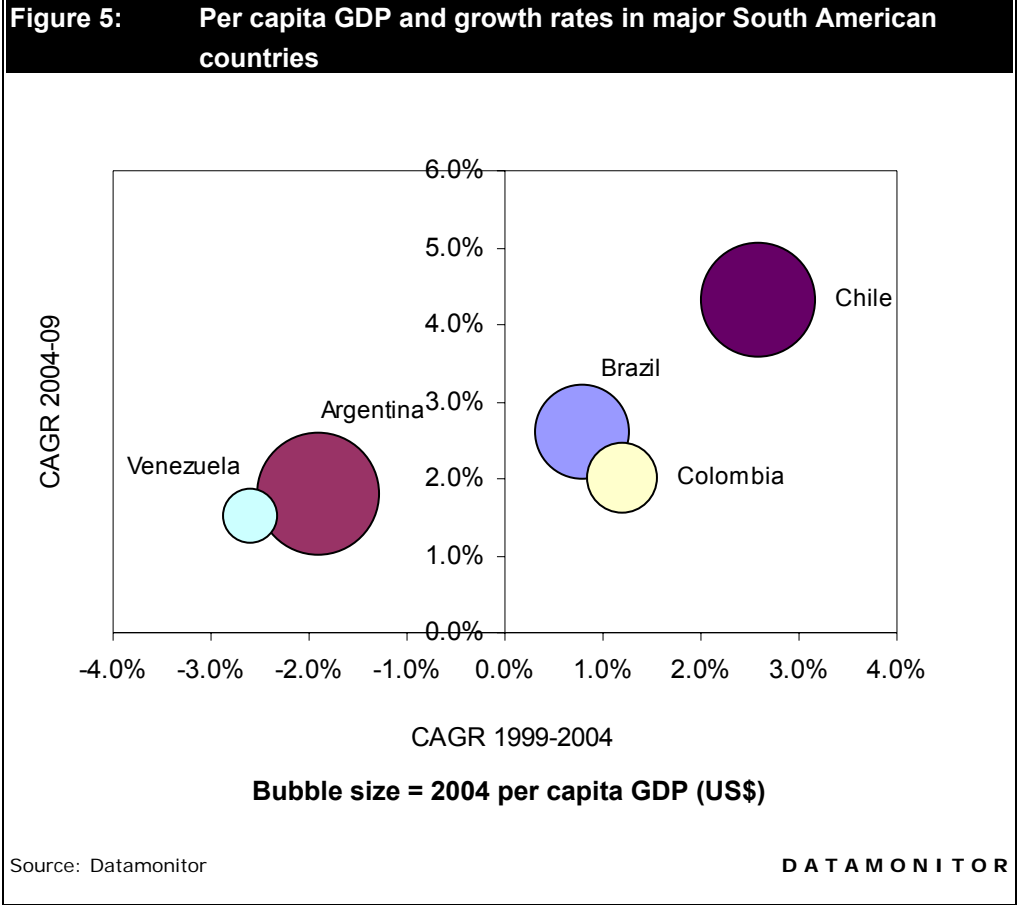
Table 5: GDP per capita in major South American countries, 2004			
	GDP (US\$ billion)	Population (million)	Per capita GDP (US\$)
Brazil	785	184	4,266
Argentina	284	39	7,284
Chile	102	16	6,374
Colombia	100	42	2,382
Venezuela	37	25	1,483

**GDP converted at average 1995 exchange rate*

Source: Datamonitor DATAMONITOR

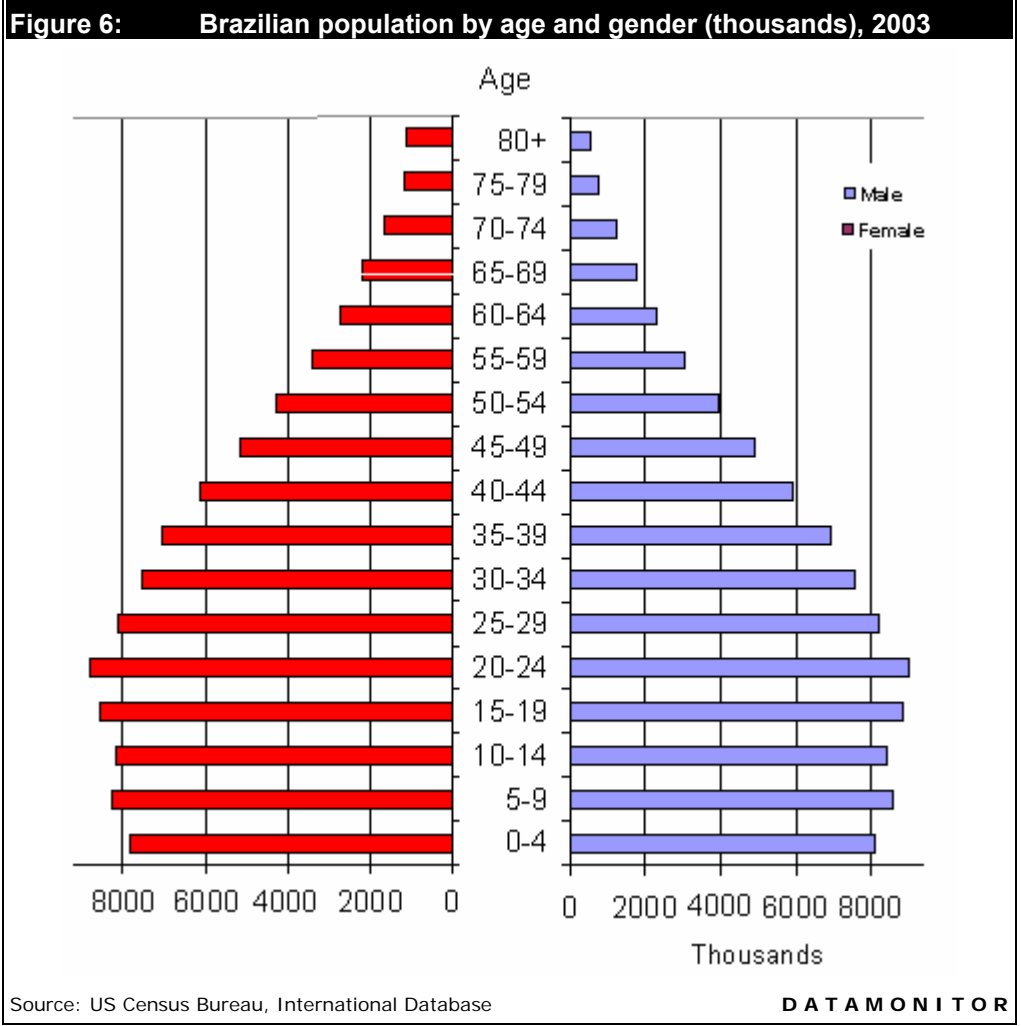
Table 6: GDP per capita growth in major South American countries, 1999-2004 and forecast 2004-09		
	CAGR 1999-2004	CAGR 2004-2009
Chile	2.60%	4.30%
Colombia	1.20%	2.0%
Brazil	0.80%	2.60%
Argentina	-1.90%	1.80%
Venezuela	-2.60%	1.50%

Source: Datamonitor DATAMONITOR



Population by age and gender

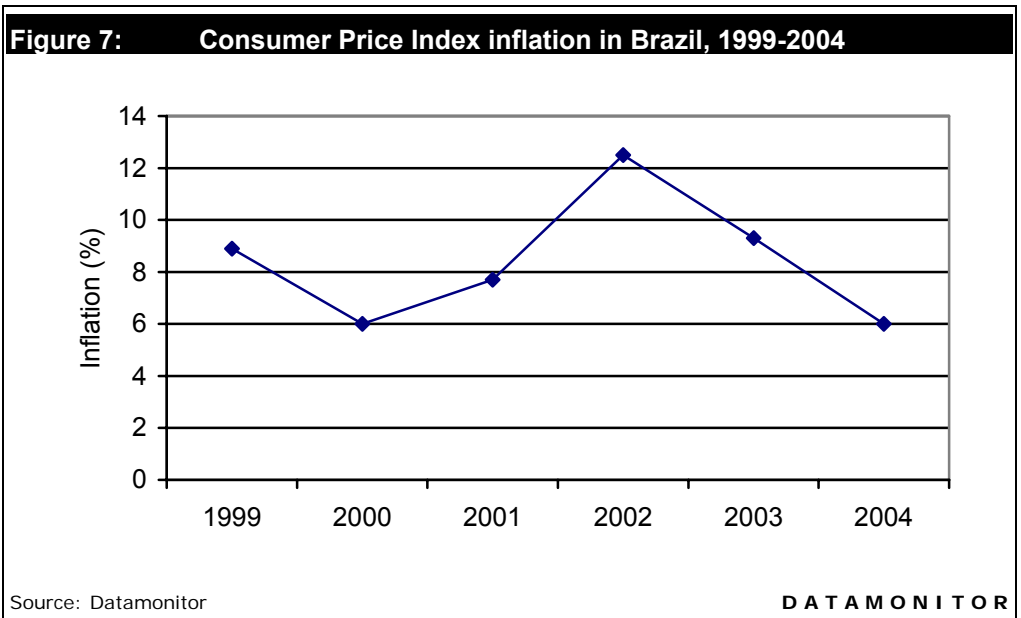
Table 7: Brazilian population by age and gender (thousands), 2003				
Age	Male	Female	Male %	Female %
0-4	8,123	7,802	51.0%	49.0%
5-9	8,572	8,247	51.0%	49.0%
10-14	8,457	8,148	50.9%	49.1%
15-19	8,835	8,558	50.8%	49.2%
20-24	8,992	8,795	50.6%	49.4%
25-29	8,198	8,116	50.3%	49.7%
30-34	7,572	7,546	50.1%	49.9%
35-39	6,938	7,021	49.7%	50.3%
40-44	5,935	6,115	49.3%	50.7%
45-49	4,910	5,162	48.8%	51.2%
50-54	3,959	4,272	48.1%	51.9%
55-59	3,036	3,399	47.2%	52.8%
60-64	2,292	2,700	45.9%	54.1%
65-69	1,730	2,172	44.3%	55.7%
70-74	1,201	1,656	42.0%	58.0%
75-79	746	1,170	38.9%	61.1%
80+	556	1,102	33.5%	66.5%
Total, all ages	90,052	91,981	49.5%	50.5%
Source: US Census Bureau, International Database			DATAMONITOR	



Consumer Price Index

Table 8: Consumer Price Index inflation in Brazil, 1999-2004	
Year	CPI inflation (%)
1999	8.9
2000	6.0
2001	7.7
2002	12.5
2003	9.3
2004	6.0

Source: Datamonitor **DATAMONITOR**

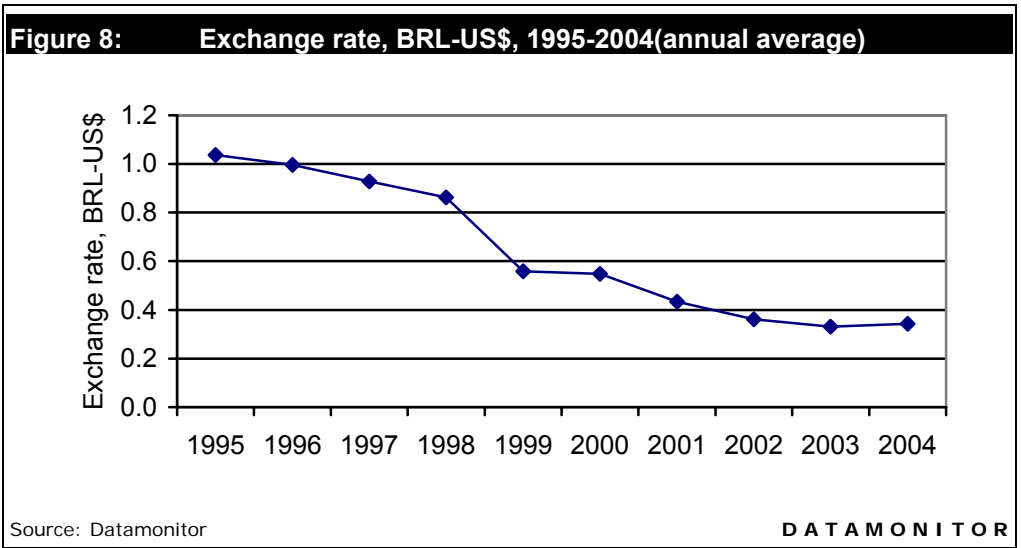


Exchange rate

Table 9: Exchange rate, BRL-US\$, 1995-2004 (annual average)

Year	Exchange Rate
1995	1.037
1996	0.996
1997	0.928
1998	0.862
1999	0.558
2000	0.548
2001	0.434
2002	0.361
2003	0.331
2004	0.343

Source: Datamonitor **DATAMONITOR**



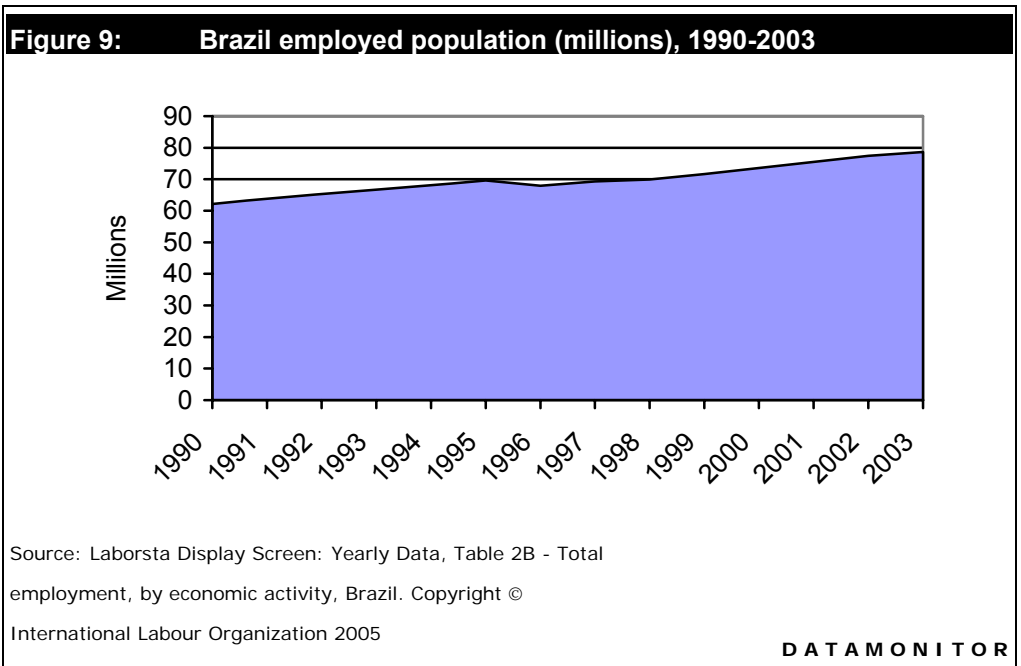
Employment

Table 10: Brazil employed population (thousands), 1990-2003

Year	Employment	% growth
1990	62,100	
1991	63,727	2.6%
1992	65,395	2.6%
1993	66,570	1.8%
1994	68,081	2.3%
1995	69,629	2.3%
1996	67,920	-2.5%
1997	69,332	2.1%
1998	69,963	0.9%
1999	71,676	2.4%
2000	73,540	2.6%
2001	75,458	2.6%
2002	77,420	2.6%
2003	78,624	1.6%

Source: Laborsta Display Screen: Yearly Data, Table 2B - Total employment, by economic activity, Brazil. Copyright © International Labour Organization 2005

DATAMONITOR



Unemployment

Table 11: Brazil unemployed population (thousands), 1990-2003

Year	Unemployment	% growth
1990	2,368	
1991	3,291	39.0%
1992	4,573	39.0%
1993	4,396	-3.9%
1994	4,452	1.3%
1995	4,510	1.3%
1996	5,076	12.6%
1997	5,882	15.9%
1998	6,923	17.7%
1999	7,639	10.4%
2000	7,712	0.9%
2001	7,785	1.0%
2002	8,536	9.7%
2003	9,119	6.8%

Source: Laborsta Display Screen: Yearly Data, Table 3B –
 Unemployment, by age group, Brazil. Copyright © International
 Labour Organization 2005

DATAMONITOR

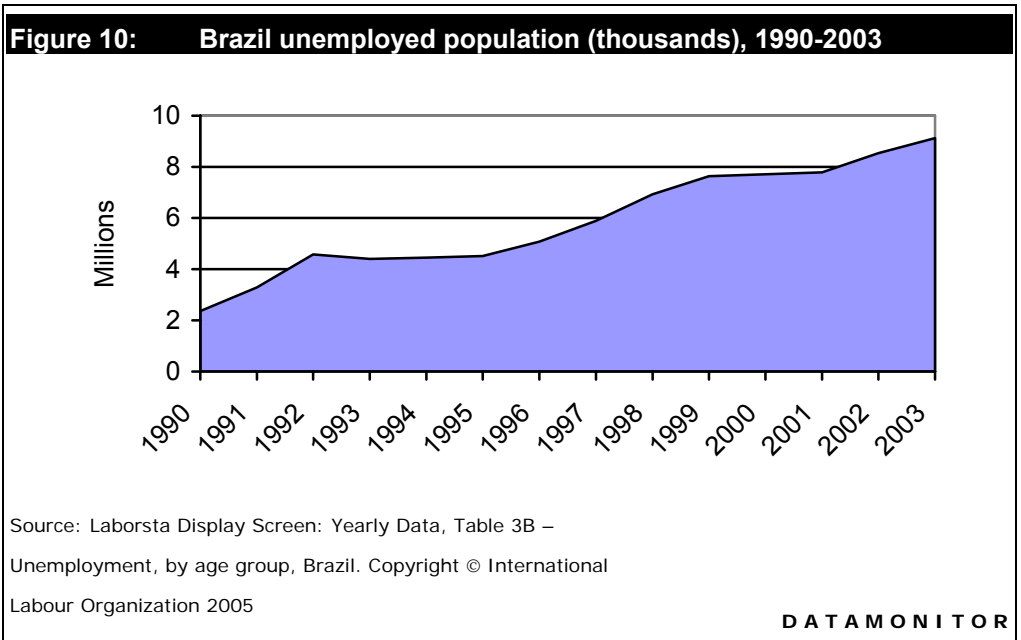
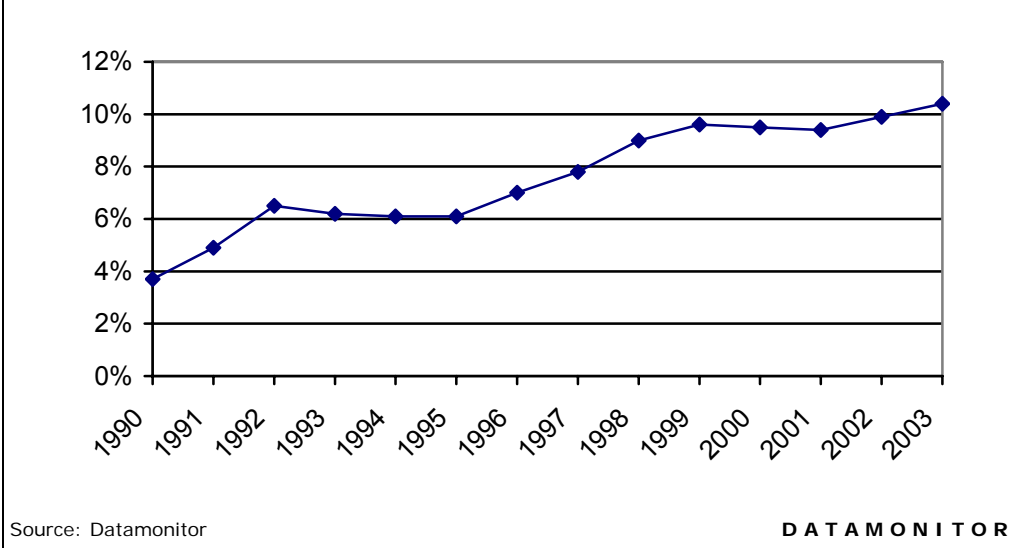


Table 12: Percentage of Brazilian labor force that is unemployed, 1990-2003

Year	Percentage unemployed
1990	3.7%
1991	4.9%
1992	6.5%
1993	6.2%
1994	6.1%
1995	6.1%
1996	7.0%
1997	7.8%
1998	9.0%
1999	9.6%
2000	9.5%
2001	9.4%
2002	9.9%
2003	10.4%

Source: Datamonitor **DATAMONITOR**

Figure 11: Percentage of Brazilian labor force that is unemployed, 1990-2003



Working women

Table 13: Number of working women in Brazil (thousands), 1990-2003

Year	Number of female workers	% growth
1990	22,083	
1991	23,669	7.2%
1992	25,367	7.2%
1993	25,985	2.4%
1994	26,861	3.4%
1995	27,765	3.4%
1996	26,677	-3.9%
1997	27,354	2.5%
1998	27,650	1.1%
1999	28,864	4.4%
2000	29,773	3.2%
2001	30,711	3.1%
2002	31,290	1.9%
2003	31,885	1.9%

Source: Datamonitor **DATAMONITOR**

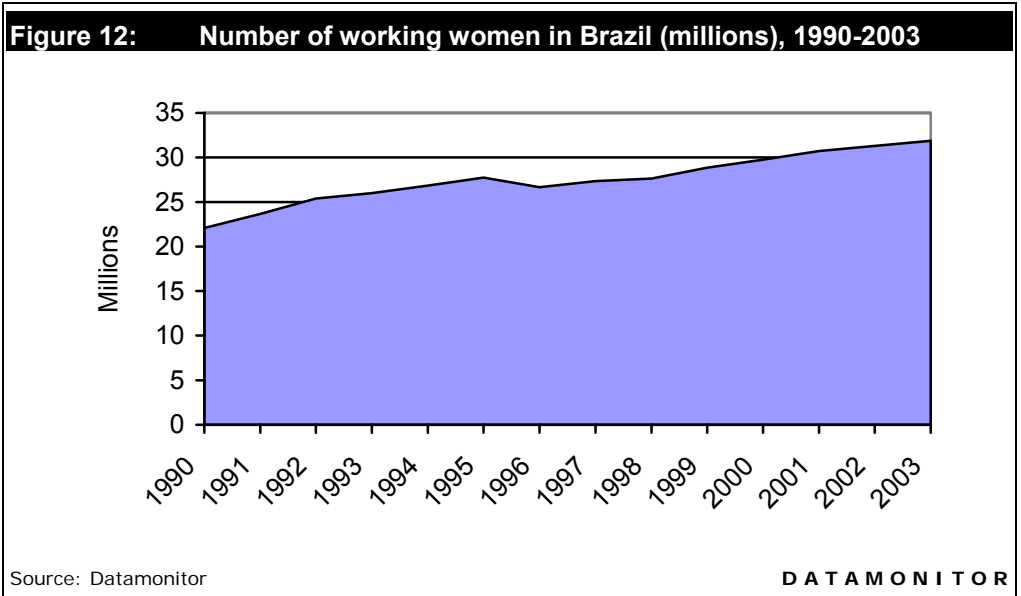
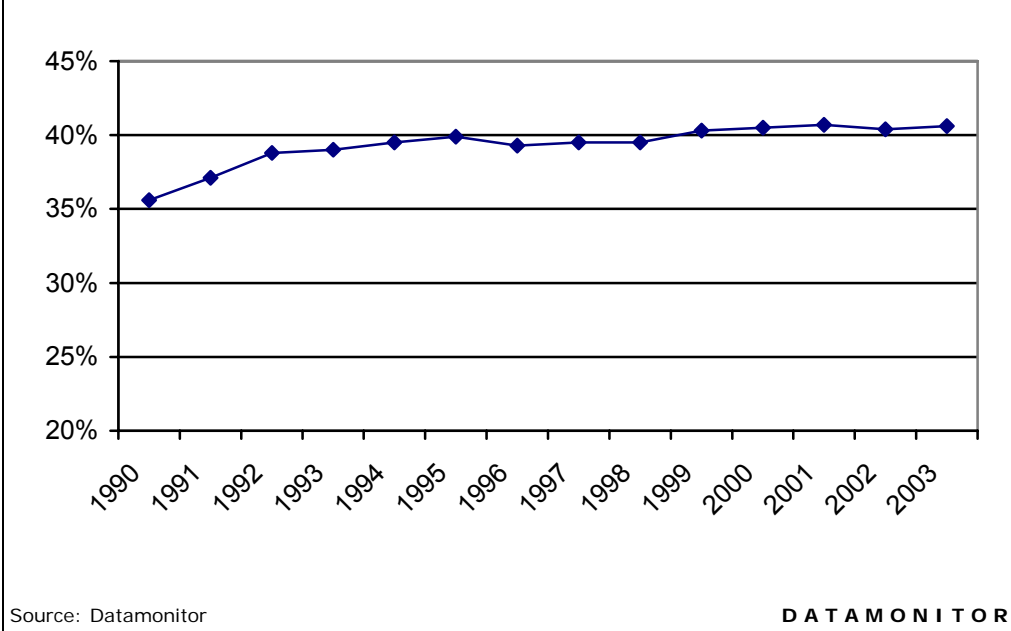


Table 14: Percentage of Brazilian employed population that is female, 1990-2003

Year	Percentage of female workers
1990	35.6%
1991	37.1%
1992	38.8%
1993	39.0%
1994	39.5%
1995	39.9%
1996	39.3%
1997	39.5%
1998	39.5%
1999	40.3%
2000	40.5%
2001	40.7%
2002	40.4%
2003	40.6%

Source: Datamonitor **DATAMONITOR**

Figure 13: Percentage of Brazilian employed population that is female, 1990-2003



About Datamonitor

Datamonitor plc is a premium business information company specializing in industry analysis.

We help our clients, 5000 of the world's leading companies, to address complex strategic issues.

Through our proprietary databases and wealth of expertise, we provide clients with unbiased expert analysis and in-depth forecasts for six industry sectors: Automotive, Consumer Markets, Energy, Financial Services, Healthcare, Technology.

Datamonitor maintains its headquarters in London and has regional offices in New York, Frankfurt, Hong Kong and Japan.