

## BRAZIL

Following a further deceleration in the first quarter, activity now appears to be rebounding. Industrial production is expanding, in part due to previous destocking, especially in the sectors that have benefitted from government support, including the motor industry. Retail sales have been particularly resilient. Domestic demand is poised to gather strength in the second half of 2009 on the heels of ongoing policy easing.

Monetary policy continues to be appropriately relaxed, following a cumulative 450 basis-point cut in the policy interest rate during January-June. Additional, albeit smaller, cuts are possible in the coming months. Fiscal policy has been eased, including through a reduction in the primary budget surplus target by 1.3 percentage points, to 2.5% of GDP, for 2009. The medium-term targets have also been adjusted downward to accommodate the exclusion of Petrobras, the government-controlled national oil company, from the government accounts. Further discretionary fiscal easing would not be advisable on current projections.

### Brazil: Macroeconomic indicators

|   | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|------|------|------|------|------|
| Real GDP growth                           | 3.9  | 5.6  | 5.1  | -0.8 | 4.0  |
| Inflation (CPI)                           | 3.1  | 4.5  | 5.9  | 4.2  | 4.2  |
| Fiscal balance (per cent of GDP)          | -3.0 | -2.2 | -1.5 | -2.4 | -1.2 |
| Primary fiscal balance (per cent of GDP)  | 3.8  | 3.9  | 4.1  | 2.3  | 3.3  |
| Current account balance (per cent of GDP) | 1.3  | 0.1  | -1.8 | -1.3 | -1.4 |

*Note:* Real GDP growth and inflation are defined in percentage change from the previous period. Inflation refers to the end-year consumer price index (IPCA).

*Source:* Figures for 2006-08 are from national sources. Figures for 2009-10 are OECD projections.