

## BRAZIL

GDP grew in the second quarter, following a decline in the previous two. Activity rebounded robustly on the back of resilient private consumption and an ongoing recovery in industrial production, which had contracted sharply in the previous months. Capacity utilisation is approaching pre-crisis levels in a number of manufacturing sectors. Investment has nevertheless yet to recover. Domestic demand is set to grow vigorously in the last quarter of 2009 and into 2010, supported by a still accommodative policy mix.

The monetary easing cycle came to an end in September, following a cumulative 500 basis-point cut in the policy interest rate over the previous 12 months. Fiscal outcomes continue to weaken due to cyclical factors, a ratcheting-up of recurrent expenditure, especially the central government payroll, and the discretionary measures that have been put in place in response to the global crisis. The end-year fiscal target is therefore unlikely to be met. A judiciously planned withdrawal of policy stimulus would be advisable from early 2010, if the recovery is well in hand, as expected.

### Brazil: Macroeconomic indicators

	2007	2008	2009	2010	2011
Real GDP growth	5.6	5.1	0.0	4.8	4.5
Inflation (CPI)	4.5	5.9	4.2	4.4	4.5
Fiscal balance (per cent of GDP) <sup>1</sup>	-2.8	-2.0	-3.5	-1.7	-1.8
Primary fiscal balance (per cent of GDP) <sup>1</sup>	3.5	3.7	1.5	3.3	3.3
Current account balance (per cent of GDP)	0.1	-1.8	-1.4	-1.9	-2.2

*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).

1. Takes into account a capital injection (0.5% of GDP) in the Brazilian Sovereign Wealth Fund in 2008, which was treated as expenditure, and excludes Petrobras from the government accounts.

*Source:* OECD Economic Outlook 86 database.

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