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The IBRE Letter
Information technology and communications: Public policy must be well-aimed, directly at the target

A narrow plan for broadband
Geraldo Samor

Interview with Maria Fernanda Ramos Coelho, CEO of Brazil's largest federal savings bank
Building up credit

Have US consumers become too frugal?
Evan Tanner

A major step in the fight against cartels
Luis Fernando Schuartz

Unpredictable 2010 elections
Murillo de Aragão

Brazil's economic and financial indicators

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In this issue

The IBRE Letter:

ITC: Public policy must be well-aimed, directly at the target
Few areas of contemporary economics have been so important to the development of nations as information technology and communications (ITC). In a dynamic area like ITC, technological evolution raises new challenges for public policy. As technology speedily evolves, new services are often introduced. Careful preparation of a program is therefore crucial; that requires evaluation of the target audience and the kind of services that will be offered. Also, because technological changes can easily make ICT policy obsolete, programs must be regularly reviewed.

A narrow plan for broadband
In the debate on the National Broadband Plan, the government thinks big — but society has not been consulted, reports Geraldo Samor.

Interview with Maria Fernanda Ramos Coelho
Caixa Economica Federal, the federal government savings bank, has helped to boost the Brazilian economy in the acute crisis that started in the United States in 2008. "We anticipate a new record in real estate credit, from R$23.3 billion [US$13.7 billion] in 2008 to approximately R$38.8 billion [US$22.8 billion] in 2009 — a 66.5% rise. As for the My House, My Life program, the target is 400,000 units before the end of 2009," says Maria Fernanda Ramos Coelho, Caixa's CEO, in an interview with Klaus Kleber.

Have US consumers become too frugal?
In response to the financial crisis, US consumers have begun to save more. The beneficial effects of new savings will be cumulative. By saving more, families and businesses rebuild their wealth, which will be key to restarting investment in physical capital, explains Evan Tanner.

A major step in the fight against cartels
The fight against cartels in Brazil seems to be on a new course. By signing the Declaration of Brasilia on October 8, the Ministry of Justice established a broad network of cooperation between government agencies for implementing the policy, forming a National Strategy to Combat Cartels (Enacc), says Luis Fernando Schuartz.

Unpredictable 2010 elections
The 2010 campaign is still surrounded by a thick fog of mystery, so much so that today's certainties — Serra as favorite and the power of a possible transfer of votes by Lula — are very unpredictable, says Murillo de Aragão.

Brazil's economic and financial indicators

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conjunturaredacao@fgv.br

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Program Administrators: Kevin Kellbach and Ray Marin

Address
Duquès Hall, Suite 450
2201 G Street, NW
Washington, DC 20052
Tel.: (202) 994-5205 Fax: (202) 994-5225
ibi@gwu.edu

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Contributors to this issue
Geraldo Samor
Klaus Kleber
Evan Tanner
Luis Fernando Schuartz
Murillo de Aragão
Aloísio Campelo
Salomão Quadros



Claudio Conceição

Executive Editor
claudioconceicao@fgv.br

Caixa Economica Federal, the federal government savings bank, has helped to boost the Brazilian economy in the acute crisis that started in the United States in 2008, and it is sticking with its policies: in the 12 months ending in July, it expanded by 60% its total loans — almost triple average credit growth in the national financial system (20.8%) for the same period. Maria Fernanda Ramos Coelho, CEO of Caixa, says that is a new record for real estate financing, from R$23.3 billion [US$ 13.7 billion] in 2008 to approximately R$38.8 billion [US$22.8 billion] in 2009, an increase of 66.5%. Even with increased loans, however, Caixa has reduced its interest rate by a third, and at about 2%, defaults on housing loans are modest.

International Monetary Fund Senior Economist Evan Tanner explains that in response to the financial crisis, US consumers have to save more. For him, the beneficial effects of new savings will be cumulative. By saving more, families and businesses rebuild their wealth, which will be key to restarting investment in physical capital. Tanner notes that historically in the United States there has been a close connection between equity and capital expenditures. This connection has been described by Ben Bernanke, chairman of the US central bank, as a "financial accelerator."

The fight against cartels in Brazil seems to have taken a new course. According to Luis Fernando Schuartz, FGV professor, by signing the Declaration of Brasilia on October 8, the Ministry of Justice established a broad network of cooperation between government agencies for implementing the policy, forming a National Strategy to Combat Cartels (Enacc).

ITC: Public policy must be well-aimed, directly at the target

Few areas in the contemporary economy have been so important for the development of nations as information technology and communications (ITC). The British magazine *The Economist* reports that, according to a World Bank study, 10% more penetration of mobile phones raises GDP by 0.8 percentage point.

Telecommunications and information technology make it possible for businesses to connect their entire supply chain, nationally and internationally, making possible more structured management. But the most interesting ITC benefits relate to the provision of autonomous services by plumbers, locksmiths, electricians, and all sorts of small entrepreneurs who use prepaid mobile phones or, when available, the free Internet to communicate with customers and suppliers. There are countless stories about how the productivity of low-income workers has been enhanced by using the phone, ranging from farmers in Bangladesh, India, to fishermen in Santa Catarina, Brazil — the fishermen use their phones to exchange information both on the location of schools of fish and on prices in local markets.

It is this powerful and pervasive help to economic agents that makes ITC revolutionary and that is transforming the business model of billions of people worldwide. Through telecommunications, especially the mobile phone, isolated populations otherwise without contact with the rest of their country have managed to become active in the global economy. This phenomenon has a crucial role in terms of social inclusion and improving income distribution throughout the world. The cumulative impact of ITC for medium and large enterprises and individual entrepreneurs is to boost productivity in the economy as a whole, and therefore GDP growth.

Regulation — In Brazil, the state sets the rules within which free enterprise works to meet the communication demands of society. Public policies should be crafted so that Brazilian society can fully exploit technological innovations. Respecting the social and cultural values of the country, Brazil cannot afford to waste ITC solutions that facilitate economic and social development.

In a dynamic, complex, and changing sector like ITC, defining the guiding principles is much easier than implementing them. Nobody can deny the importance of setting targets to eventually reach universal access to ITC. The problem, however, is to define what those goals should be within an appropriate, realistic, and pragmatic view of the possibilities and limits of each ITC product and service.

We all agree that Internet access is important, but are we talking about voice access, dial-up Internet, broadband, or what? We must also define the target audience. Even though in principle the idea is universal access, the budgetary reality requires that the policy

maker be selective. Often the solution is to start with programs designed to make access available to groups rather than individuals. So should the focus be, for example, families registered in the Family Grant program (Bolsa Familia)? small businesses in locations with poor infrastructure for broadband access? residents of rural areas? The key question, therefore, is where will access to certain ITC services bring significant advances in welfare and productivity?

History — In retrospect, the world of telecommunications in the 1990s was simply one-way transmission of audio and video and two-way voice service: broadcast radio and television, and fixed and mobile telephony. Given that technological reality, Brazilian public policy was directed to providing the same services to more of the population by, for example, expanding the coverage of radio and television signals. Also, because voice service coverage was insufficient, Brazil opted to privatize state-owned telecommunication companies Telebras and Embratel.

There was no doubt about the need to expand the fixed telephony infrastructure; after all, there was a shortage of telephone lines. Private fixed telephony companies were required to invest in infrastructure that complied with the General Target on Universal Access (PGMU). PGMU required that by the end of 2005 the companies would have to provide, when requested by the user, within a week, individual access to fixed telephony in all cities with more than 300 inhabitants. There were also targets for installation of collective access. Phone booths had been installed in all towns with more than 100 inhabitants.

A first problem with these targets was that in practice the demand for the service was not in proportion to the ambitious public policy. In fact, although there was indeed a shortage of telephone lines in the mid-1990s, the monthly subscription charge for access, about US$20, was too expensive for many Brazilians. According to the National Agency of Telecommunication (Anatel), in almost 9% of locations with 300 to 600 inhabitants where expensive fixed telephone lines were installed, there was no request for a single line, and in 30% no more than four lines were requested. Clearly, in addition to the size of the town, universal access policy also needed to take into account population income, urbanization, and pricing of the service. In fact, if at first the targets may have made sense, with the passage of time they proved to be inadequate. This lesson underscores the need for frequent revision of ITC public policies.

We all agree that Internet access is important, but are we talking about voice access, dial-up Internet, broadband, or what? We must also define the target audience. Even though in principle the idea is universal access, the budgetary reality requires that the policy maker be selective.

The great revolution in ITC, however, was the unexpected and spectacular popularization of mobile phones, especially prepaid phones. Consider the evolution between 2003 and 2008 of the penetration of fixed and mobile telephony in classes C, D, and E, which represent almost 50 million households — 86.5% of the total. In 2003, 57% of the households in these three classes had at least one private access phone, fixed or mobile. By 2008 this figure had risen to 80%.

Yet during the same period fixed telephone units actually declined from 45% of households in 2003 to 39% in 2008. The decline was more than offset by the increase in mobile phone penetration, from 32% to 73% in classes C, D, and E. Thus, regardless of any government plan, tangible universal access is being brought about by the explosion of mobile telephony. The impact on social inclusion is clear: 46% of households in class E and 37% in Class D now rely on mobile phones, compared to only 13% of Class A.

Future — In a dynamic area like ITC, technological evolution raises new challenges for public policy. Currently, the country is faced with the question of spreading, even possibly making universal, broadband access to the Internet. In fact, high-speed Internet is an important tool for modern citizens, both for their well-being in terms of consumption, leisure, culture, and information and for increasing their productivity. In Brazil, only 5 of every 100 people have such a service, according to a recent report in the newspaper *Valor Econômico*. Brazil compares well to countries with similar income per capita on Internet access and broadband, but certainly there is much room for progress.

Giving Internet access to every school sounds like an appealing political slogan but is not necessarily a step in improving the quality of education in Brazil — though that should be the priority of the national public agenda.

Three major government programs currently address the issue of broadband access: the Fund for Universal Access to Telecommunications Services (FUST); the option to release telephone companies from the target of universal access to fixed telephony in exchange for free access in schools to high-speed Internet and investment in broadband infrastructure; and the National Plan for Broadband network.

FUST was established by Law No. 9998 in 2000. Although there have been some financial contributions to the Fund, problems of various kinds prevented full allocation of the resources the law defined. FUST currently has approximately R$ 7 billion [US$4 billion]. The National Congress is now considering a bill that would not only release financial resources for FUST but also give it new directions so that it can financially support programs of universal access to the Internet. Part of the money from FUST will go to low-income Brazilians as a subsidy to pay phone bills. The idea would be to create a social tariff like the one for the electricity sector. In this case, the focus would be effective universal voice service.

The fixed telephony companies must also invest in infrastructure to permit access to broadband at the headquarters of all municipalities to support the Broadband Program in Schools. The project, which will be implemented in 56,685 public schools starting in December 2010, has three areas of action:

- Installation of computer laboratories as part of the National Program for Information Technology in Education (Proinfo).
- Internet broadband connection; the carriers will provide free connection to broadband for schools by 2025, upgrading the speed periodically.
- Training of teachers, who will be offered distance learning courses supervised by the Department of Distance Education of the

Ministry of Education (MEC). According to data from Anatel, 56% of the 64,879 urban public schools in the country have so far benefited from the Broadband Program in Schools. The goal is to connect 80% by year-end.

Details of the National Plan for Broadband network were reported in a recent article by Cristiano Romero in the newspaper *Valor Econômico;* the goal is to implement a state fiberoptic network of 31,448 kilometers, connecting 4,245 cities and reaching 162 million people. The article contains a complex discussion on the institutional arrangement that will support the network, which may even involve use of the former state-owned holding company, Telebrás.

In the three projects mentioned, policy makers should keep in mind the lessons of the first attempt to achieve universal telephony in 1990s, recognizing how mobile phones have since displaced fixed phones. Whether Internet access for all schools in Brazil should be a priority must be analyzed thoroughly in terms of costs and benefits. We have to be clear about the effective gain in terms of improving teaching, since it is not yet clear that ITC is an essential tool of education in the early stages of learning. It is also necessary to determine whether access is primarily for teachers or students or for both, and what each can gain. It is important to know whether teachers are really prepared to use the computer, both for their own tasks and as a teaching tool. Another question is whether there exist educational packages on the Internet that schools could use.

Without all this preparatory homework, giving Internet access to every school sounds like an appealing political slogan but is not necessarily a step in improving the quality of education in Brazil — though that should be the priority of the national public agenda. This is an expensive program, and there are other possible uses for public funds. One example is "telehealth" — medical care at a distance. Taking advantage of the English proficiency of its population and its low labor costs, India has become an important center for telehealth for patients in the United States. As in the case of Internet access to schools, telehealth without detailed plans and objectives and careful cost-benefit analysis, however, risks wasting valuable public funds.

When it comes to investment in a national broadband network, the International Telecommunication Union (ITU) estimates that by mid-2011, the total number of subscribers to mobile broadband will be equal to fixed broadband, about 600 million.

Technological changes can make ITC policy obsolete, which means that ongoing programs must be reviewed repeatedly.

The Brazilian government should track this evolutionary process to avoid waste.

Public policy in a sector like ITC in which paradigms are often broken needs special attention in two respects: First, as technology speedily evolves, new services are often introduced. It is therefore crucial to prepare a program, carefully evaluate the target audience, and decide what kind of services will be offered. Second, technological changes can make ITC policy obsolete, which means that ongoing programs must be reviewed repeatedly. In the whirlwind of changes and advances in communications and information technology, public policy must be well-aimed, directly at the target.

In the debate on the National Broadband Plan, Brasília thinks big — but keeps society outside.

A narrow plan for BROADBAND

Geraldo Samor, from Rio de Janeiro

President Lula approached the little girl standing quietly in a corner and asked, "Are you happy with your computer?" She said she was. Lula insisted: "And what did you gain with that?" Without hesitating, she answered, "I've gained wisdom."

Lula was touched. He declared that his visit to Piraí, a town of 25,000 inhabitants 100 km from Rio de Janeiro, had changed his mind. Partly inspired by that visit, on a rainy day on July 31 this year the President gave instructions for the creation of a working group to design a National Broadband Plan. He gave it 45 days. The deadline expires in November.

Contrary to what happens in "Any Little Town" in Carlos Drummond de Andrade's poem of the same title, what Piraí has to offer is far from a "meaningless life." For at least five years the town has entered the radar of admirers of technology and lovers of good public policy thanks to the Piraí Digital Project, which uses public infrastructure to offer free broadband to everyone in the municipality.

In Piraí all public buildings are integrated into the network and offer Internet access. There are digital learning laboratories in all schools and day-care



centers. Self-service terminals connected to the Internet have been installed in medical centers, in the bus terminal, and in the public squares.

On any normal day in one of the 12 Piraí tele-centers, it is possible to see a mother doing a search on the Internet while her son stands beside her, or a group of Avon representatives holding a meeting, each in a different tele-center. In the Arrozal district, small farmers visit the tele-center to check produce prices. The tele-centers, part of the Piraí Digital Project, are part of a local area network (lan). The project has been given many awards and has become a reference internationally; since it was introduced, life in the town has never been the same.

Plugging in

By ordering that a national plan be drafted, the president — once again using his intuition — has captured the spirit of the times. In mid-October Finland declared access to broadband to be a universal right of its citizens in a law that will enter into force mid-2010. A day after the Finland declaration, the São Paulo administration launched the People's Broadband Program in partnership with the phone company, Telefonica. The São Paulo administration has eliminated the 25% ICMS (VAT tax on goods and services) on program services, and Telefonica in turn has cut the price to the end user by as much as 40%, to R$29.80 (US$17.50) a month.

The presidential order put the bureaucracy in gear: The working group has been created. The lobbyists have taken their positions. The companies are asking themselves what is at stake for them, and tax incentives are being discussed. But very little is yet known about the content, the premises, or the progress registered in the debate within the working group.

Based on public declarations from the parties, there seems to be some tension between two currents within the administration: One current is led by Rogério Santanna, secretary of logistics and information technology at the Ministry of Planning. Santanna advocates for the government to use Telebrás — a dormant but not extinct state telecoms company — to manage the national broadband network. He suggests that the networks of Petrobras (oil company), Eletrobrás (power company), and other state-owned companies be integrated; he also seeks some role for Serpro and Dataprev, the state-owned information technology companies. The idea is to show that the state has some muscle in the area, in the conviction that private initiatives will follow suit.

The other current is advocated by Helio Costa, the Minister of Communications, who argues for greater involvement of the telecommunications companies and the private sector in achieving whatever the national plan is designed to accomplish. Among other things, this debate involves tax incentives and financing from the National Bank for Economic and Social Development, the BNDES.

Based on public declarations from the parties, there seems to be some tension between two currents within the administration.

What both sides have in common is considerable emphasis on infrastructure and (as far as can be deduced) very little attention to human capital, to preparing society to deal with and benefit from this technology.

Lesson

It is here that peaceful Piraí, the small town along the uneventful waters of the river from which it takes its name, has a lesson for the political will emanating from Brasilia. More important than infrastructure, Piraí Digital has a pedagogical approach to disseminating digital culture, so that technology is effectively transforming the lives of the people.

Franklin Coelho, the project coordinator, claims that the major impact of Piraí Digital is the higher self-esteem of the town's citizens and the enhancement of local human resources. "We work with the concept of digital inclusion beyond the issue of access," he

"I had to come to Piraí to change my mind."[1]

In Piraí, technology is effectively transforming the life of the population.

points out. "We think in terms of the right to information, the right to knowledge, information as a public good." Thanks to that approach, a gardener in the town has become the producer of free multimedia software, and the designer of Piraí Digital is a former gas station manager.

The federal debate about Telebras and tax incentives gives access priority over investment in human capital. However, "a broadband network is only a road," says Luis Cuza, executive president of TelComp, the Brazilian Association of Competitive Telecommunications Service Providers. "You still need cars, drivers, and maintenance. Today the debate is centered too much on construction of the road."

Perhaps the most relevant criticism of the administration's plans, one that explains all the deficiencies critics of the plan have pointed out, is that the very debate lacks transparency. When you are dealing with public policy, form is as important as content, because form may help mold the policy. In other words, to be an effective plan with lasting results, the broadband plan should be society's plan rather than government's. That calls for the involvement of Congress.

"It is impossible to build a plan of this magnitude in 45 days," says Cuza. "It is not reasonable, particularly in a country as diverse and as large as Brazil." He suggests that Congress hold public hearings to elicit the views of society and establish guidelines for drafting a national plan. Then Anatel, the telecommunications regulator, could set targets for the country — targets related to deadlines, the width of the band, price, and geographical coverage.

The way out

Piraí Digital was created as an answer to the economic crisis that affected the town in the late 1990s after Light, the power distribution company that was the most important employer in town, was privatized. In the process 1,000 of the company's 1,100 employees lost their jobs.

"To attract other businesses at the time, we had to offer a better, intelligent network," says Luiz Fernando Pezão, mayor of Piraí at the time and now deputy governor of Rio de Janeiro. "City hall had just two computers and two telephone lines." To start with, he trained nearly 600 local government personnel, teaching them how to deal with information technology. That was the seed of Piraí Digital.

To be sure, implementing a project like this in a small town is much easier than doing it in a country as diverse and complex as Brazil, not every solution that worked out in that microcosm will work at the national level. But the real lesson is that if even a small town had to invest significantly in training, just imagine what must be done for the entire country!

When he visited Piraí, Lula had an inspiring thought: "I have always feared that computers could isolate people excessively. I feared that a child would spend the entire time looking at a computer screen and would come out of school without getting to know the child sitting next to him. I had to come to Piraí and walk into a classroom to see the children working with a computer, exchanging ideas, helping each other. Then I changed my mind. This image will remain engraved in my mind. It took away a prejudice I had about computers."

The National Broadband Plan is a typically intuitive response by the president to the problem of income distribution in Brazil. If successful, it could transcend administrations and become part of his legacy. For that to happen, however, Brasilia needs to emulate the children that charmed the president in Piraí: work together to exchange ideas. Without prejudice.

1 The account on Lula's comments is by Hayle Gadelha.

The National Broadband Plan is a typically intuitive response by the president to the problem of income distribution in the country.

Building up credit



Maria Fernanda Ramos Coelho

CEO of Caixa Econômica Federal

Klaus Kleber, from São Paulo

Caixa Econômica Federal, the largest federal government savings bank, has been instrumental both in stimulating the Brazilian economy in the most severe hours of the crisis and in maintaining the momentum of the stimulus. In the 12 months up to July 2009, the institution has expanded its total credit portfolio by 60% — almost triple the average credit growth in the national financial system (20.8%) in the same period. "We anticipate a new record in real estate credit, from R$23.3 billion [US$13.7 billion] in 2008 to approximately R$38.8 billion [US$22.8 billion] in 2009 — a 66.5% rise. As for the My House, My Life program,[1] the target is 400,000 units before the end of 2009," says Maria Fernanda Ramos Coelho, Caixa's CEO. She foresees that Caixa will need to increase its capital in the medium term, and the recent R$6 billion (US$3.5 billion) transfer from the National Treasury suggests it is doing just that. Caixa has cut interest rates by a third and does not fear default: The credit expansion, according to Ramos Coelho, has been "responsible," as demonstrated by the minimal 2% default rate on Caixa's home loans.

***The Brazilian Economy* — The expansion of credit by Caixa Econômica Federal has been exceptional, and the results have been good — R$1.2 billion [US$700 million] in profits in the first half of the year. What is the strategy?**

Maria Fernanda Ramos Coelho — Caixa has undergone a process of repositioning itself in the market and society to reinforce its functions as a financial institution and as an agent of public policy based on principles of economic, social, and environmental sustainability. In 2004 we carried out strategic planning to establish a long-term horizon. Its clear objective was to consolidate the position of Caixa as a strategic partner of the state, particularly in executing certain public policies, such as the PAC (Program for Economic Acceleration) and the My House, My Life program. That was achieved through a new management model, introduced in 2007, that was directed to the needs of clients and to enhanced integration of management into the various areas of the institution. I believe the results achieved so far indicate that we are pursuing a sustainable course, which is the result of transparent policies and Caixa's greater assertiveness as a financial institution dedicated to promoting development in Brazil. The conscientious growth of the total credit

portfolio — about 60% in the 12 months ending in June — in a market scenario of crisis and liquidity restrictions makes it clear that we have made the correct choices.

What increases in Caixa lending are projected for the My House, My Life Program and other types of home purchase loans?

We estimate a new record for home loans, which should increase by 66.5%, from R$23.3 billion [US$13.7 billion] in 2008 to nearly R$38.8 billion [US$22.8 billion] in 2009. Regarding the My House, My Life program, in a decisive meeting with all our managers we set a target of 400,000 units before the end of 2009.

Regarding the results for the first half of the year, what is Caixa's risk-weighted asset-to-capital ratio with regard to the central bank's 11% requirement based on the Basel agreements? Does the institution have room to expand lending without increasing its capital?

By the end of June 2009 Caixa's asset-to-capital ratio, responding to the Basel rules, was 18.8% — far above the 11% requirement. Currently, then, Caixa can continue to expand its credit portfolio. In the medium term, however, the capital of the institution needs to be increased to allow for expanded lending, at the same rate as has been seen in the past couple of years, so that we can contribute to the expansion of the Brazilian economy.

What is Caixa's default rate on home loans and other types of credit?

Caixa has an individual credit and business loan default rate lower than the market — this is very important. It is mainly due to the sound decision we made to keep credit lines unchanged during the height of the international financial crisis. Our assessment that the effects of the crisis on the Brazilian economy would be less pronounced than in other countries proved to be correct. Thus, a severe restriction of credit was not justified. By adopting the federal government's guidelines for maintenance of employment and income, Caixa has experienced significant success. This is particularly true because low-risk businesses and households found in Caixa the credit that was otherwise absent in the market. Thus, we expanded our credit portfolio and at the same time enhanced its quality. The rate of nonperforming real estate loans is the lowest in the Caixa lending portfolio — close to 2%. For individual loans the nonperforming rate is 5.4% and for business loans 2.4%.

What has Caixa been doing to close the court cases related to home loans contracted during economic packages before the Real Plan?[2]

Many of those contracts, based on the Salary Equivalency Plan, were transferred to the EMGEA (Asset Management Company) in July 2001. Today, those contracts represent an insignificant share of our real estate credit portfolio, less than 1% of a total of 2.1 million contracts. At any rate Caixa has for some time adopted a conciliatory stance in court cases, with the objective of reducing costs and closing the cases. This conciliatory stance, which, incidentally, EMGEA has also adopted, has been commended by the judiciary.

In the first half of the year, of the Caixa home

Caixa has an individual credit and business loan default rate that is lower than the market.

Foto: Credito da foto

loans granted, a greater share of resources originated in savings accounts [R$9.1 billion, US$5.4 billion] and a smaller share of FGTS (the Severance Compensation Fund for Employees) resources [R$ 6.7 billion, US$3.9 billion]. According to the government proposal, still to be made official, interest on savings deposits over R$50,000 (US$29,400) will be subject to a 22.5% income tax from 2010 on. How will this affect Caixa's funding?

The issue is no longer being discussed. The responsibility with which the administration has handled it has meant that we have seen no large fluctuations in our funding. To give you an idea, Caixa exceeded its historical balance of R$100 billion [US$58.8 billion] and will assign R$17 billion [US$10 billion] of its savings deposits to home loans. According to the Central Bank, since May this year the entire financial system has shown positive net funding in savings accounts. So at least for the time being, funding difficulties are unlikely.

With regard to the FGTS, Congress is still debating whether part of the resources that workers in the past were able to invest in shares may now be invested in the projected capital expansion of Petrobras (the state oil company). What is your opinion?

This issue has been the subject of intense discussion because it involves tools that will make it possible to sustain the economic growth we have experienced in the past few years. In practice, as workers are able to invest in shares, companies will have more resources for investment. On the other hand, there will be fewer resources for funding housing and infrastructure. Therefore, any decision should take place in a quiet way and reflect a transparent debate; Caixa, as the institution managing this fund, will have to guarantee sound investment of the resources for consolidation of a new development cycle.

The average interest rate for Caixa loans, using free resources, dropped from 41.1% in July 2008 to 27.4% in August 2009.

Since 2008, what has been the average reduction in Caixa's lending rate?

The weighted average interest rate for Caixa loans, using free resources, has dropped from 41.1% in July 2008 to 27.4% in August 2009. It must be added, however, that this has only been possible after a period of preparation, introduction of improved processes, and speedier credit concessions, together with a definite political decision to keep Caixa a public bank.

With FGTS earnings extremely low (3% a year plus the central bank's reference rate), would it be possible to cut interest rates for home loans further?

It is important to be aware that the cost of funding for the FGTS is not restricted to the 3% yearly rate paid to investors. There are also operational and administrative costs associated with the individual accounts of millions of workers. On the other hand, for households earning up to six times the minimum wage, over 65% of all the investment in FGTS resources, there is a heavy upfront subsidy paid to complement their payment capacity. The subsidies to this bracket make the real

interest rate lower than the nominal 5.5% to 6% yearly rate. Because of the peculiarities of the FGTS and regulations, the margins between funding and investment are already quite reduced.

Is it correct to say that both Caixa Econômica Federal and Banco do Brasil, the federal commercial bank, have offset the reduction of the spreads with an increase in the fees imposed on clients?

No. It is not true that Caixa has offset its interest rate reduction policy with increased fees. On the contrary, consumer rights agencies acknowledge us as the institution offering some of the most advantageous fees in the market.

How has Caixa worked with state and local governments to fight problems like slums and to help in natural disasters, such as floods?

In 2004, when we defined the Strategic Plan with a horizon up to 2015, we sought to consolidate Caixa as a strategic partner of states and municipalities. PAC has further enhanced this perspective, as has the My House, My Life program, in which Caixa can play this role to its full extent, particularly in the area of urban development. In these two Caixa programs management is responsible for investments of over R$200 billion (US$118 billion). For many cities, those investments represent a significant improvement in their urban infrastructure. In Porto Velho, for instance, half the population is not currently served with running water; after PAC program investments, coverage will be extended to the entire population. In Rio de Janeiro, the projects in the Manguinhos and Alemão neighborhoods, besides providing sewage services to the communities, will also revitalize the region by enhancing public services and the presence of the state, thus ensuring the rights of citizenship for a large proportion of the urban population that until now has been excluded. To implement those programs, it is necessary to reshape federal, state, and local technical staff to restore their planning and public management capacity. In partnership with local and state authorities, Caixa provides technical assistance to overcome possible deficiencies and obstacles as these projects are executed. A concrete result of this partnership is the Municipal Contract and Agreement Manager Program, whereby local authorities assign a representative to be trained by Caixa, with direct contact with the institution to allow for management of contracts and agreements and to expedite implementation of projects and payment of funds. For natural catastrophes like the ones seen in Santa Catarina and Maranhão, Caixa has set up special operations to reach the affected population, releasing FGTS funds, paying social benefits, and renegotiating loans and financing contracts.

In the PAC and My House, My Life programs Caixa management is responsible for investments of over R$200 billion (US$118 billion).

What has Caixa done in the cultural field?

Caixa has a very significant history in the cultural area. We support projects to restore cultural and historical sites, as well as handicrafts in communities and theater and dance festivals. We also promote cultural institutions that sponsor artistic performances. Caixa itself owns and operates cultural

Foto: Credito da foto

centers that offer an intensive year-round calendar of events, and we are building three more centers to democratize access to resources and to add cultural value in other regions of the country. Over the past few years, we have issued public tenders to make the project selection process more transparent and democratic. In 2008 the first selection process was launched to sponsor theater and dance festivals, cultural centers, and support for handicrafts. The 2,445 applications we received from all over the country were assessed and the finalists selected by an expert jury on the basis of widely published technical criteria. This year applications following the call for tender increased by 43%, to 3,506. Before the end of the year close to R$40 million (US$23.5 million) will be invested in culture. That makes Caixa one of the major cultural sponsors.

What about the environment?

Caixa has worked intensely on environmental issues. An important milestone came in August 2008, when Caixa signed the Banks' Protocol of Intentions for Social and Environmental Responsibility, later known as the New Green Protocol. For instance, Caixa finances MDL (Clean Development Mechanism) projects in landfill sites with FGTS funds and is the financial institution representing Brazil in projects involving carbon credits that will be traded with the World Bank. Recently, we signed the Ecuador Principles, in which we agreed to adopt within one year internal policies and procedures to guarantee that credits to large infrastructure projects take into account an analysis of social responsibility and environmental parameters.

Caixa's engagement, translated into public commitments, aims to put into practice the institution's concern to do business within a sustainable framework. Some of these initiatives are particularly worth mentioning. Through the Legal Timber Action we have introduced the requirement in financing housing projects that a DOF (Statement on Forest Origin) be submitted for all native timber used in the project, along with a declaration on the volumes and destination of this raw material. Furthermore, we have set up the Sustainable Construction Program, covering initiatives like Blue Seal Home, which was created to stimulate rational use of natural resources in home construction, reduce building maintenance costs and monthly expenditure by tenants, and promote awareness among builders and residents of the advantages of sustainable construction. The Blue Seal establishes criteria that must be met to qualify as a sustainable project submitted for Caixa funding. We also carry out social and environmental assessments for medium and large companies that borrow more than R$10 million (US$6 million).

Recently, Caixa signed the Ecuador Principles, by which we agreed to adopt within one year internal policies and procedures to guarantee that credits to large infrastructure projects take into account an analysis of social responsibility and environmental parameters.

[1] A federal government program for low-income families.

[2] Plano Real introduced a new currency and fiscal measures in 1994 that successfully ended hyperinflation.

Have US consumers become too frugal?



Evan Tanner

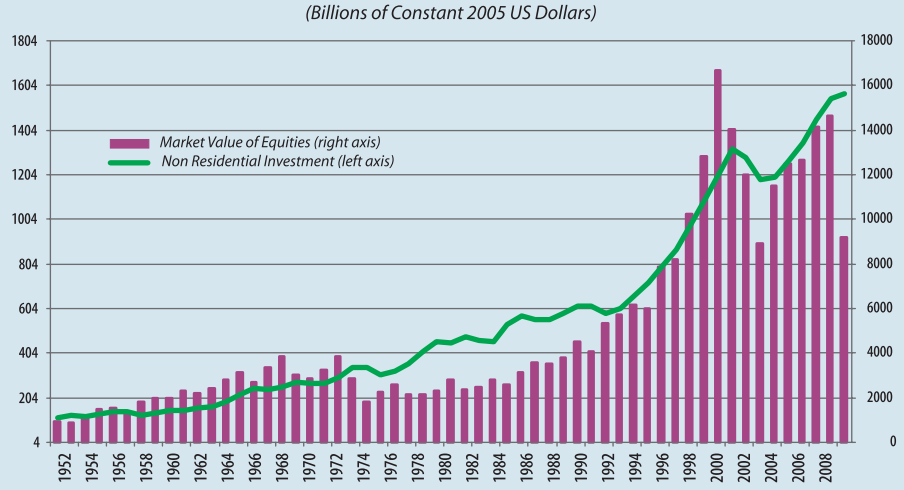
In response to the financial crisis, US consumers now save more. Many observers are concerned that they have become too frugal, insofar as their higher savings may mean weaker demand and lower economic growth. In a recently released IMF working paper, Yasser Abdih and I suggest that this is an incomplete diagnosis of savings, wealth, and economic activity.[1]

We stress that the beneficial effects of additional new savings will be cumulative. By saving more, households and firms replenish their net worth. This will be critical for restarting capital investment. Historically, there has been a close link between net worth and capital expenditures (Figure 1). Ben Bernanke and others describe such a link metaphorically as a "financial accelerator." Extending the metaphor, we believe new savings flows are needed to refill the gas tank propelling our "financial accelerator."

We find a fundamental feedback mechanism between savings and wealth: By definition, the net wealth of households is simply their accumulated savings. Thus, in the current "great unwinding," US households will rebuild their wealth. This is already beginning to happen:

Fig. 1 – United States: Market Value of Corporate Equities and Non Residential Investment

(Billions of Constant 2005 US Dollars)



Senior Economist, IMF Institute, International Monetary Fund, etanner@imf.org. This article, and the working paper it refers to, should not be reported as representing the views of the IMF. The views expressed here and in the working paper are those of the author alone.

after declining steadily though gradually in 2007 and then plummeting in the fall of 2008, the net worth of US households increased in the second quarter of 2009. We can credit this to both a market recuperation and to more "out-of-paycheck" saving by households — disposable *labor* income minus consumption.

In the other direction, as households become wealthier, they begin to save less and consume more out of each paycheck. Historically, we find, households make such an offsetting adjustment to their savings in response to positive changes in their income (Figure 2). This offsetting adjustment is gradual, but over the long run it approaches one-to-one.

Our forecasts of savings and wealth are anchored to the dynamic feedback between these two variables. Most of our scenarios suggest that out-of-paycheck savings will rise only modestly and temporarily, peaking in or about 2011. The forecast takes on a hump shape precisely because, as household savings accumulate, consumers gradually become less frugal.

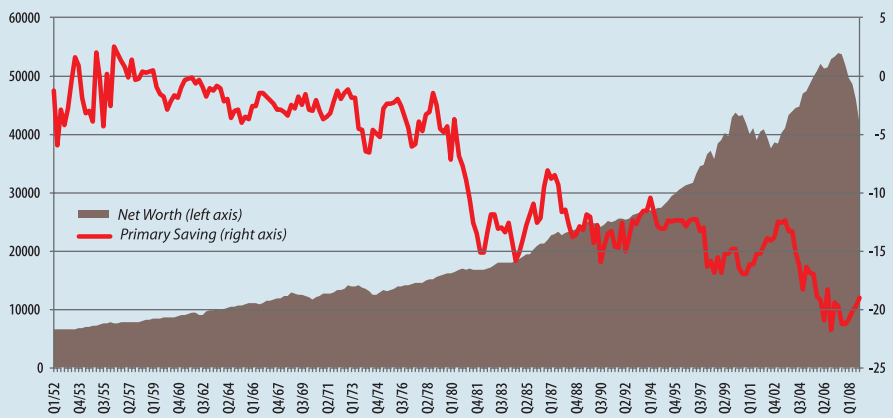
In our baseline scenario, household net worth and capital investment remain well below their pre-crisis levels for years. For net worth and investment to return to their pre-crisis levels soon, the future path of savings would have to be higher than the baseline; savings would have to be more closely aligned with one of our "new frugality" scenarios. And unless that extra saving starts today, both net worth and investment may stagnate for years to come. Thus, our projections suggest that we may be too spendthrift — not too frugal.

By saving more, households and firms replenish their net worth. This will be critical for restarting capital investment.

The paper, "Frugality: Are We Fretting Too Much? Household Saving and Assets in the United States" (IMF WP/09/0197), is available at http://www.imf.org/external/pubs/cat/longres.cfm?sk=23259.0.

Fig. 2 – United States: Primary Saving and Net Worth of Households

(Billions of constant 2000 US Dollars)



Source: Federal Reserve Bank.

A major step in the fight against cartels

Luis Fernando Schuartz

An effective policy for fighting cartels must act on three fronts: repression in the administrative sphere; repression in the criminal sphere; and compensation in the civil sphere, so that people injured by the activities of a cartel may submit claims for compensation for damages.

On October 8th, the Ministry of Justice announced an exciting initiative directed to the second of the three fronts: the National Strategy to Fight Cartels ("Enacc"). This Brasilia Declaration sets out guidelines for creating a broad network of cooperation between government agencies for implementation of the policy. The most exciting aspects of the Enacc initiative are the decentralization idea and the fact that the Public Attorney's Office will be cooperating fully in activities directed to achieving the proposed objectives. Enacc represents an important step toward guaranteeing that the related regulations will act as major deterrents, increase the number of complaints, and make it more likely that there will be more frequent and severe criminal punishments.

The first step was taken some time ago when the Federal Police were incorporated into the investigations carried out by the Office of Economic Law (SDE). Federal Police cooperation has made the threat of punishment more vividly clear to offenders, lending speed and quality to the search for evidence.

Punishment

Government action, however, has depended almost exclusively on initiatives centralized in the SDE, which has been instrumental in repressing cartels. Although there have been a few criminal convictions, the possibility of punishment (as well as civil judgments) still

Professor and Coordinator, Law and Economy Research Center, Rio de Janeiro FGV Law School.

seems to weigh little in decisions to take part in a cartel. Administrative centralization, furthermore, reduced the incentives to comply with regulations, because there are not enough staff to effectively monitor market competition in a country with the peculiarities and territorial dimensions of Brazil.

That is why the role of the Enacc — with the commitment of cooperation from the Public Attorney's Office and continued interaction with SDE technical staff — may be extremely effective. I would like to stress at least two positive examples: Experience in the field of consumer and environmental law and the history of repressing white-collar and corruption crimes in Brazil show that the involvement of the Public Attorney's Office is essential to making effective laws the enforcement of which clashes with powerful social, economic, or political interests.

Learning exercise

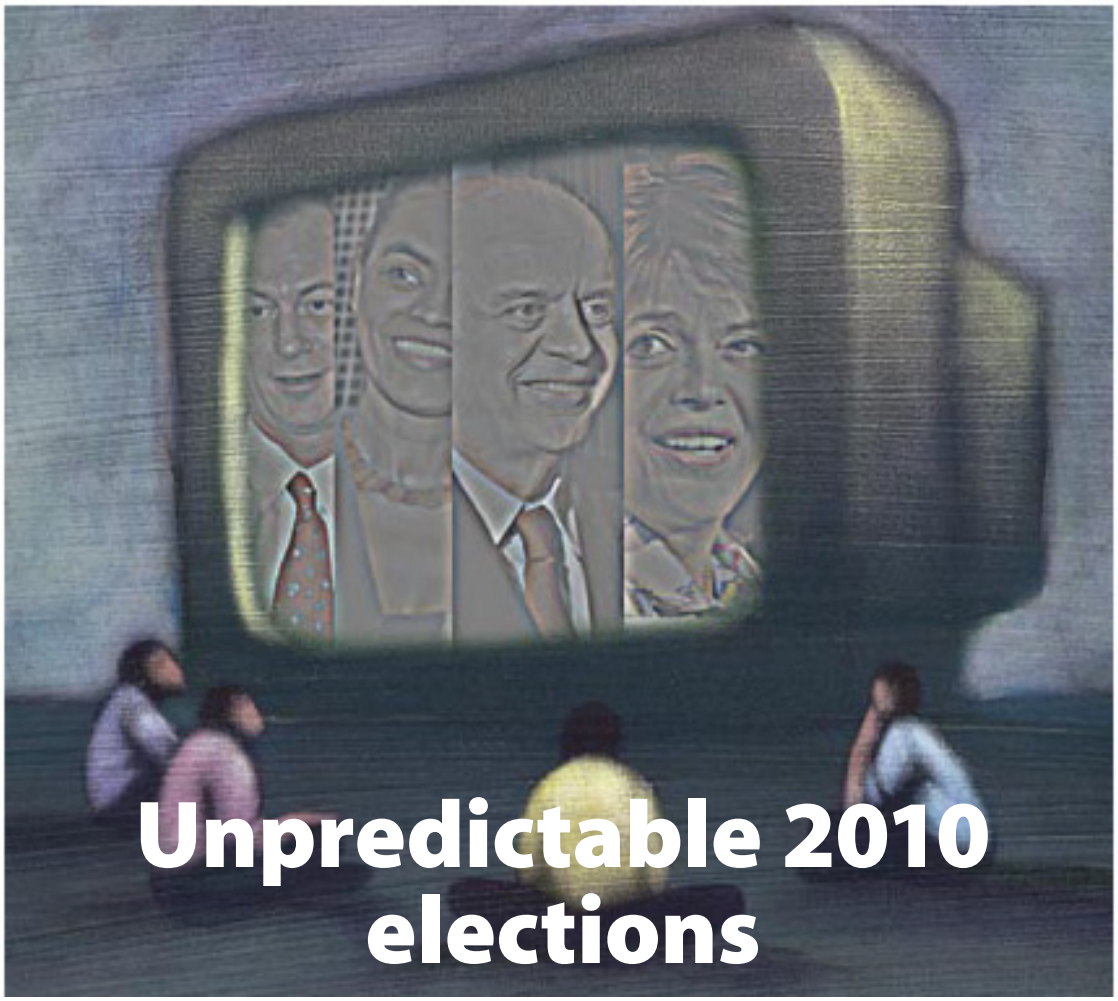
More intense routine action by the Public Attorney's Office in the fight against anti-competitive behavior may also trigger collective learning processes that may be mutually complementary and reinforcing — first, within the office itself, as its members gradually become familiar with the new terminology and new tools of analysis, and then among magistrates themselves. Their newly acquired knowledge will also be beneficial for judging cases that raise different issues but whose solution requires basic statistical and economics knowledge — any case, in other words, that has economic consequences.

Finally, the visibility of the Public Attorney's Office will promote and disseminate throughout civil society the knowledge that

Intense routine action by the Public Attorney's Office in the fight against anti-competitive behavior may trigger collective learning.

cartels are a cunning means of extracting wealth from victims and deserve to be denounced and punished. There is a very short distance from that to the idea of civil actions for individuals to seek compensation from offenders.

The positive ramifications of the Ministry of Justice's initiative in adopting Enacc are numerous. Provided that the necessary measures, such as personnel training and the assignment and coordination of mandates, are taken, the benefits will far exceed the costs. Obviously, implementation requires more than political good will. To transform words into deeds and to exploit its full learning potential, this proposal requires resources and commitment from all parties. Let's hope they materialize.



Unpredictable 2010 elections

Murillo de Aragão

It is well known that Cleopatra's nose was not as beautiful as one might have imagined. I mention this to point out that not everything occurs or has occurred the way one thinks. The 2010 elections present us with an excellent opportunity to reflect on how things may turn out. Perhaps it will be different from today's forecasts. How might the elections be transformed, or not, into historical truth within a few months? Will they merely be new Cleopatra's noses?

Today's predictions of the 2010 elections may be categorized in three main groups. Those in the first group argue that José Serra's victory is unavoidable because of his current popularity. This argument finds support in the governor's performance in the opinion polls — he is ahead at the moment — and in the belief that his current leadership is a considerable omen of victory. After all, the candidates who won the last three elections had all occupied leadership positions the year before. Carlos Montenegro, from IBOPE, the Brazilian Polls Institute, is a major proponent of this powerful argument backed by historical facts.

Those in the second group believe in the magical power of President Lula to turn Dilma

Chairman, Arko Advice Political Research and Analysis; M.A. (political science), Ph.D. (sociology), University of Brasilia.

Rousseff, the candidate he endorses, into the future president. The argument is based on a certain degree of determinism: "It would be impossible" to conceive that the most popular president in the country's history is not able to secure votes for his candidate. Its proponents argue, furthermore, that the weight of the state apparatus and the power of attraction exerted by the administration's social programs are more than sufficient to leverage Rousseff's performance. Few analysts are among these advocates, who in most cases are considered partisans of the administration.

The third group

The last group envisions a third winner, someone between Serra and Rousseff — in other words, an unexpected result. For this group, a candidate incorporating the best in the other two candidates could win without representing either a rejection of the Lula Era or a nostalgic backing of Serra's Tucano party. Both Ciro Gomes and Marina Silva could be in a position to capitalize on such votes; it might be an astonishing turn of events, but one of them could secure a runoff with either Serra or Rousseff.

Currently, those are the three most popular projections. What can we say about them? There is one undisputable fact: we do not yet know the results of the elections. A lot can happen, even though the polls are less than a year away. First and foremost, voters are starting to show more interest in the race. In view of the President's achievements, they are beginning to think more carefully about what uncertainties the twilight of the Lula Era may bring about for their own future. As occurred in 2002, when some groups were fearful of the destiny of the economy under the PT (Labor Party), today the Tucanos may raise fears associated with the future of the social programs. The more informed know that the ideological matrix of both parties is very similar, but what counts here are not the values but the esthetics of the process. In other words, what counts is not what is but what appears to be.

Brazil as a country is more concerned about esthetic than about ethical values, and the most ethical examples are no longer emulated.

Beyond the natural uncertainty and the current lack of interest surrounding the 2010 elections, the results may end up being defined by other parameters and paradigms. Some were already present in the plebiscite on the issue of disarmament and later confirmed in Lula's re-election after the mensalão scandal[1]. Less educated voters no longer follow the pattern of the upper classes. As beneficiaries of social programs and income gains, the popular classes will probably not be reflecting in the same way about what is good or bad about the administration. Brazil as a country is more concerned about esthetics than about ethical values, and the most ethical examples are no longer emulated. The allegory of power is far more important: A bird in the hand is better than several in the bush.

Mutation

A fact and a reflection: we see before us the natural unpredictability of the results and a manifest change in the electoral "geology." The poor have changed: today they feel that their needs are being met and that they are represented. This reflection is further strengthened by the impressive results on social mobility: today, the lower middle class

is the largest in the country. A significant mass of new consumers thus gained access to the market, initially at the onset of the Real Plan and later through the Lula years. They are contented with their refrigerators, DVDs, washing machines, and cars. Are we then about to see an immense battalion of contented voters who do not bother with deep reflections on changes, particularly what must be changed and why? They will be more inclined to vote on esthetic values.

Moreover, the space for reflection on national politics is stifled, for four reasons: (1) the overwhelming popularity of the president and the approval ratings of his administration; (2) the absence of a clear alternative to the current national model; (3) the debate about the effects and features of the world crisis combined with a certain overoptimism about the current model; and (4) the enormous political conformity of the population to "that [good or bad] which is around." Would these considerations interfere with any trend for renewal?

There are two other important factors to take into account, one structural, the other contemporary. The structural factor is the extremely limited education of the average Brazilian, particularly with regard to values and the exercise of citizenship. Reflections on the ethical nature of the political process are rare, except for the usual expressions of indignation. What counts, in the end, are the power of clientelism and the fulfillment of needs and expectations. The combination of low inflation and real salary gains with economic growth is therefore an extremely powerful electoral impetus.

The contemporary factor has to do with the fact that the Brazilian population gets most of its information from television, which, according to the French philosopher Jacques Rancière, presupposes an "alienated or distracted regard." Television is an electronic magazine that has little to do with reality. Only crimes, such as the case of Isabela Nardoni, receive intense and systematic television coverage. The rest is an avalanche of entertainment and news where Baghdad, the Taliban, the Heliopolis slum, and the floods in the state of Santa Catarina and the Rocinha slum are all blended in the same enormous pot.

The 2010 campaign is still surrounded by a thick fog of mystery. So much so that today's certainties — Serra's favoritism and the power of transfer of votes by Lula — are very unpredictable.

Uneducated but informed?

Citizenship at our stage of development as a nation materializes as consumption rather than reflection or the exercise of politics. We are still very unequal in understanding and reflecting on the true meaning of citizenship: knowing the facts is not the same as forming an opinion about them. The enormous flow of information neither mobilizes nor educates citizens. To some degree, however, it does create informed people — can we then be considered a sort of uneducated but informed populace?

If structural and contemporary factors conspire in favor of continuity of Lula Era, why would Serra be leading and Rousseff be falling behind Gomes? The answer may be that Serra is an experienced politician who has run in several elections. He was twice Congressman, on one occasion securing over

340,000 votes. Later, with an equally impressive vote count, he was elected senator. Then he was named Minister of Planning, majority leader in the Senate, and Minister of Health. His performance in those positions has had numerous repercussions. Although he lost the presidency to Lula in 2002, he secured the São Paulo Mayor's Office, which he resigned to enter and win the São Paulo gubernatorial race in 2006. Serra is a successful and highly regarded politician; he is well-known and he has a considerable record of wins in past campaigns. Had he been Lula's candidate, his rating today would exceed 50%.

Against the theory that votes can be transferred by Lula's magical power, there are a few charismatic and popular political notables who have not managed to elect their heirs. One heir is Valmir Campelo, minister of the Court of Auditors, who lost the elections in Brasilia to Cristovam Buarque in 1994 even though he enjoyed the support of Governor Roriz.

Indeed, Lula himself is an example: Although he was directly involved in the campaign, in 2008 Lula did not succeed in getting Marta Suplicy elected mayor of São Paulo city — where Cesar Maia was successful in securing the election of Luiz Paulo Conde, his unknown deputy mayor.

Former mayor of São Paulo city, Paulo Maluf, made Celso Pitta his successor and Serra transferred his current mandate to Gilberto Kassab. Curiously, Aécio Neves, governor of Minas Gerais state, chose as his successor Antonio Anastásia, a bureaucrat with a technical profile, who lives in the governor's shadow. The fact is that the transfer of votes can happen, but not always.

Who knows?

Even if we accept that Serra is well-equipped to defy the prognosis of a few and confirm the opinion of others like Montenegro, 2010 is still undefined. This is where Cleopatra's nose comes into the picture: The details will decide the battle for power in 2010.

If Lula campaigns for Rousseff, she is guaranteed a place in the run-off election. If Lula retires to campaign, we may witness a tsunami of votes for Rousseff. Voters would not be casting their votes for her as much as endorsing her political patron. How Lula will participate in the campaign, then, will be the essential detail. Also television time for the government candidate is important — as is the magnitude of the Tucano campaign.

Gomes and Silva are candidates who may run into structural difficulties: state-level campaigns, television time, and a discourse that is convincing without compromising their participation in Lula's administration. As Gomes makes his third try, his discourse has become less virulent. Even the international crisis, which has brought him into the newspapers, is waning. Gomes will be a sort of first way alternative — a "B-group government supporter."

Silva is an even greater unknown factor; her discourse does not carry popular scope and significance. She could be considered a "D-group government candidate" especially since people who have only just gained access to the market do not have great environmental concerns.

Cleopatra's nose, which many considered to be beautiful, turned out to be unattractive, very unattractive. The 2010 campaign is still surrounded by a thick fog of mystery, so much so that today's certainties — Serra's favoritism and the power of a possible transfer of votes by Lula — are very unpredictable. Just like the many different opinions about Cleopatra's nose.

1 Illegal monthly payments to Congressmen to buy support for approving bills that threatened to bring down Lula government in 2005.

Industrial confidence up

The FGV Industry Confidence Index (ICI) increased 2.7% in September and October 2009 mainly because of industry's very positive outlook for domestic demand. As a result, the utilization of industry capacity has recovered rapidly since February 2009.

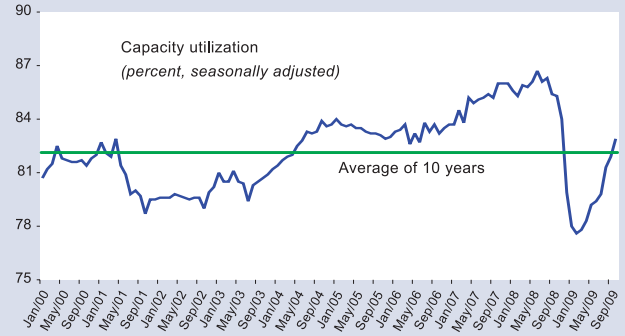
Widening fiscal deficit

The fiscal deficit widened more than expected in September. The monthly consolidated public sector deficit reached R$22.4 billion — the projection was for R$12 billion. The deterioration was due both to higher government spending — driven by capital, payroll, and social security outlays — and lower tax revenue. The 12-month cumulative deficit increased to 3.5% of GDP, from 1.5% last December. The combined effect of the slowdown and expansionary fiscal policies increased public debt to 66% of GDP from 56% in November 2008.

Low inflation risk

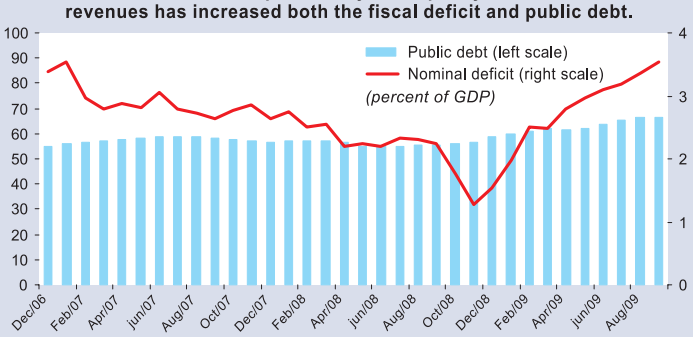
Official inflation (IPCA) was 4.17% in the 12-months to October 2009 and the central bank inflation target is 4.5% for 2009. So far the end of the recession in Brazil has not brought inflationary pressures.. Although economic activity is recovering fast, industrial prices, especially for intermediate goods, fell slightly in October, partly because of the appreciation of the exchange rate. There are concerns that the increase in public spending and the budget deficit will cause the economy to overheat, but inflation is being contained. The central bank is expected to follow a neutral monetary stance, keeping its policy interest rate at 8.75% a year.

Utilization of industry capacity has recovered rapidly since February 2009, reflecting industry 's positive outlook for domestic demand.

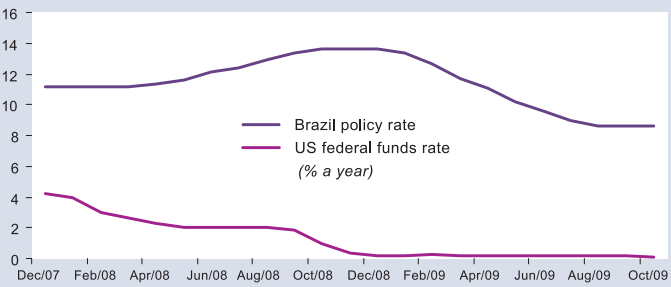


Source: IBRE-FGV.

The combined effect of an expansionary fiscal policy and a slowdown on tax revenues has increased both the fiscal deficit and public debt.

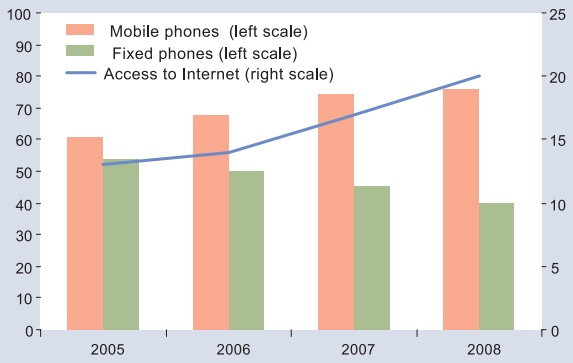


The Central Bank of Brazil has responded to the crisis by drastically cutting its policy rate but is likely to maintain a neutral stance.



Brazil: Information technology and communication

Urban areas, % of households



Information technology and communications is transforming Brazilian society

ITC is transforming the lives and businesses of millions of people in Brazil. Mobile phone use in particular has increased significantly in the last four years, while fixed phones have declined. The dissemination of mobile phones has been greater among the low-income population, resulting in more social inclusion and better income distribution. Internet access has also increased: while 95% of companies already have access to the Internet, household access has doubled in the last four years to reach 20% of urban households. Source: Centro de Estudos sobre as Tecnologias da Informação e da Comunicação, www.CETIC.br

For additional series and methodology contact: Industry and consumer surveys: (55-21) 3799-6764 or sondagem@fgv.br; Price indexes and data bank services: (55-21) 3799-6729 or fgvdados@fgv.br.