



Companhia  
Vale do Rio Doce

**IMnI**

**Annual Conference**

**The Latin American  
Economy  
*Back to the growth track***

June 2003



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# **Latin America: from recession to recovery**



# Latin America: from recession to recovery

**2001/2002: The worst downturn in two decades.**

## Selected macroeconomic indicators

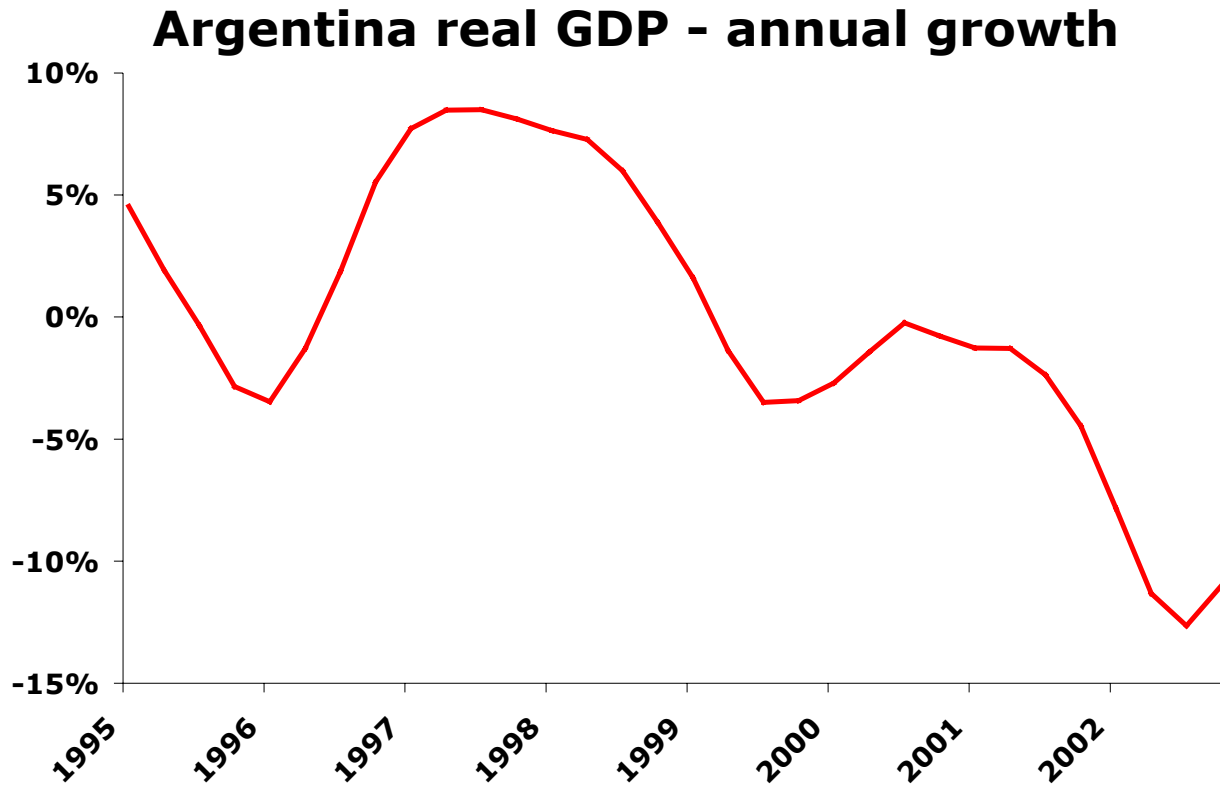
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003E</b>
Real GDP growth (%)	2.3	0.2	4.0	0.6	- 0.1	1.5
Consumer Prices (%)	9.2	7.4	6.8	6.4	8.7	11.0
Trade Balance (US\$ billion)	- 41.3	- 12.7	- 2.5	- 8.1	17.8	18.4
Current Account Balance (US\$ billion)	- 90.5	- 56.2	- 47.7	- 53.3	- 16.8	- 18.3

⇒ Net exports have driven the turnaround.

Source: IMF

# Argentina

The Argentine economy endured in 1998/2002 its worst recession in 50 years.

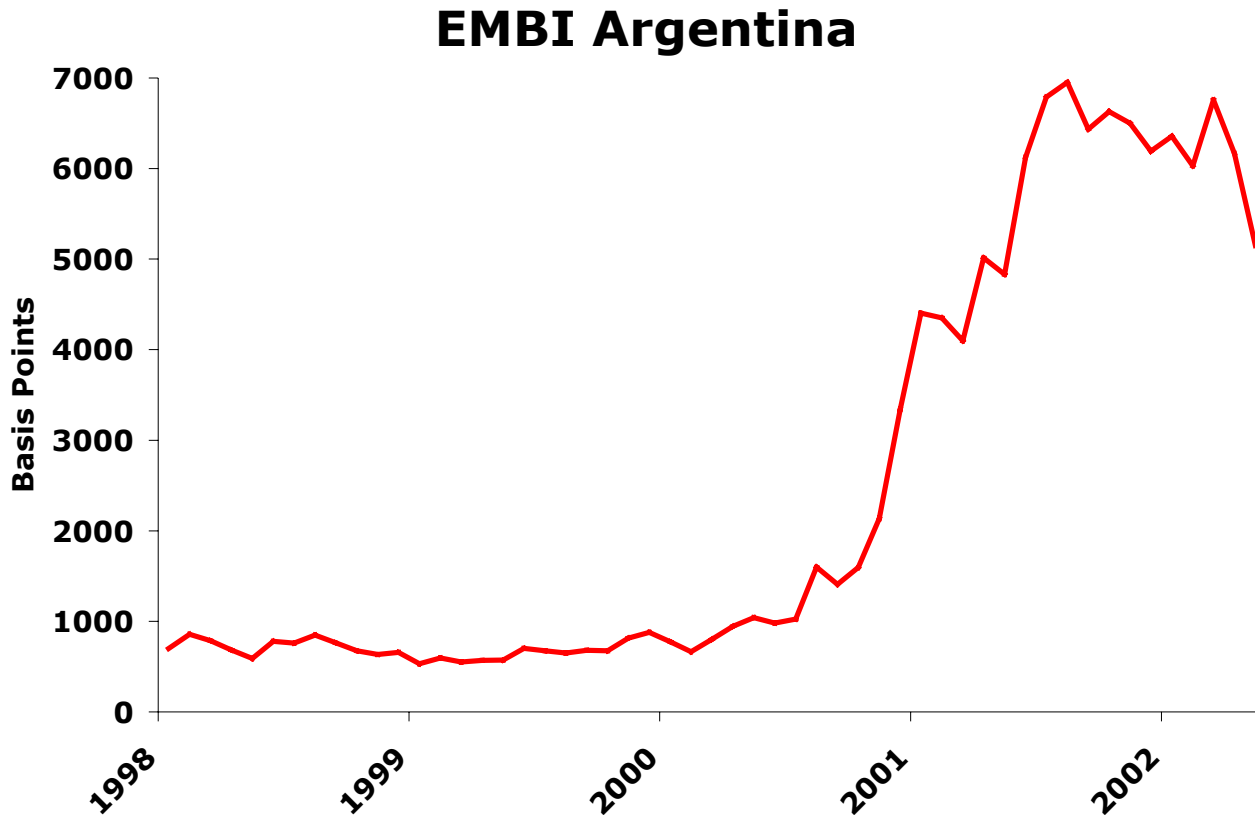


⇒ However, there are signs that the economy may be over the worst.



# Argentina

Debt restructuring remains as a key issue.



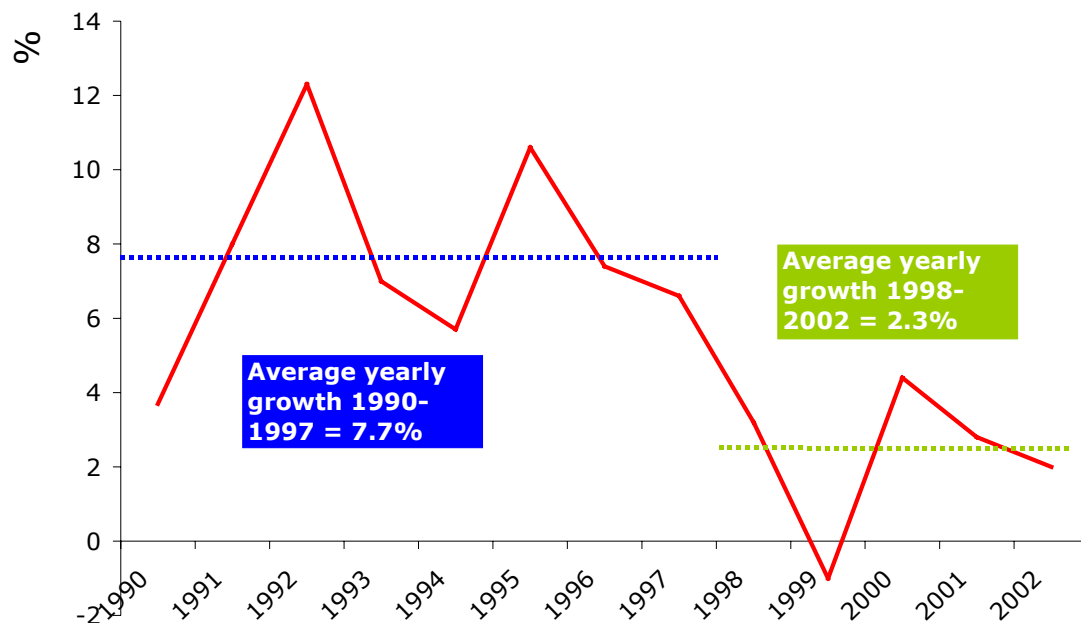
Source: Bloomberg



# Chile

The fast growing Chilean economy slowed down with the 1997 Asian crisis.

## Chile real GDP growth 1990 - 2002



Real GDP growth	
2003E	3.1%
2004E	4.8%

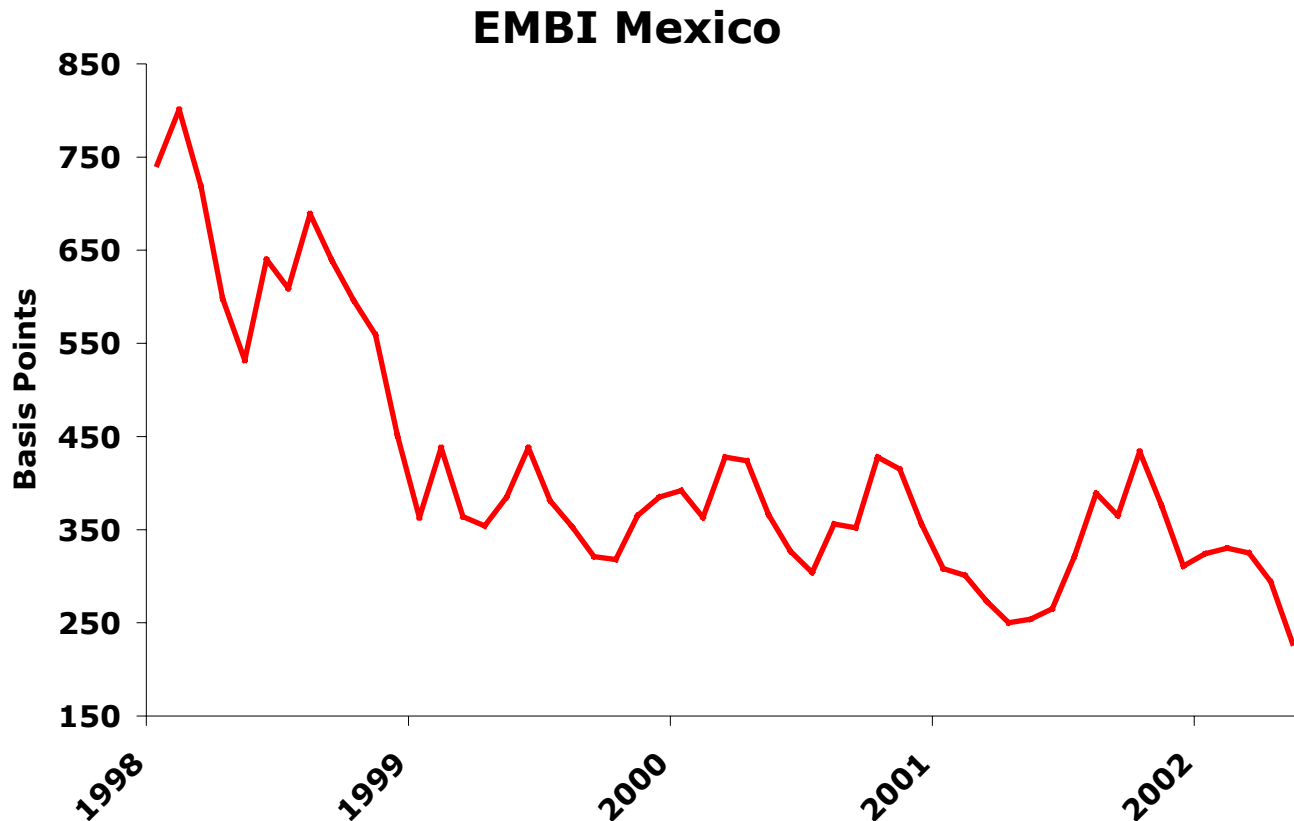
⇒ Sound macroeconomic policies underpin recovery.

Source: IMF



# Mexico

A relatively high integration with the world economy prevented a sharp deterioration in external financing conditions.

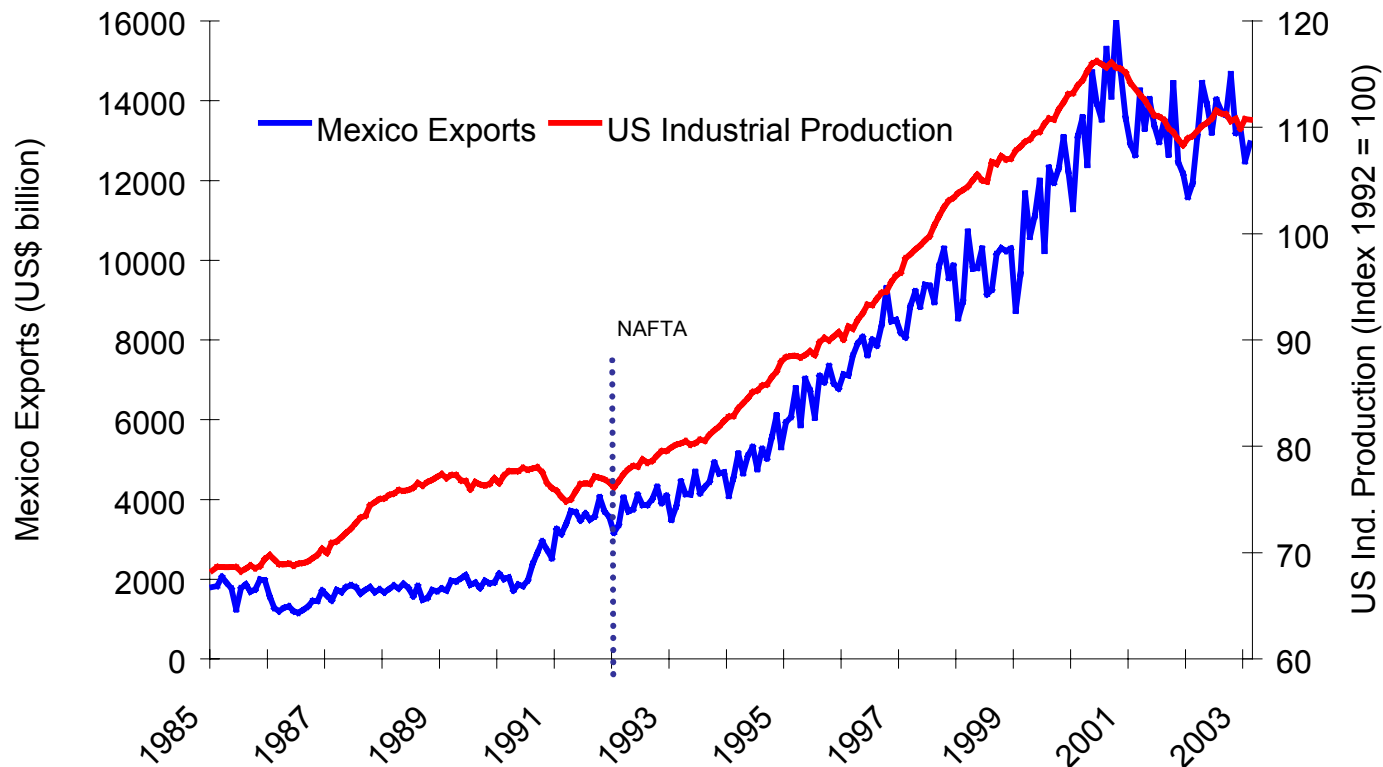


Source: Bloomberg

# Mexico

The economic outlook is highly dependent on the developments in the US.

## Mexican exports vs. US industrial production



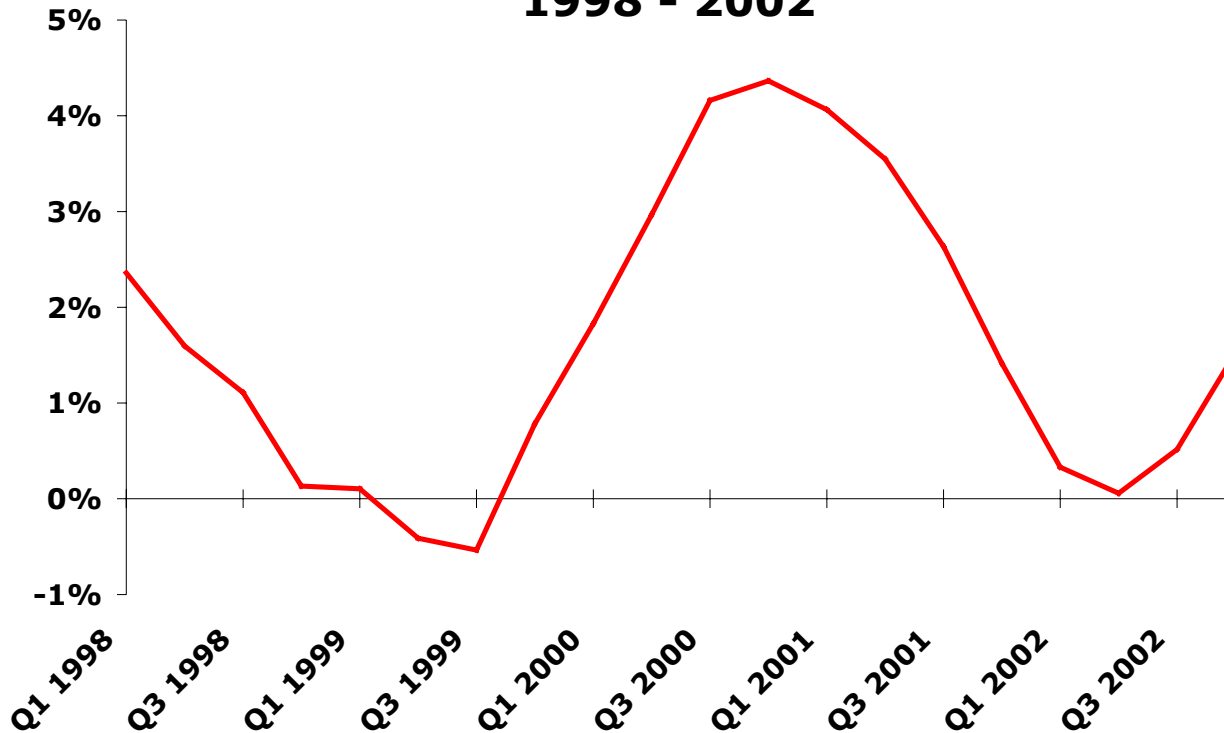
Source: Bloomberg



# Brazil

Economic activity lost steam due to shocks, uncertainties and rising interest rates. However, a recovery is expected to start in 2H03.

**Brazil real GDP growth  
1998 - 2002**



Source: IBGE



# Latin America: from recession to recovery

The IMF is forecasting a better performance for the main Latin American economies in 2003/2004, with the exception of Venezuela.

## Real GDP growth

	<b>2001</b>	<b>2002</b>	<b>2003E</b>	<b>2004E</b>
Argentina	-4.4	-11.0	3.0	4.5
Brazil	1.4	1.5	2.8	3.5
Chile	2.8	2.0	3.1	4.8
Colombia	1.4	1.6	2.0	3.3
Mexico	-0.3	0.9	2.3	3.7
Venezuela	2.8	-8.9	-17.0	13.4

Source: IMF



**Brazil: a virtuous  
cycle?**



# Brazil

## **New administration`s pledge to macroeconomic stability is paying dividends**

- ↓ Tight fiscal and monetary policies, maintenance of the floating exchange rate regime
- ↓ Initiatives to promote structural reforms



- ↓ Appreciation of the BRL
- ↓ Narrower sovereign debt spreads
- ↓ Inflation reversing course
- ↓ Modest GDP growth in 2003 but better expectations for 2004



# Brazil

## Committed to a tight fiscal policy

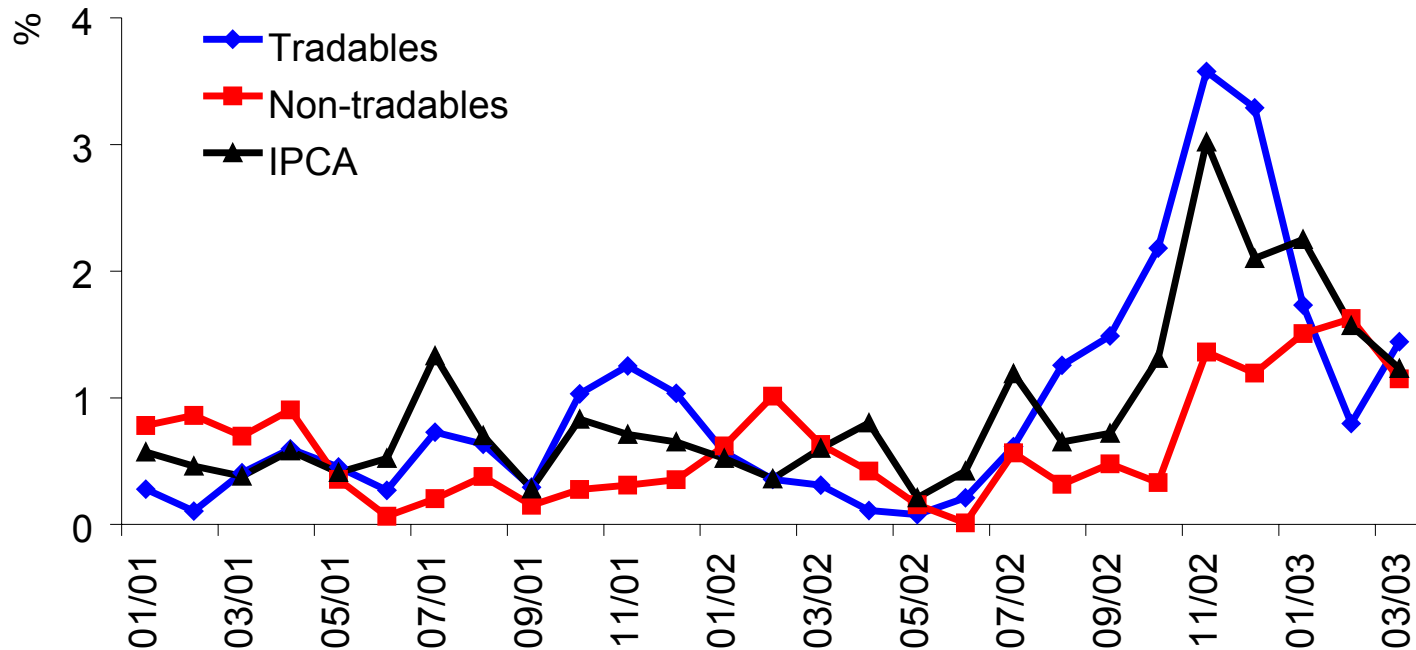
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003E</b>
Primary fiscal balance/GDP (%)	0.0	3.23	3.46	3.64	3.96	4.25
Public Debt/GDP (%)*	41.2	49.2	49.4	53.3	55.9	54.0



# Brazil

During the second half of 2002 inflation accelerated as a result of the BRL depreciation.

## Consumer prices: monthly inflation

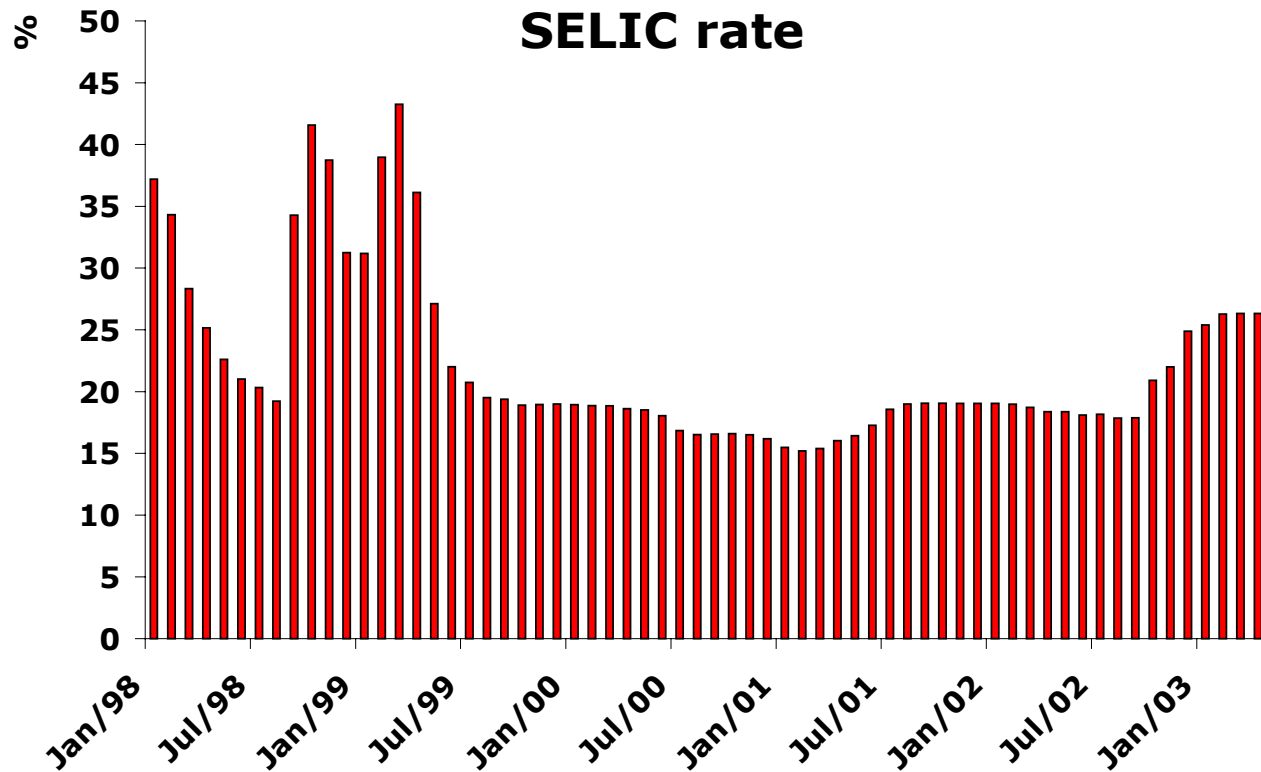


Source: IBGE and Central Bank of Brazil



# Brazil

The Central Bank of Brazil reacted to the inflation acceleration increasing interest rates

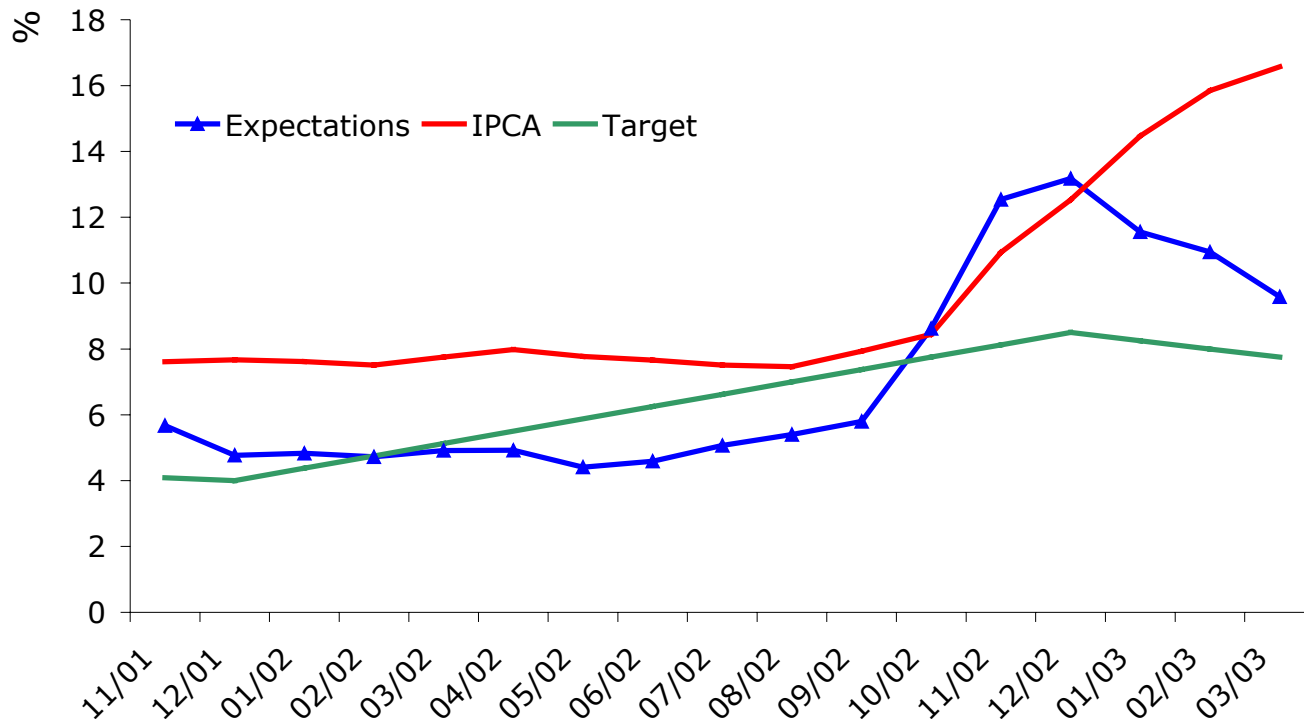




# Brazil

A tighter monetary policy is managing to reduce current monthly inflation rates and expected inflation.

## IPCA - Market expectations and BCB target



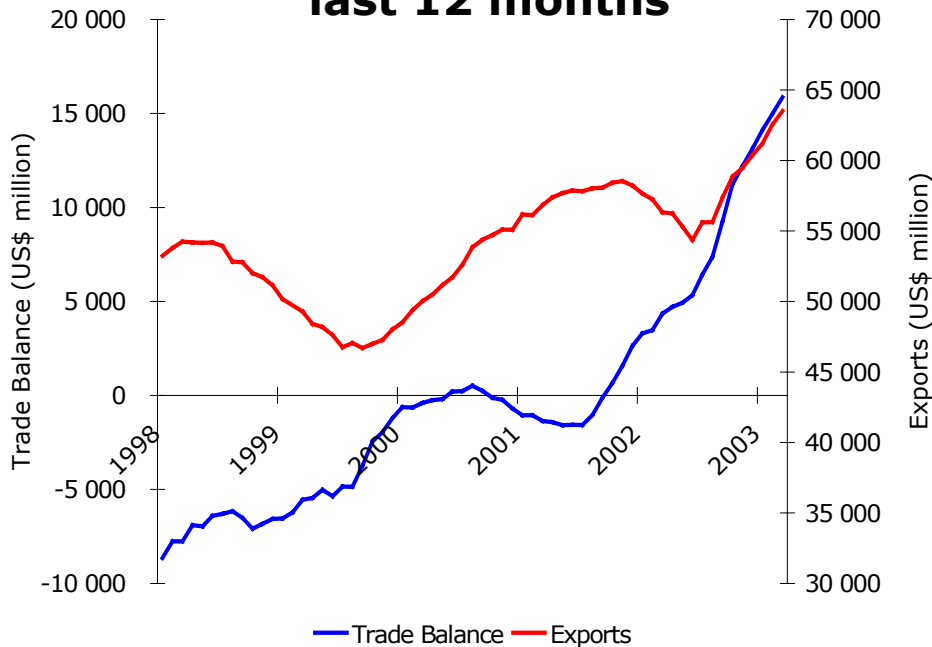
Source: IBGE, Central Bank of Brazil and CVRD Research



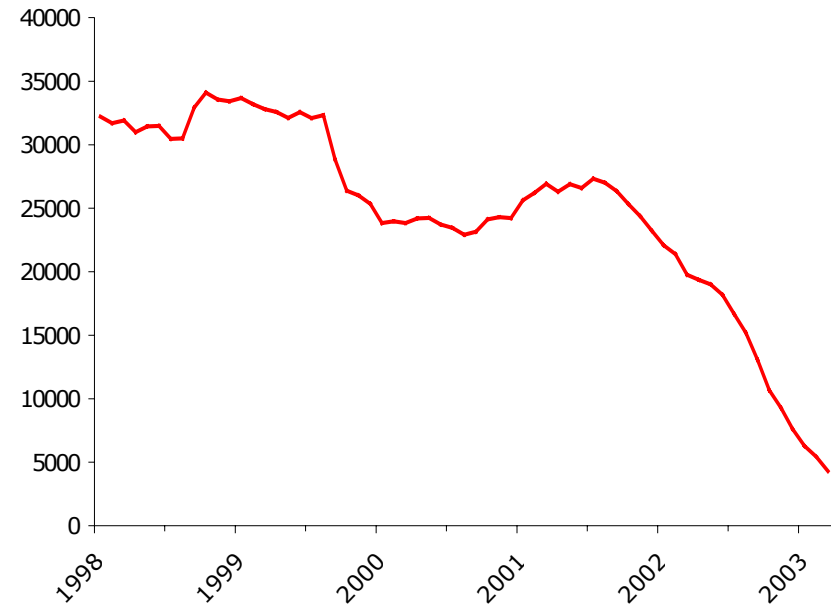
# Brazil

Higher interest rates and currency depreciation led to a sharp increase in trade surplus and to a contraction in current account deficit.

### Trade Balance vs. Exports last 12 months



### Current Account deficit last 12 months



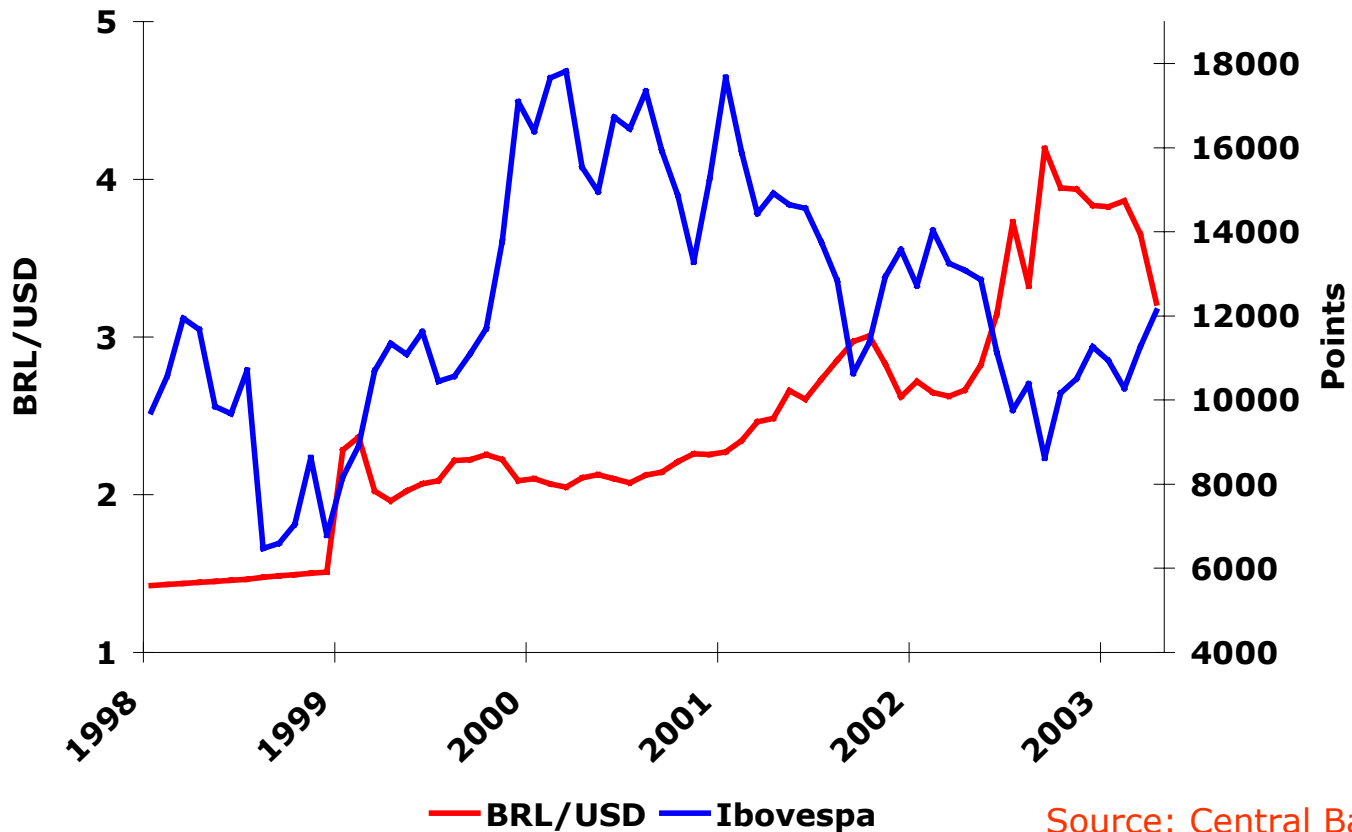
Source: Central Bank of Brazil



# Brazil

Brazilian financial asset prices are recovering

## Nominal exchange rate vs. Ibovespa



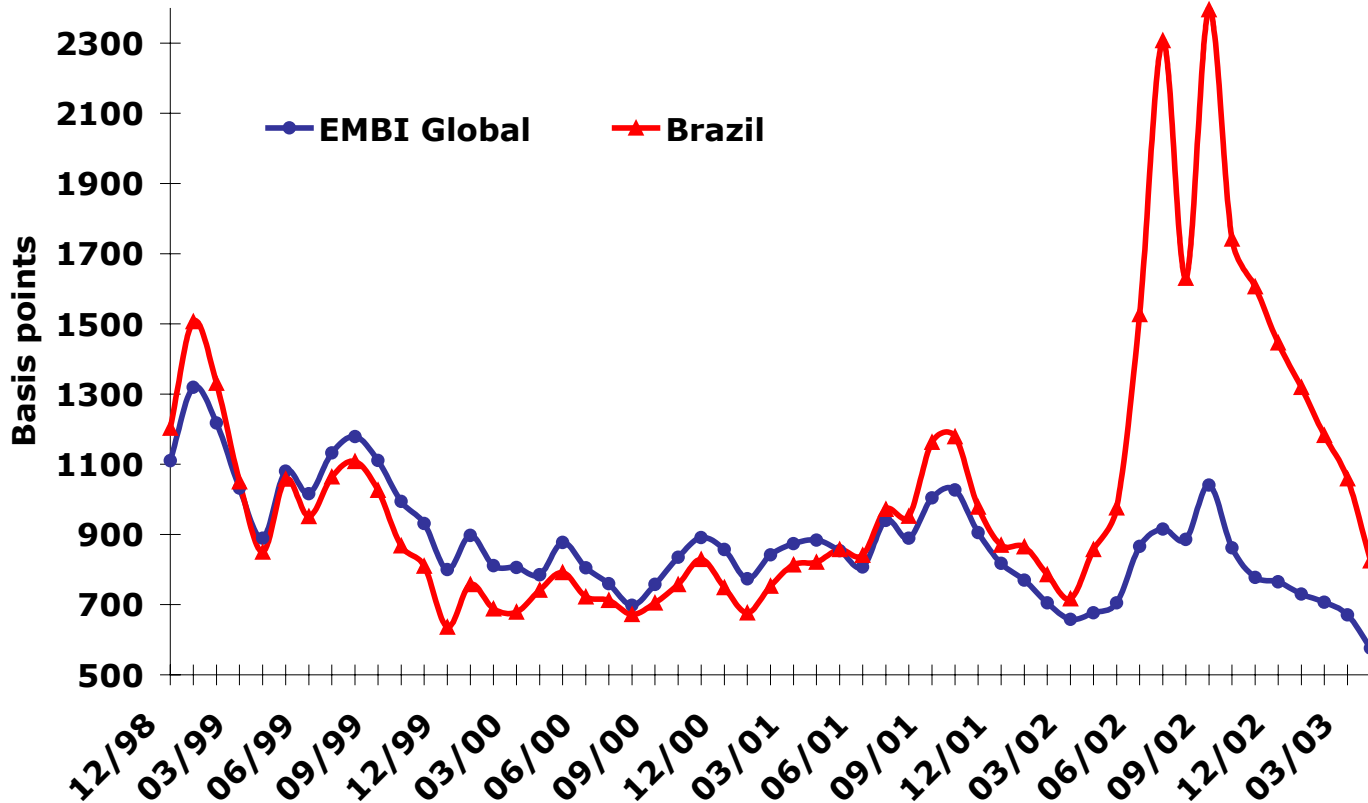
Source: Central Bank of Brazil



# Brazil

Brazil is regaining access to international financial markets.

## Emerging Market Bond Index - EMBI



Source: Bloomberg



# Brazil

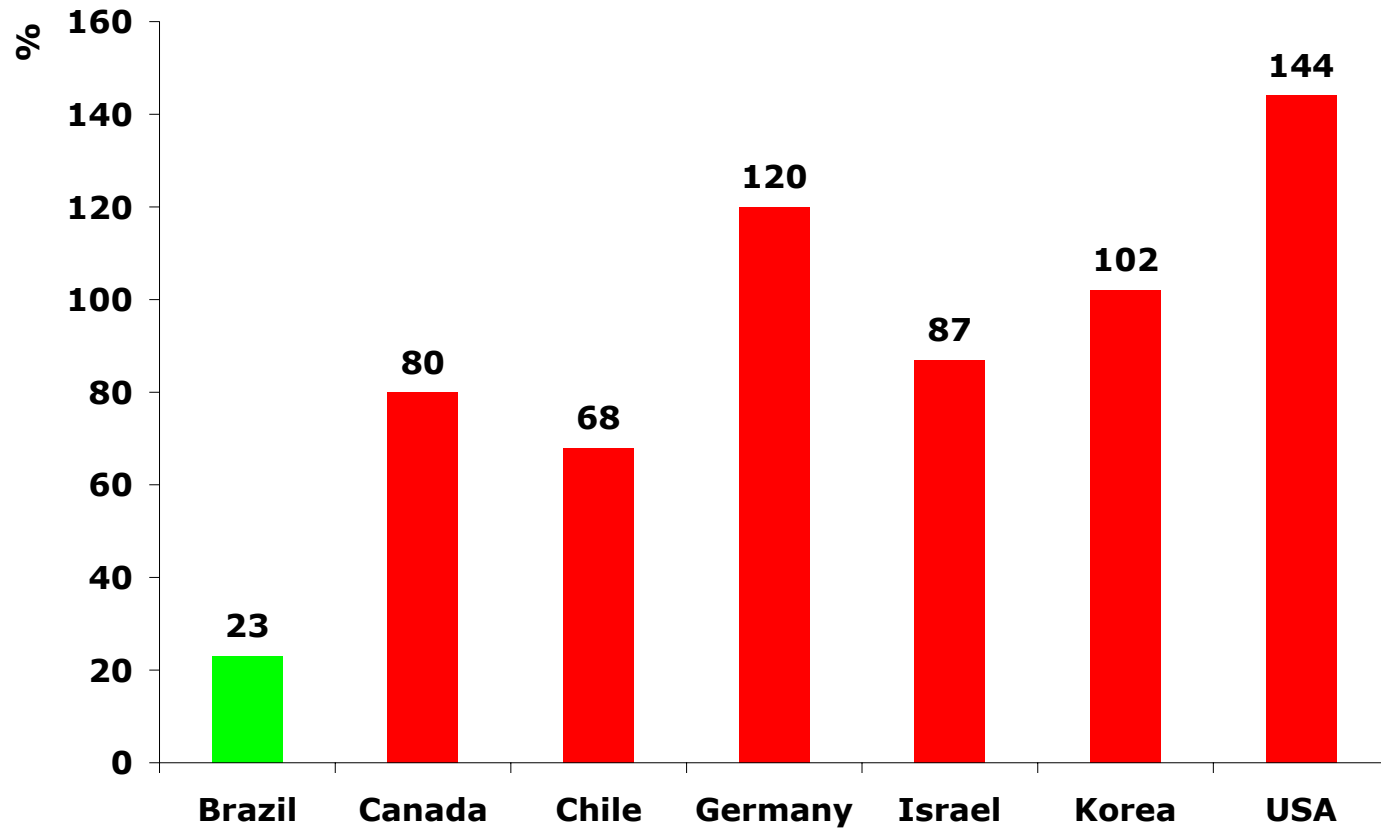
## Structural Reforms

- ↓ Central Bank operational independence to enhance its credibility.
- ↓ A new bankruptcy law to stimulate credit growth to the private sector and narrower credit spreads.



# Brazil

## Credit to private sector/GDP



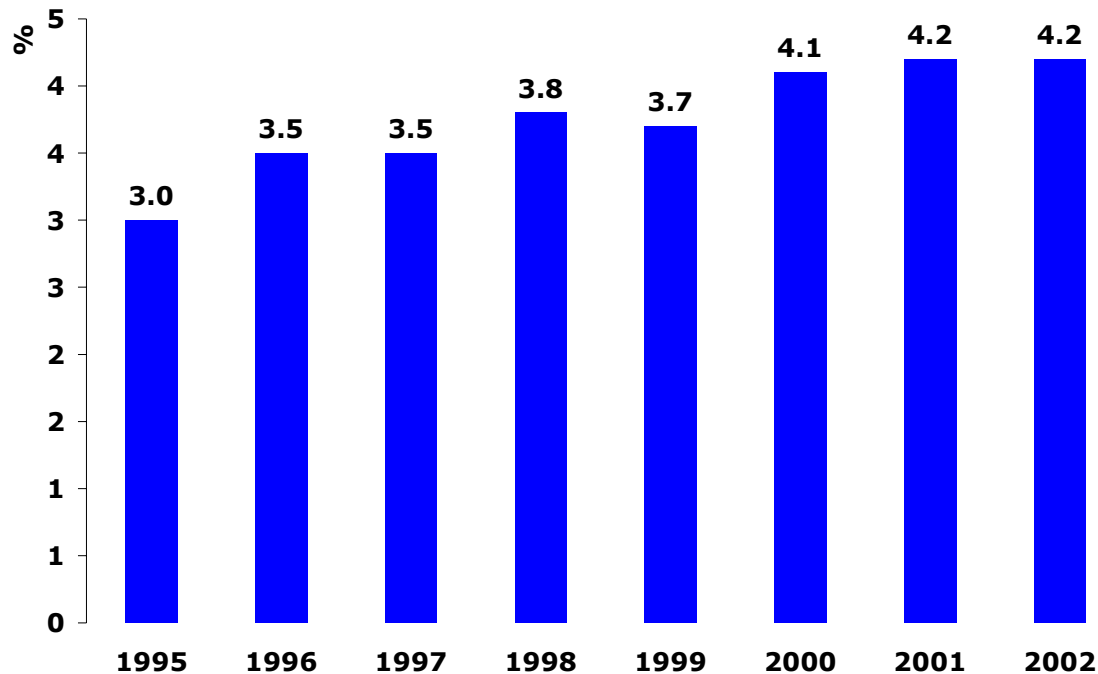
Source: World Bank



# Brazil

The social security reform aims at reducing structural fiscal deficit.

## Social Security - Civil service Deficit/GDP



⇒ As a by product, domestic saving rate will increase as well as the size of internal capital markets.

Source: Brazilian Finance Ministry



# Brazil

## Structural Reforms

### **Tax reform main goals are:**

- ↓ To eliminate disincentives to job creation in the formal sector of the economy.
- ↓ To eliminate incentives to tax evasion.
- ↓ To reduce tax burden on production and exports.



# Brazil

↓ Macroeconomic adjustments and structural reforms may led Brazil into a virtuous cycle with sustainable long term growth.

↓ However, Brazil has some challenges to face. One of the main threats is associated to the vulnerability to external shocks.



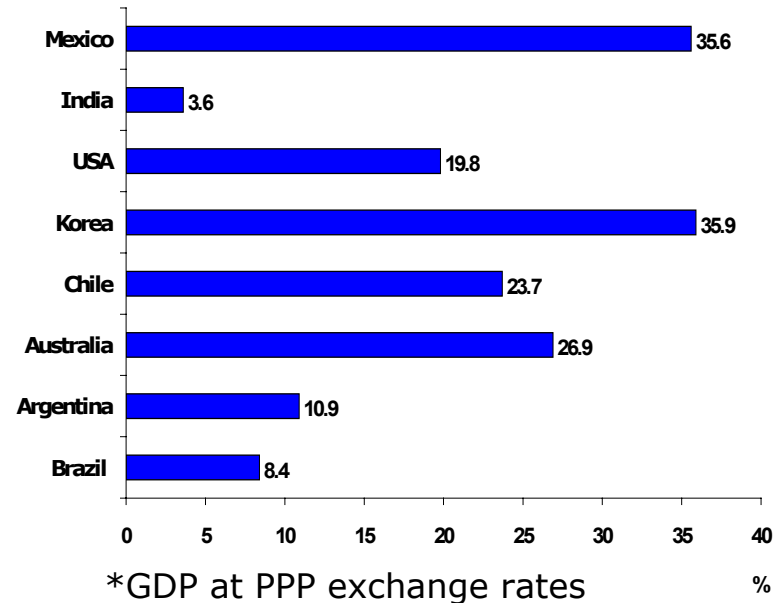
# Brazil

External debt/export ratio is too high and the Brazilian economy remains relatively closed to trade flows.

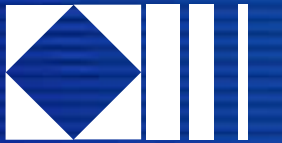
### External debt/Export ratio



### Trade flow/GDP ratio\*



Source: Brazilian Finance Ministry and the Central Bank of Brazil



↓ CVRD is the main Brazilian exporter. In 2002, CVRD exported US\$ 3.2 billion and its net exports were US\$ 2.8 billion, equal to 21.4% of the country`s trade surplus.

↓ CVRD is investing US\$ 6 billion in new projects from 2003 to 2007. At the same time, an average annual investment of US\$ 60 million in mineral exploration (manganese, bauxite, cooper, gold, nickel, PGM) is fueling its mining capacity.

↓ These investments will enhance its competitiveness as a global player in mining and metals markets, and will contribute to Brazilian export growth.



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