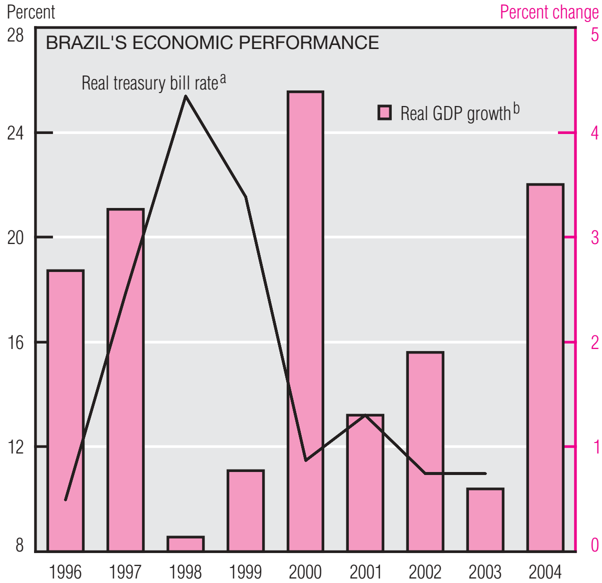
Brazil's Public-Sector Debt



Brazil's Public-Sector Debt, September 2003

	Billions of Brazilian real	Percent of GDP	Billions of U.S. dollars
Gross public-sector debt	1,230.4	79.7	420.2
Assets	363.6	23.6	124.2
Net public-sector debt	891.1	57.7	304.3
General government	866.9	56.2	296.1
Central bank	2.0	0.1	0.7
Gov't-owned enterprises	22.2	1.4	7.6

Percentage-Point Change in Brazil's Debt-to-GDP Ratio, 2003–13, under Alternative Economic Assumptions[c]

Interest rate (percent)	GDP growth (percent) 2.0	3.0	3.5	4.0	4.5
8.0	–11.2	–18.1	–21.2	–24.2	–27.0
9.0	–4.0	–11.6	–15.1	–18.4	–21.5
10.0	–4.0	–4.5	–8.4	–12.0	–15.4
11.0	12.7	3.3	–1.0	–5.0	–8.8
12.0	22.2	11.9	7.2	2.7	–1.5
13.0	32.6	21.2	16.0	11.1	6.5

Percentage-Point Change in Brazil's Primary Surplus Needed to Stabilize the Debt-to-GDP Ratio[c]

Interest rate (percent)	GDP growth (percent) 2.0	3.0	3.5	4.0	4.5
8.0	–0.9	–1.4	–1.7	–2.0	–2.3
9.0	–0.3	–0.9	–1.2	–1.5	–1.8
10.0	0.3	–0.3	–0.6	–0.9	–1.2
11.0	0.8	0.2	–0.1	–0.4	–0.7
12.0	1.4	0.8	0.5	0.2	–0.1
13.0	2.0	1.4	1.0	0.7	0.4

a. Nominal treasury bill rate minus inflation. Real interest rates are averaged over the first eight months of 2003.
b. GDP figures for 2003 and 2004 are International Monetary Fund projections.
c. The ratio of initial debt to GDP is 57.7%, and the initial primary budget surplus is 4.25%.
SOURCES: Board of Governors of the Federal Reserve System; International Monetary Fund; and Banco Central do Brasil.

The Achilles heel of sustained economic prosperity in Brazil—Latin America's biggest economy and the twelfth largest in the world—is the nation's public-debt burden. High and still-growing levels of debt increase Brazil's chances of defaulting on its obligations, either by repudiating its contractual commitments or through inflation and currency depreciation. These prospects cause investors to demand a risk premium, which raises real interest rates in Brazil and reduces its investment, employment, and growth.

With relatively small improvements in economic conditions and continued fiscal improvements, however, Brazil could stabilize its ratio of public debt to GDP. For a given level of Brazil's primary budget surplus (receipts minus non-interest expenditures), this will happen only if the country's rate of economic growth exceeds its real interest rates.

Given Brazil's experience, the combinations of growth and real interest rates that could achieve a decline in the nation's consolidated debt ratio over the next decade seem feasible, but they lie on the more optimistic end of the assumptions. If, however, Brazil maintains a primary budget surplus of roughly 5%, which it recently attained, the country could lower its debt burden, even if its economic growth and real interest rates were no better than their past averages.