

SEPTEMBER 2006



Brazilian Economic Overview

Carlos Kawall

Brazilian National Treasury Secretary



Brazilian Economic Overview

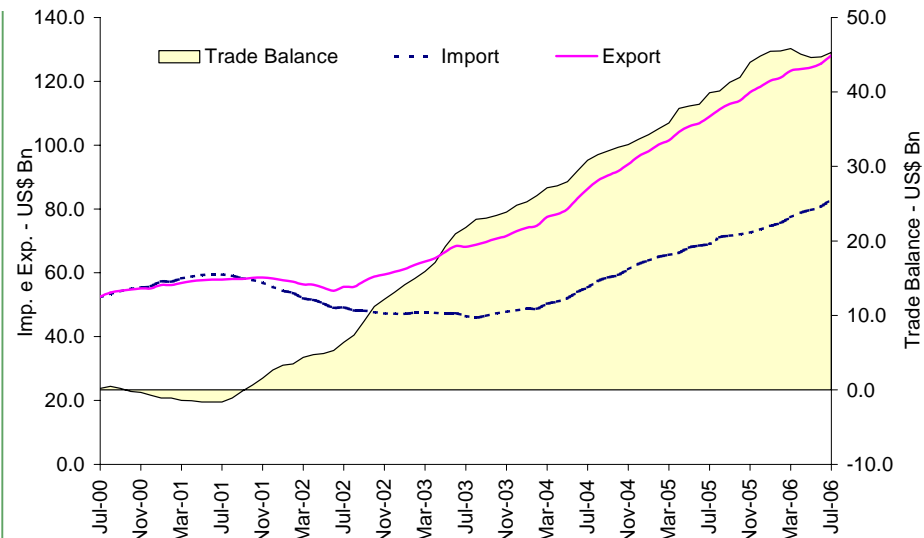
Macroeconomic Overview

Public Debt Management



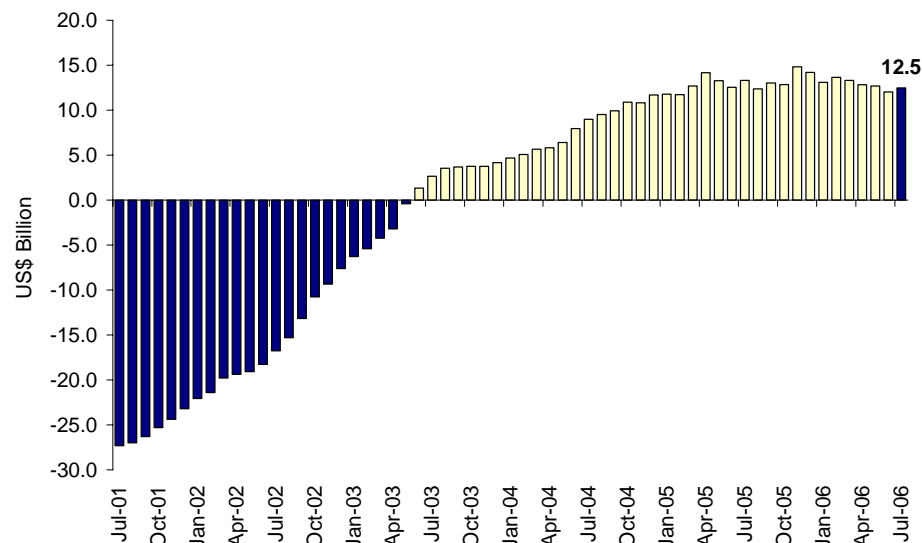
Reduction in the External Vulnerability

Trade Balance



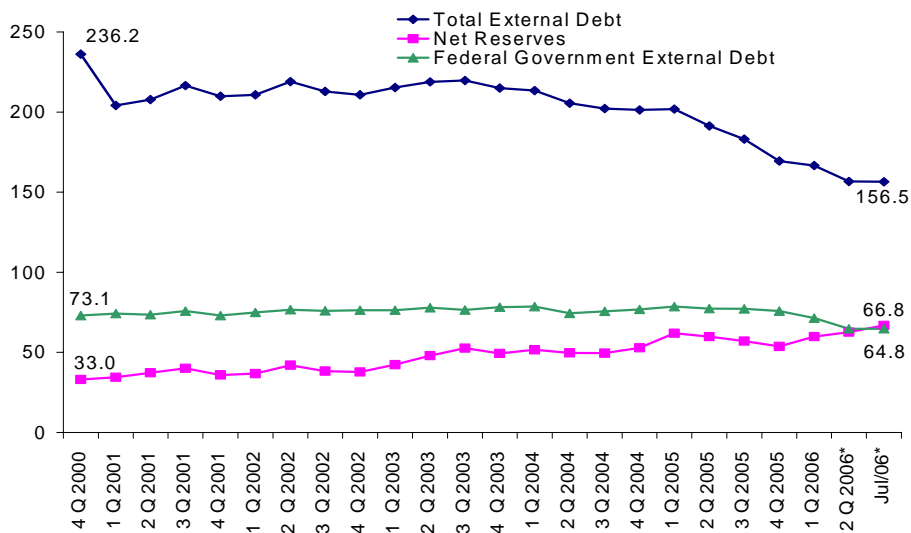
Source: MDIC - SECEX

Current account (12 months accumulated - US\$ bn)



Source: Central Bank

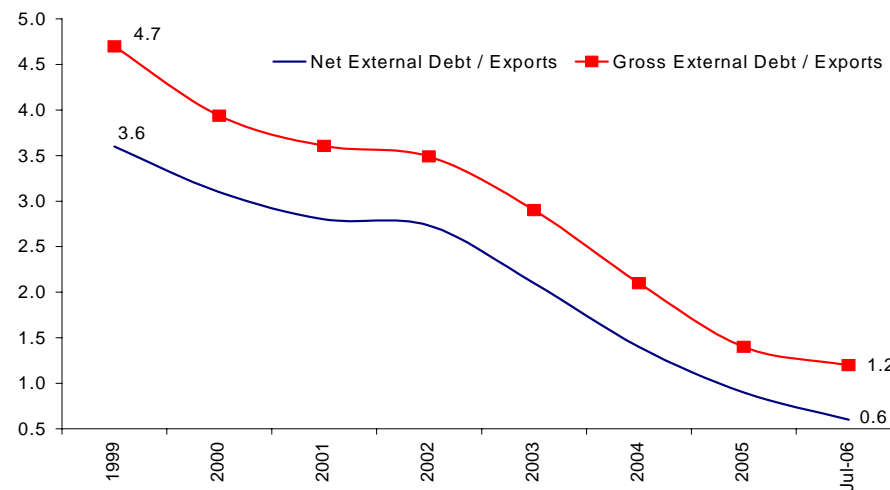
External Debt and Net Reserves (US\$ Bn)



* Forecast

Source: Central Bank and National Treasury

Net External Debt/Exports accumulated in 12 months*

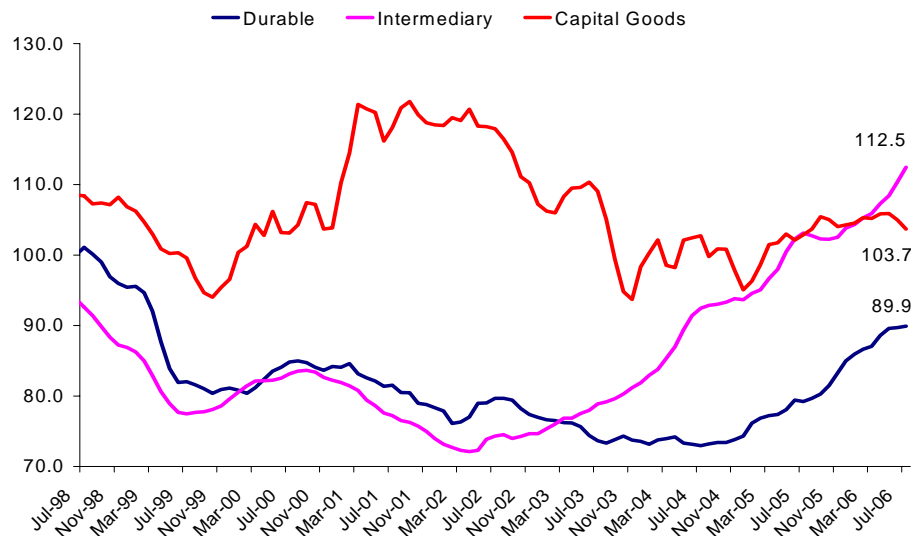


Source: Central Bank. *Public Debt and Private Debt as a share of export accumulated in 12 months



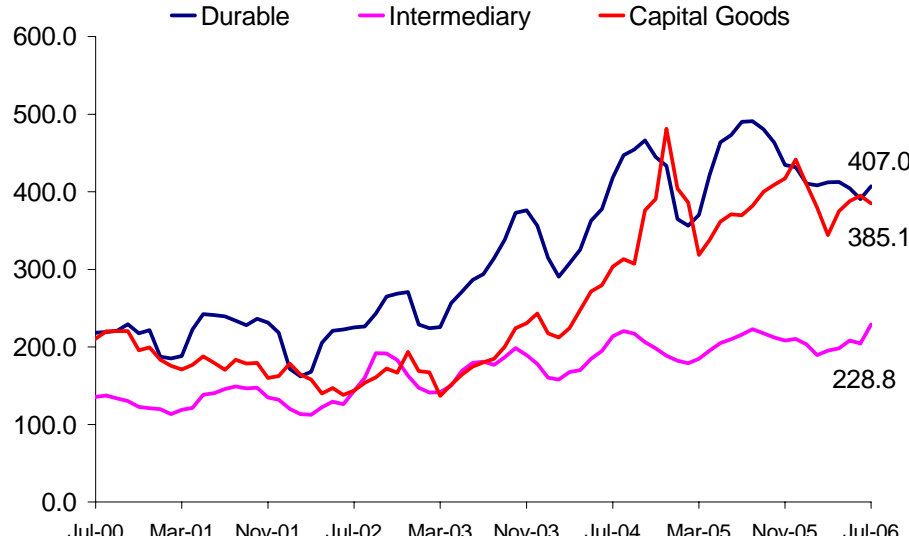
Exports Performance - Increasing volume despite relative price stability

Exports price index* (1996=100)



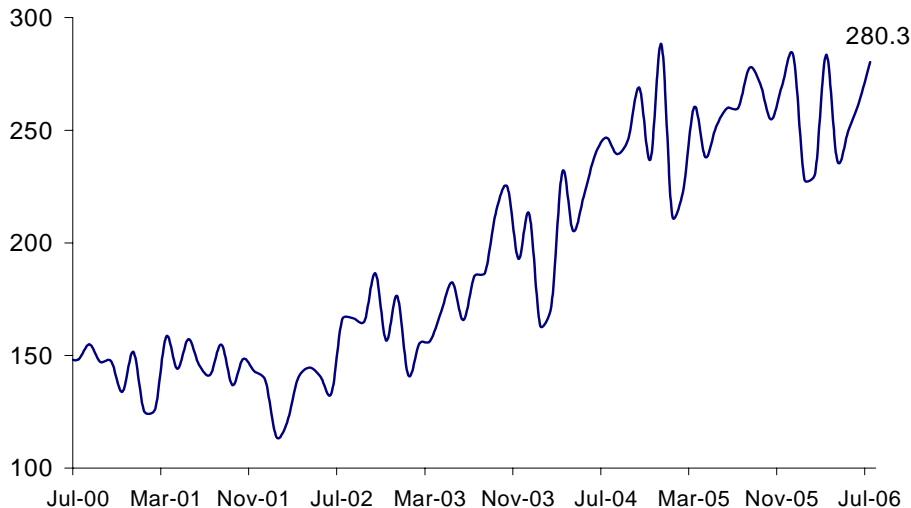
Source: Ipeadata
* 3-month moving average

Exports quantum index* (1996=100)



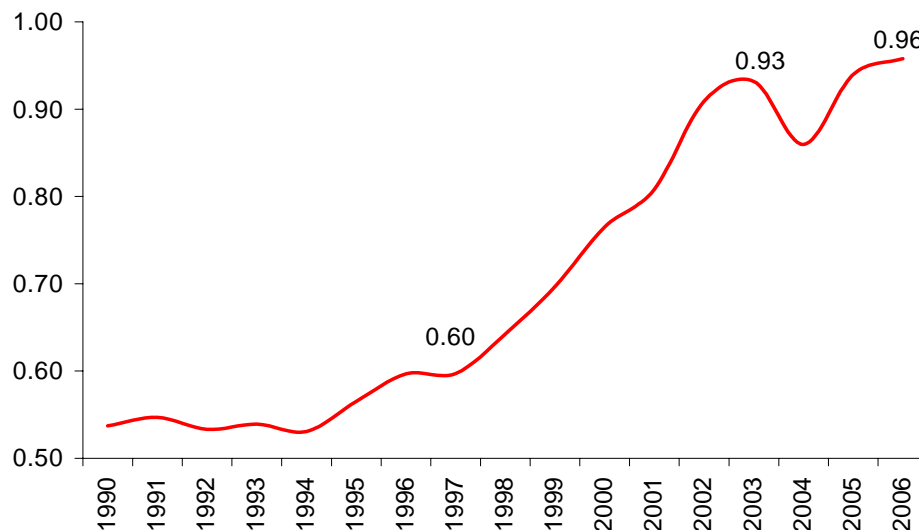
Source: Ipeadata
* 3-month moving average

Manufactured Exports (quantum index 1996=100)



Source: Ipeadata

Oil Domestic Production / Consumption



Source: ANP
Note: As of Jun-06

MACROECONOMIC OVERVIEW



Energy

Energetic Resources: Cleaner, More Efficient and Domestically Developed

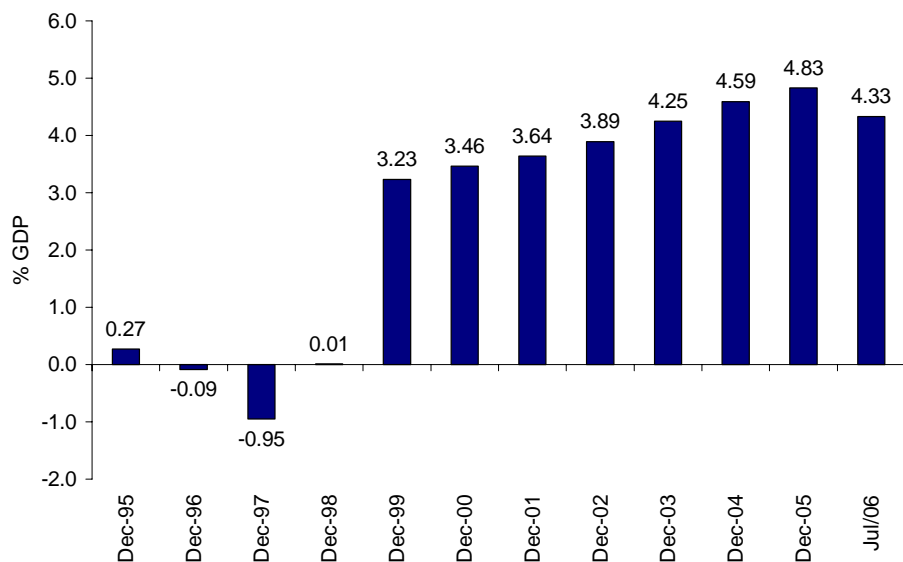
- In Brazil, 76.29% of the electric power is produced by hydro-plants;
- Considering the amount of automobiles produced between January and July of 2006 (1,218,614), 56.65% were FlexFuel, i.e., allows both ethanol and gasoline fuels. These engines are built with national technology;
- The country has the world`s second largest automobile fleet powered by natural gas;
- Biodiesel program in course. Obligatory minimum percentage of Biodiesel share of the merchandized diesel in the country was fixed, by law, at 5%, which should be reached until 2009. Since 2005 this share is already 2%.

Source:Aneel, Anfavea



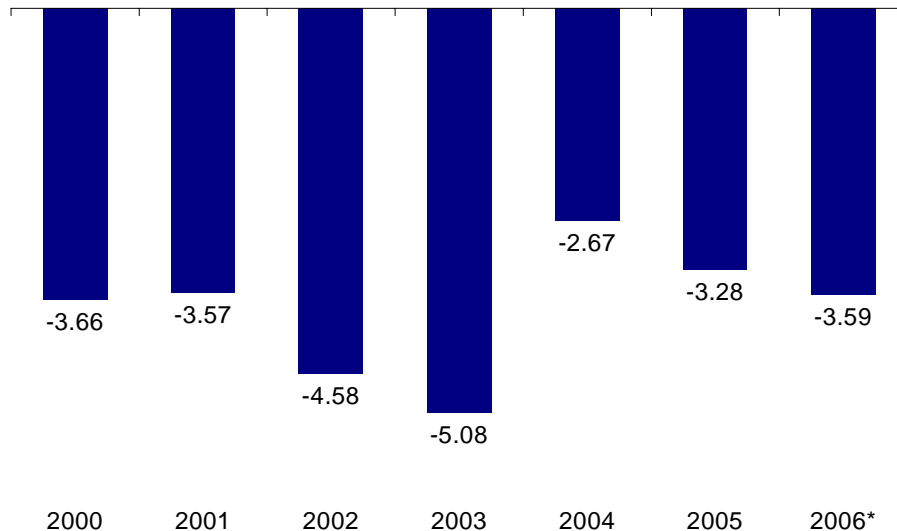
Fiscal Commitment

Public Sector Primary Balance (in 12 months)



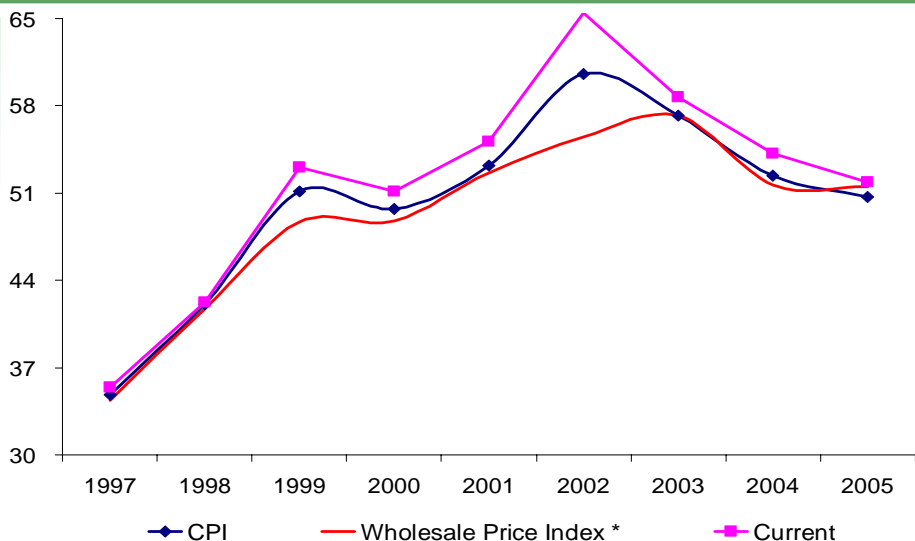
Source: Central Bank

Public Sector Nominal Balance (in 12 months)



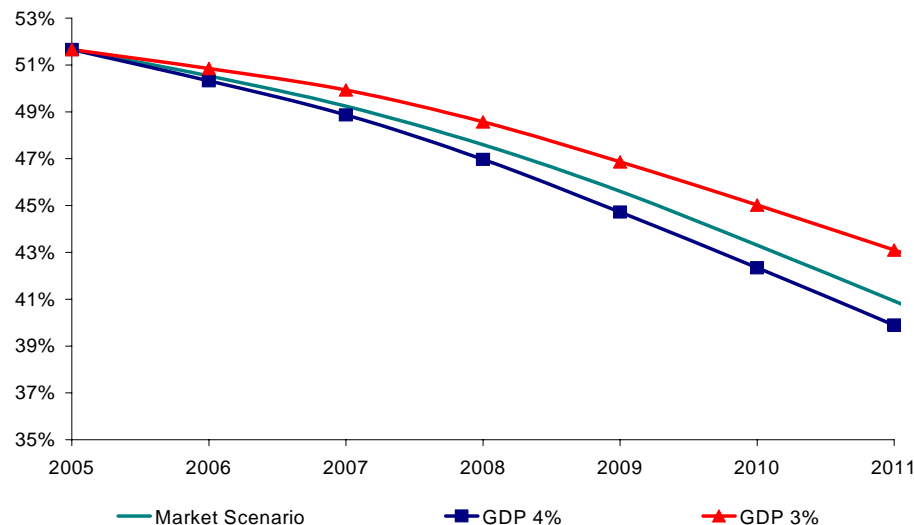
Source: Central Bank
* July-06

Net Public Sector Debt / GDP



* Data of Central Bank - IGP-DI (wholesale price index)' modified'

Net Debt/GDP scenarios based on the FOCUS survey



Source: Central Bank and National Treasury



Key reasons why we are going to achieve fiscal target in 2006

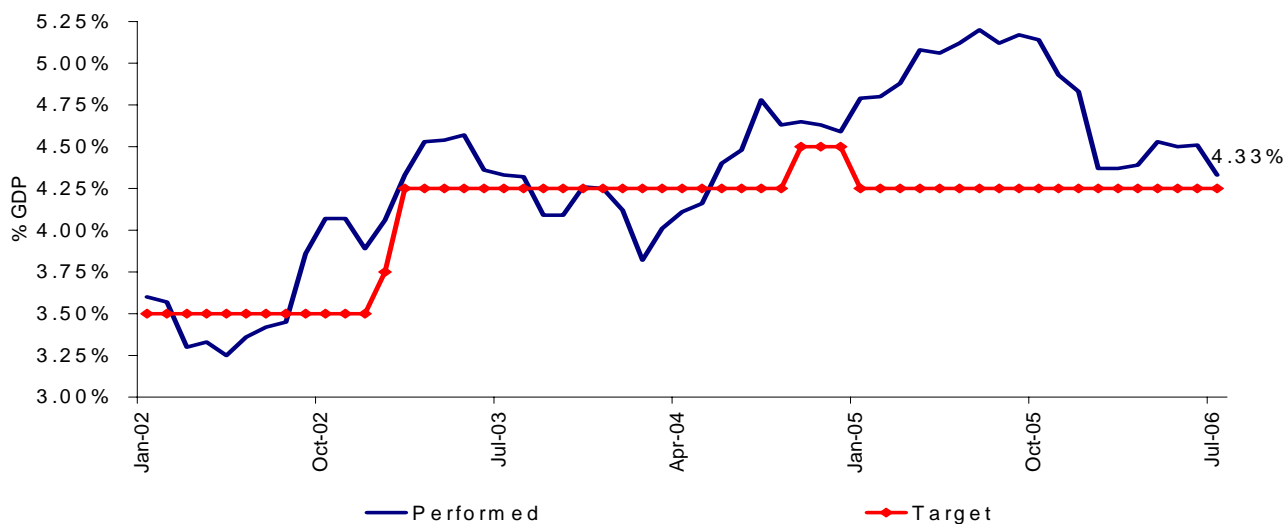
Target Versus Performed

R\$ billion

	Target (Decree 5.780/06) Jan-Aug (a)	Performed Jan-Jul (b)	(a) - (b)	% Achieved
Federal Government	52.2	46.8	5.4	89.7%
Central Government	42.9	42.1	0.8	98.1%
Federal Entreprises	9.3	4.7	4.6	50.5%

Source: Ministry of Finance

Public Sector Primary Balance target of 4.25% of GDP will be achieved in 2006



- Primary Result for 2006 is in line with fiscal target established at Budget Guideline Law 2006

Source: Ministry of Finance

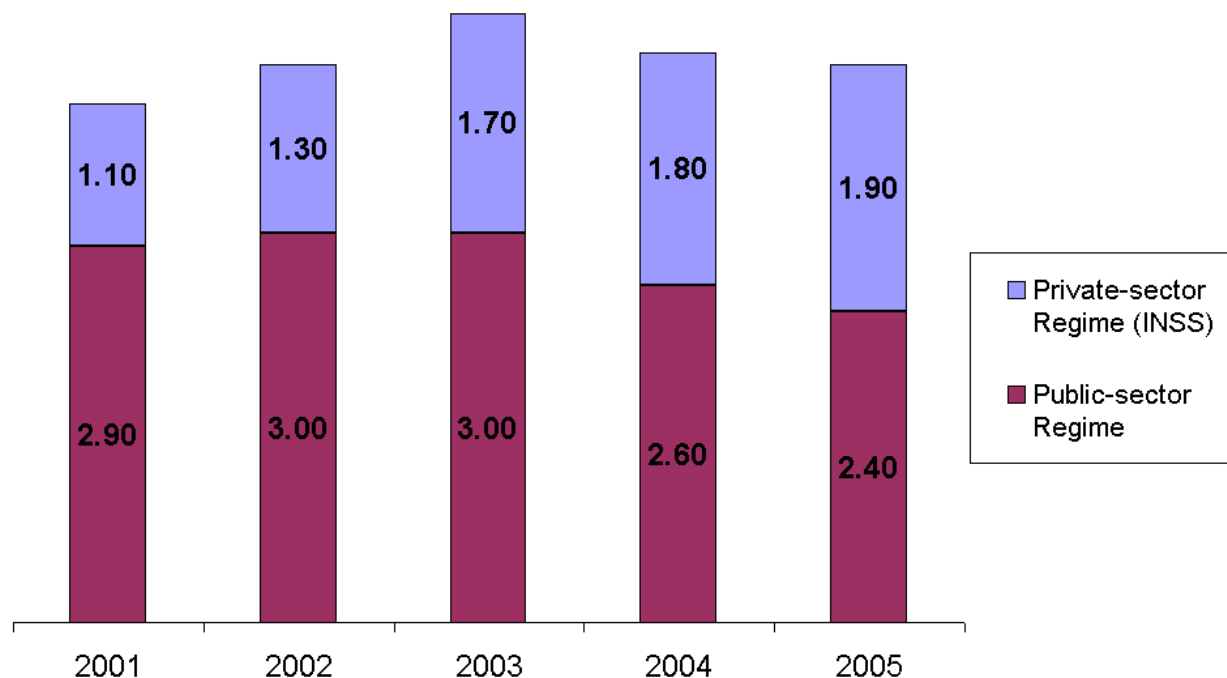


Measures adopted to improve the sustainability of the social security system

Public Sector Regime

- Ceiling imposed on state and municipal public servants' wages
- Lower bound established for social security contributions (can not be less than 11%)
- Inactive servants and pensioners will pay social security contributions
- New tighter conditions for retirement
- The creation of complementary pension funds for civil servants is under discussion within the government.

Social Security Deficit, 2001-2005

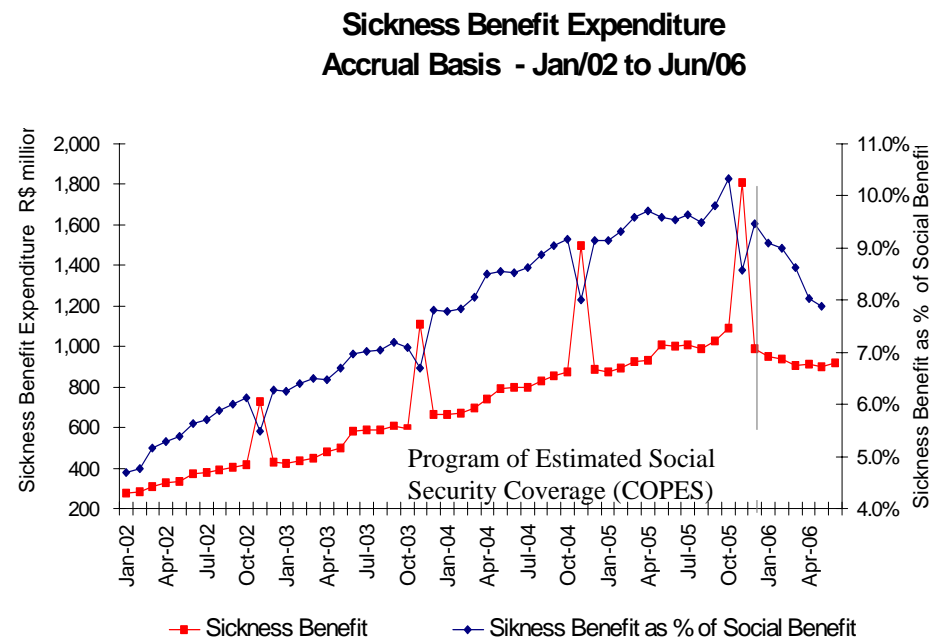
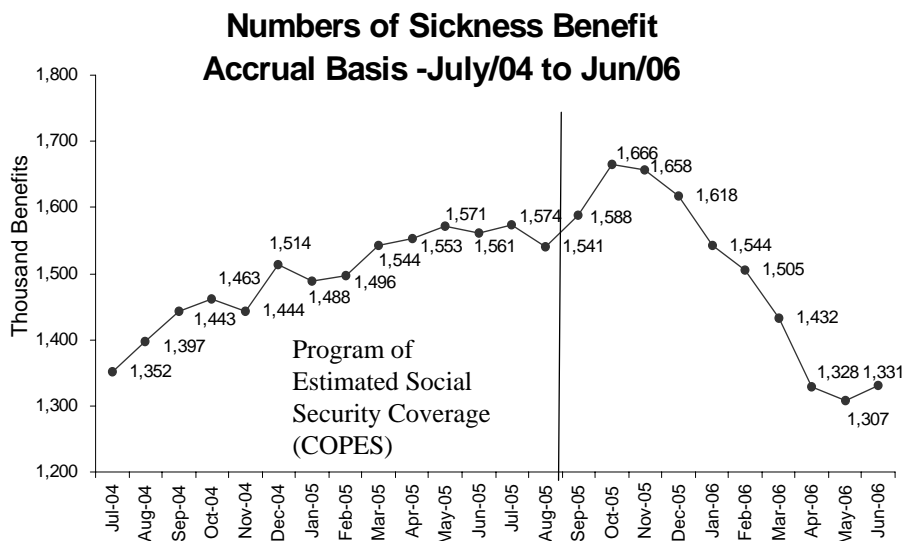


Measures adopted to improve the sustainability of the social security system

Private Sector Regime: efficient management of social security system

- **Creation of Brazilian Revenue Secretariat:** more efficient management of social security collection integrated with other federal tributes.
- **Social Security Census:** in order to eliminate undue payment through registration update of beneficiary; improvement of installment of the services to the beneficiary;
- **Sickness Benefits:** Program of Estimated Social Security Coverage (COPES): elimination of intermediary exams, with conclusive and resolute skillful decision, & minor average duration of concession of the benefit.

More control of sickness benefits

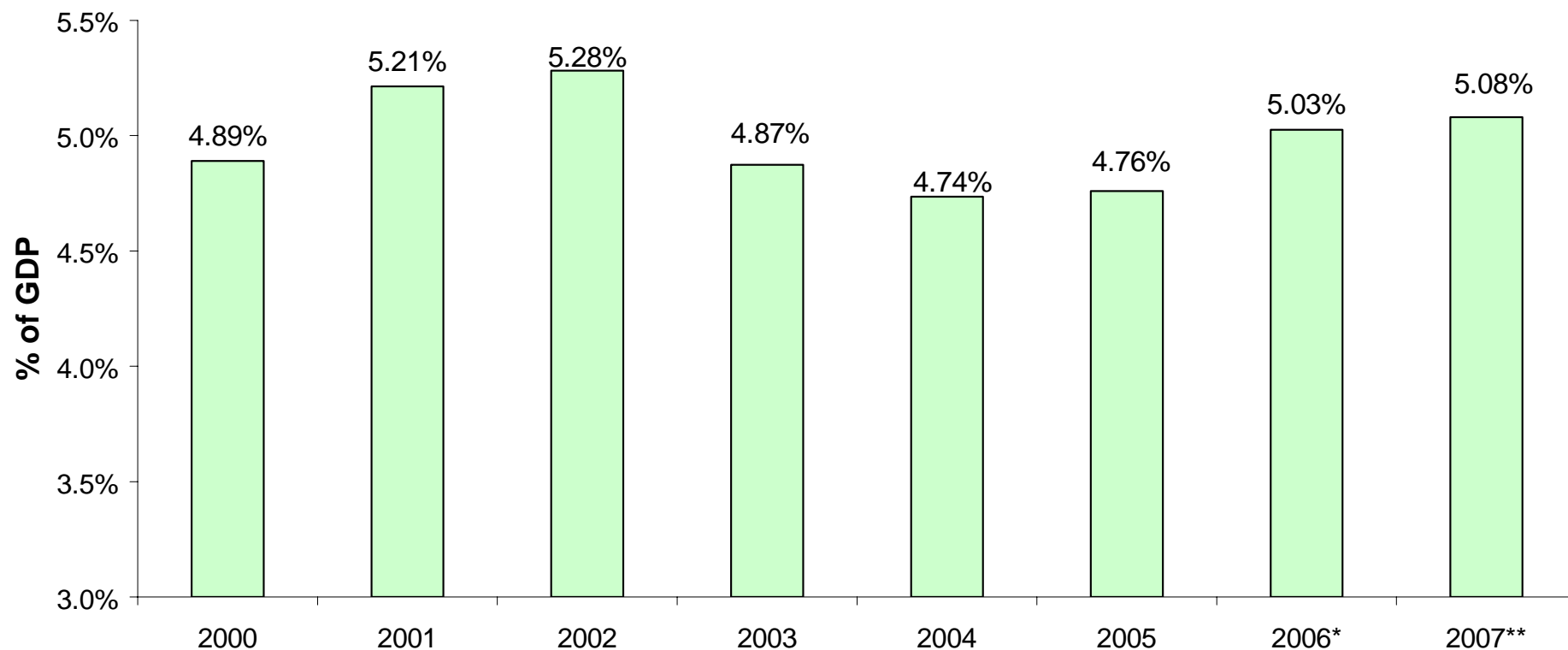


Source: Ministry of Social Security



Personnel Expenditure

Gov't expenditures with personnel has been relatively steady over time



*Decree 5.861/2006

** Draft Budget Law 2007

Source: Siafi



Social Safety Net

Social Program - Benefits conceded subject to schooling

- The Family Stipend Program is an income transfer program for families with a monthly per capita income of up to R\$ 120.00. In order to receive the benefit, these families must commit to maintaining their school-age children and adolescents at school, keeping their vaccinations up to date and undertaking pre-natal examinations, among others. The benefits are between R\$ 15.00 to R\$ 95.00. The average benefit is R\$ 62.0 (US\$ 30.0).

Family Stipend Program

R\$ Million

Expenditure	2003	2004	2005	2006*	2007***
Family Stipend	3.357	5.309	6.386	8.304	8.605

Family attended	2003	2004	2005	2006**	2007***
Stipend Family	3.615.596	6.571.842	8.700.451	11.120.353	11.120.353

* Budget Law 2006

** July

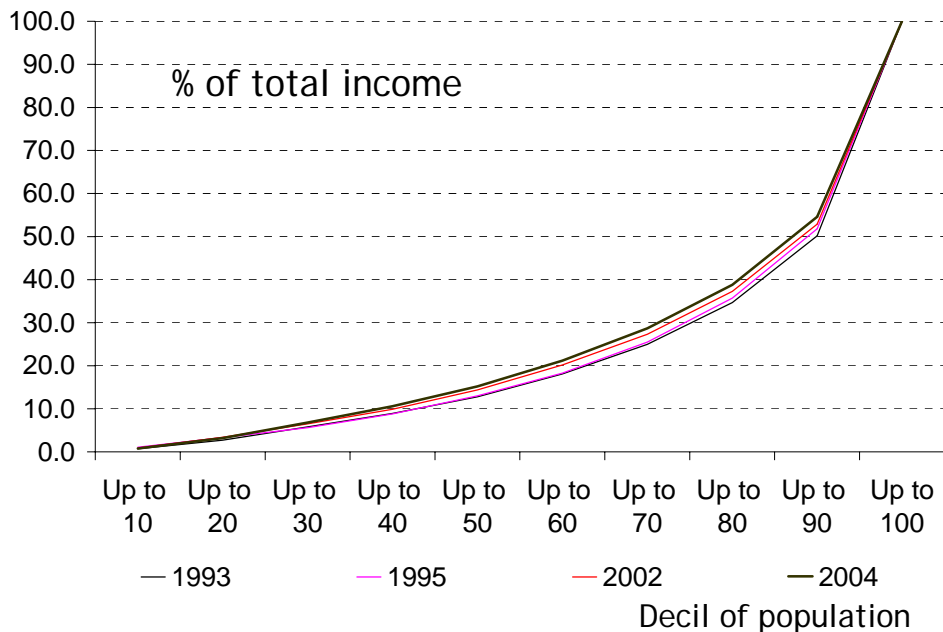
*** Draft Budget Law 2007

Source: Citizenship and Income National Secretariat/Fight against Famine and Social Development Ministry



PNAD - Positive evolution of the Social Conditions

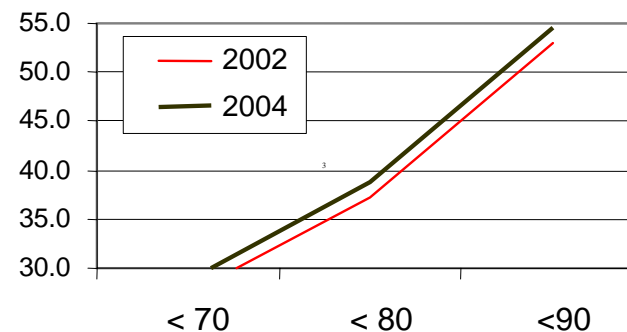
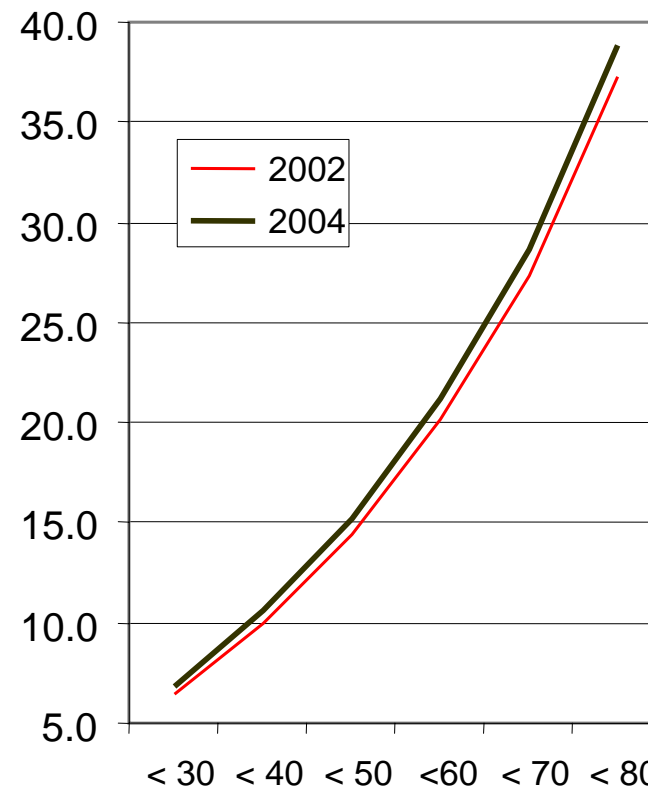
Proportion of the Income for Income Decil (accumulated)



- *PNAD 2004 illustrates the type of progress in the social indicators that can be obtained with a 4% growth per year and with social politics and fiscal responsibility*

- *For instance, more jobs, Bolsa Família, with compatible growth with the quality of the register; improvements in school attendance; continuous diffusion of domestic supplies, telephones and sanitation*

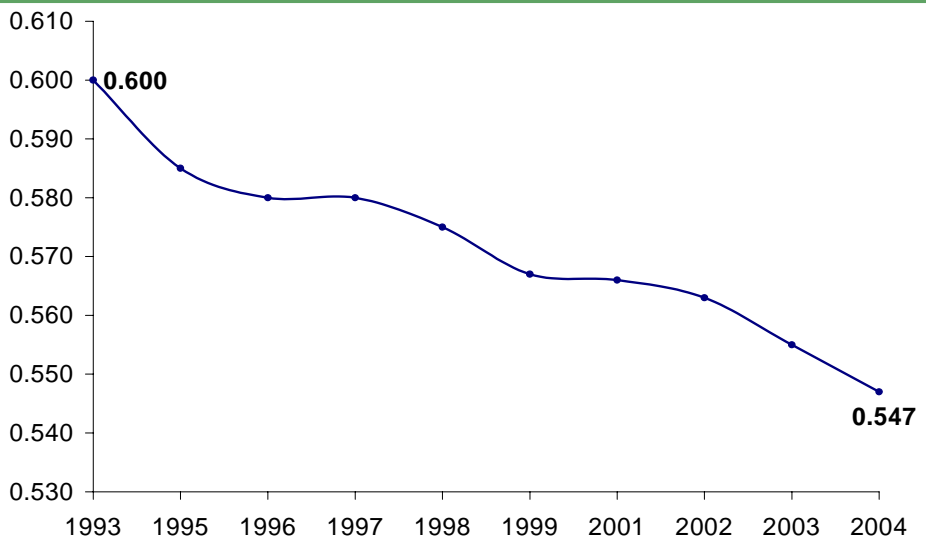
- *Changes in social distribution: 7 million people move up to middle-class (Source: "O Globo" Press, July 2006)*





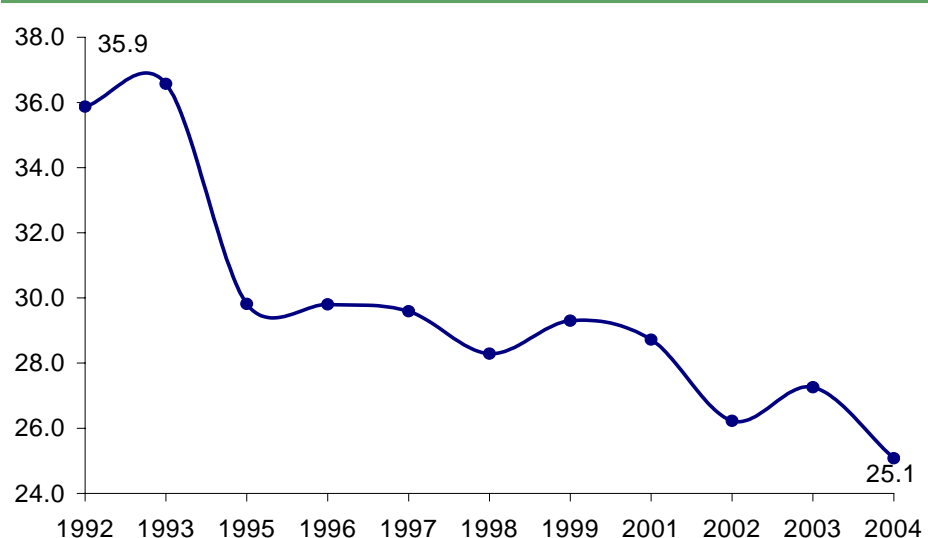
PNAD - Decrease of the income concentration, of the poverty and progresses in the education area

Gini index of the labor incomes



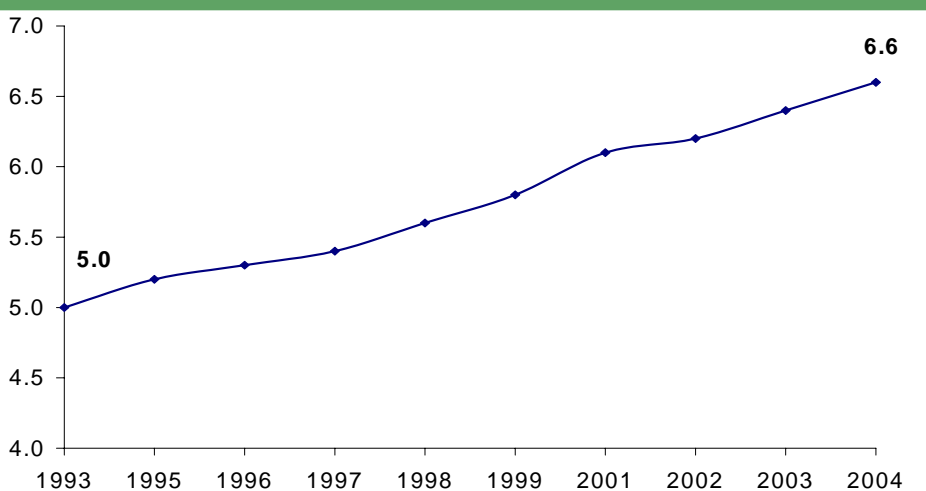
Source: IBGE

People below the poverty line (%)



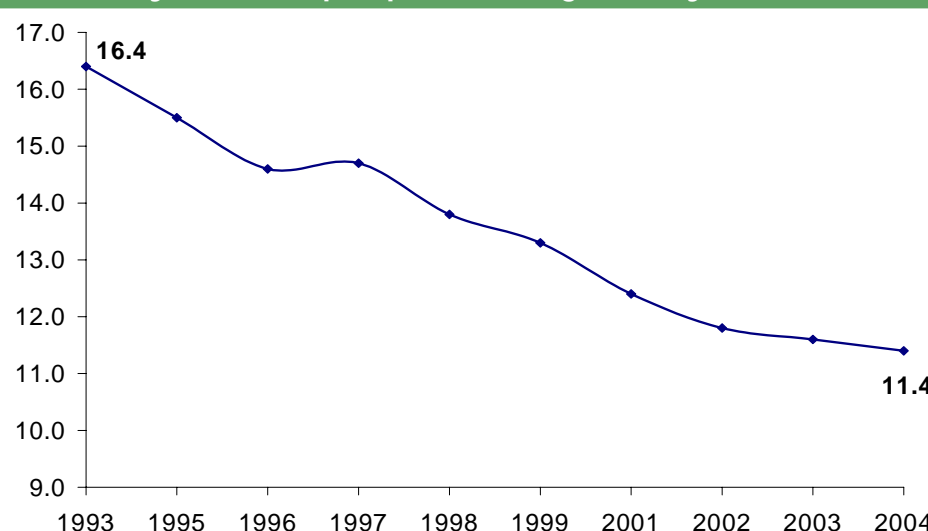
Source: IBGE

Average of schooling years of people with age ≥10 years-old



Source: IBGE

Illiteracy rate of people with age ≥10 years-old

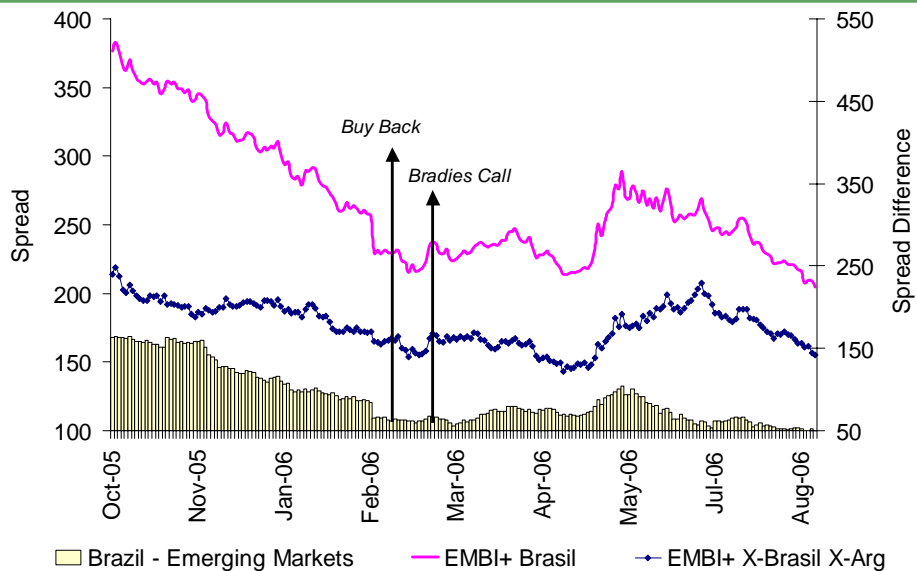


Source: IBGE



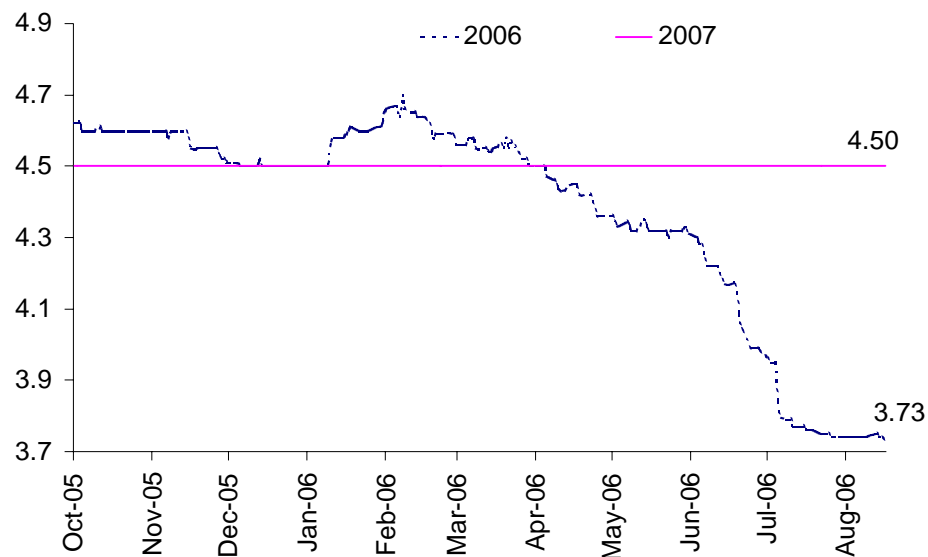
Market Expectations for 2006-2007

Spread Performance - Brazil and Emerging Markets



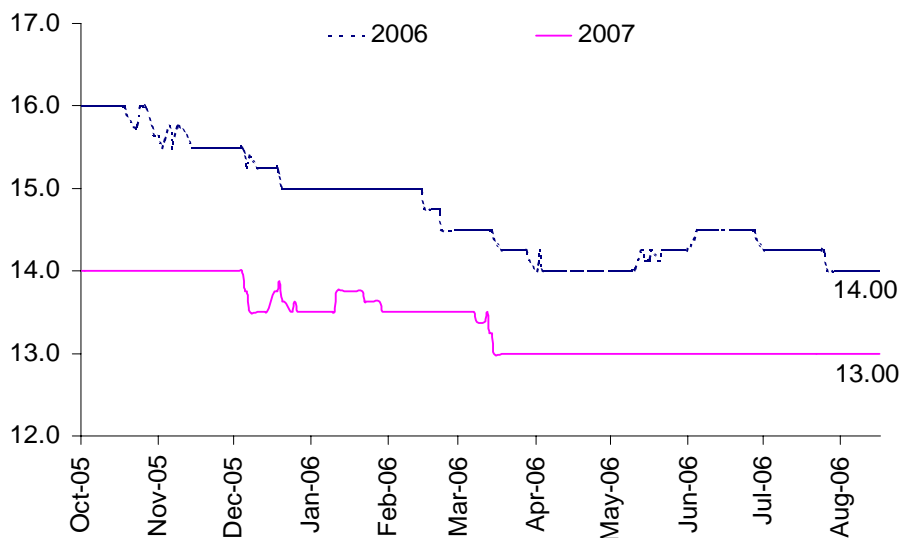
Source: Central Bank

Inflation - CPI (%)



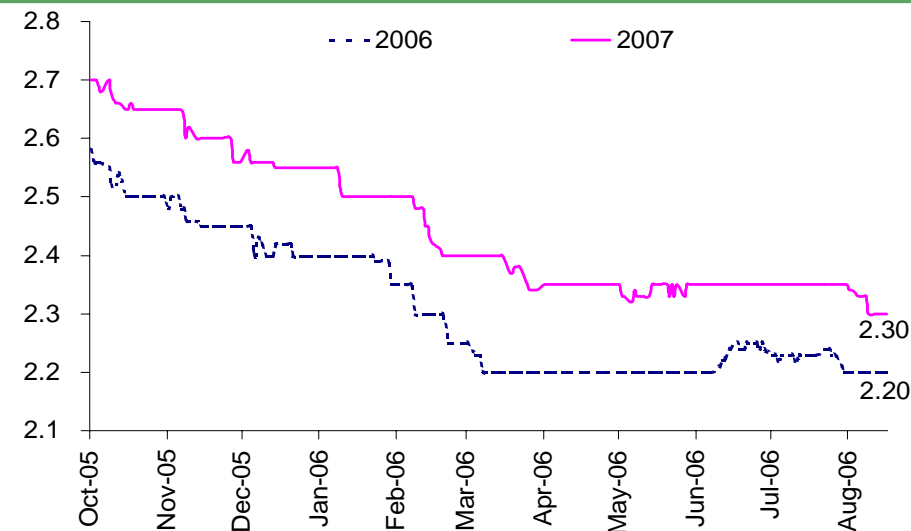
Source: Central Bank/Focus (08/18/06)

Nominal Interest Rate - Selic (%)*



Source: Central Bank/Focus (08/18/06) *End of the year rate

Exchange Rate Year End (R\$/US\$)



Source: Central Bank/Focus (08/18/06)



Brazilian Economic Overview

Macroeconomic Overview

Public Debt Management

- Annual Borrowing Plan
- Recent Events
 - Domestic Public Debt
 - External Public Debt



Annual Borrowing Plan - Results and Projections - Borrowing Plan 2006

Federal Domestic Debt Indicators

Indicators	2002	2003	2004	2005	Jul/06	2006	
						Minimum	Maximum
Stock of DPMFi held by the public (R\$ billion)	623.2	731.4	810.3	979.7	1,013.9	1,130.0	1,200.0
Average Maturity of DPMFi (months)	33.2	31.3	28.1	27.4	30.0	30.0	35.0
Average Life (month) ¹	-	-	-	40.3	44.8	44.0	52.0
% Maturing in 12 months	41.1	35.3	46.1	41.6	41.2	31.0	36.0

Share of DPMFi (%)							
Fixed rate	2.2	12.5	20.1	27.9	30.4	28.0	37.0
Price Index	12.5	13.6	14.9	15.5	21.9	18.0	24.0
Floating rate	60.8	61.4	57.1	51.8	43.2	39.0	48.0
Exchange rate	22.4	10.8	5.2	2.7	2.3	1.0	3.0
Others	2.1	1.8	2.7	2.1	2.2	2.0	4.0

¹ Since these data have been calculated through the use of the commonly used international methodology, the statistics allow for comparisons with the indicators of other countries.

Federal Debt Indicators*

Indicators	2002	2003	2004	2005	Jul/06	2006	
						Minimum	Maximum
Stock of DPF* held by the public (R\$ billion)	893.3	965.8	1,013.9	1,157.1	1,154.9	1,280.0	1,360.0
Average maturity - Federal Outstanding Debt (months)	42.6	39.0	35.3	32.9	35.9	35.0	41.0
Average Life (month)**	-	-	-	56.3	58.3	60.0	70.0
% Maturing in 12 months	34.6	30.7	39.3	38.2	38.3	28.0	33.0

Share of DPF (%)							
Fixed rate	1.5	9.5	16.1	23.6	26.7	25.0	33.0
Price Index	8.8	10.3	11.9	13.1	19.2	16.0	22.0
Floating rate	42.4	46.5	45.7	43.9	37.9	35.0	43.0
Exchange rate	45.8	32.4	24.2	17.6	14.2	11.0	15.0
Others	1.4	1.4	2.2	1.8	2.0	1.0	3.0

* It includes the external debt under the responsibility of National Treasury

** Since these data have been calculated through the use of the commonly used international methodology, the statistics allow for comparisons with the indicators of other countries.



Brazilian Economic Overview

Macroeconomic Overview

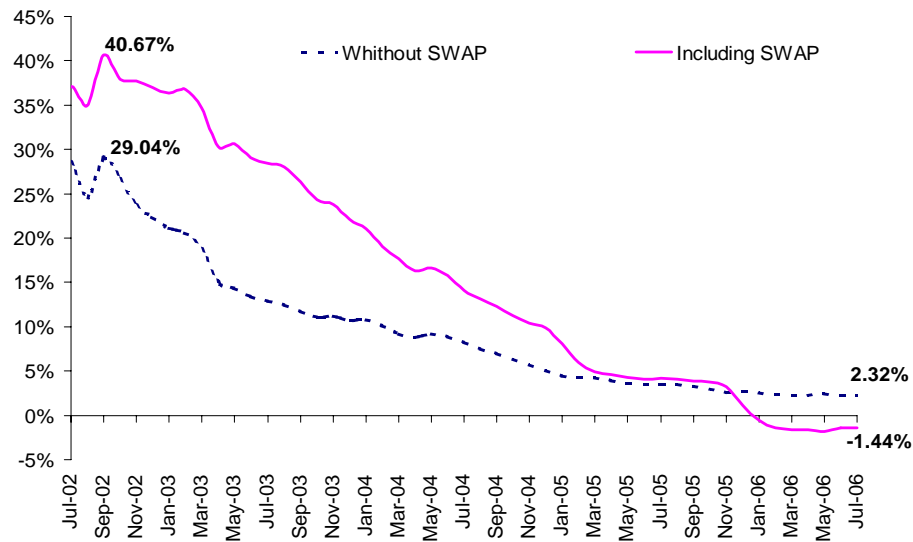
Public Debt Management

- Annual Borrowing Plan
- Recent Events
 - Domestic Public Debt
 - External Public Debt



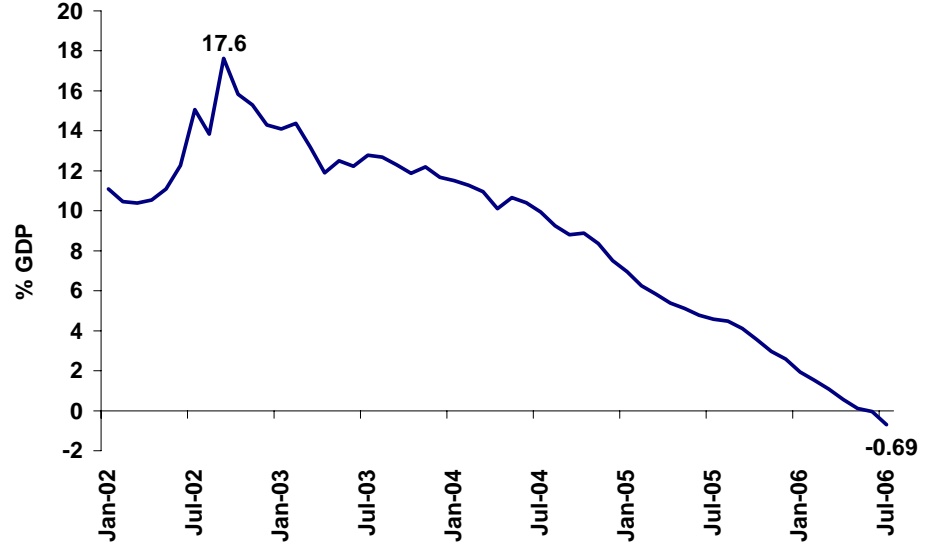
Brazil has built a sort of insurance against external turbulence

Domestic Exchange Rate Debt as % of Domestic Debt



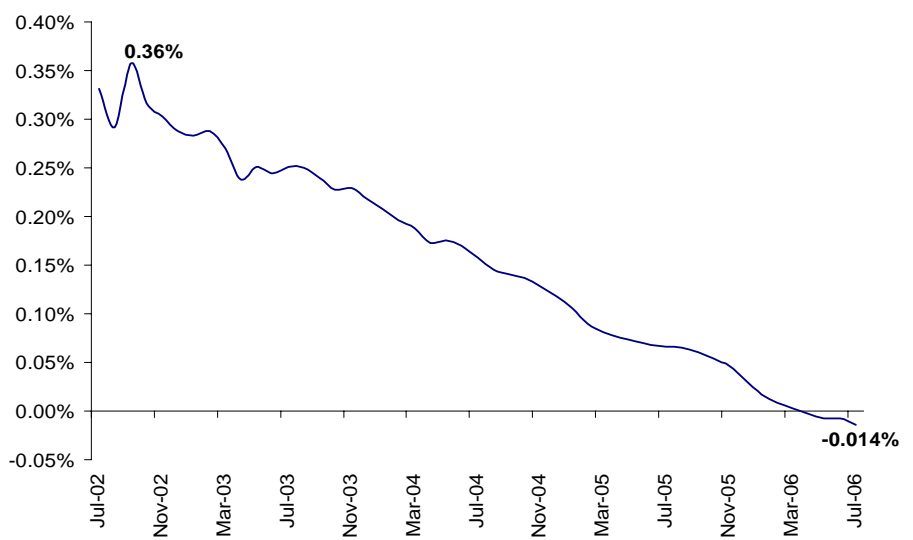
Source: National Treasury and Central Bank

Public Sector Net External Debt (% of GDP)



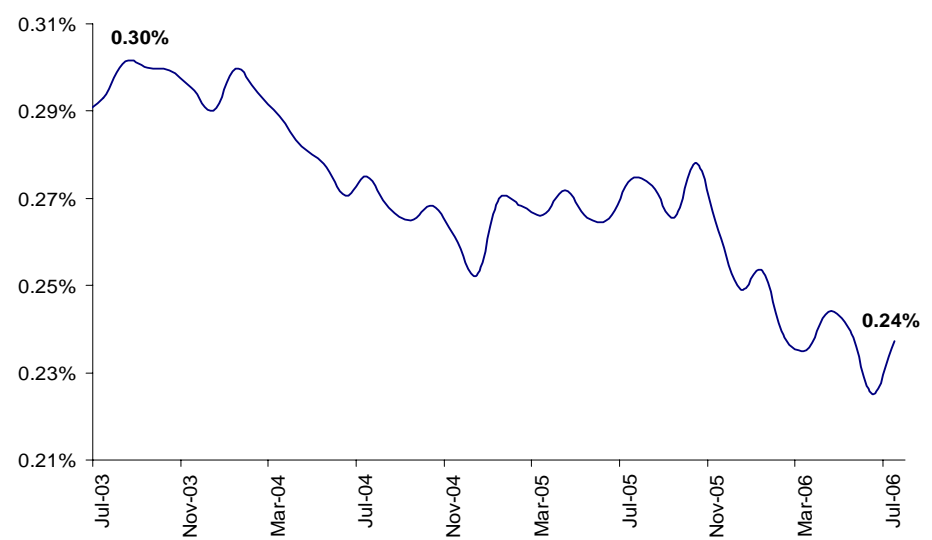
Source: National Treasury and Central Bank

Impact of 1% FX devaluation on Net PS Debt/GDP



Source: National Treasury

Impact of 1% SELIC change on Net PS Debt/GDP*



Source: National Treasury

*In 12 months

DOMESTIC PUBLIC DEBT



Brazil exempts non-resident investors of income tax on gains in the domestic federal public debt

Law 11.312 (27/06/2006) - Improving the Public Debt Structure

Bullet points:

- Exemption of Income Tax for non-resident investors on gains in domestic public debt bonds;
- Exemption of Income Tax for Venture Capital Funds;
- Exemption of CPMF for “Over the Counter” IPOs of Brazilian equities.

Goals:

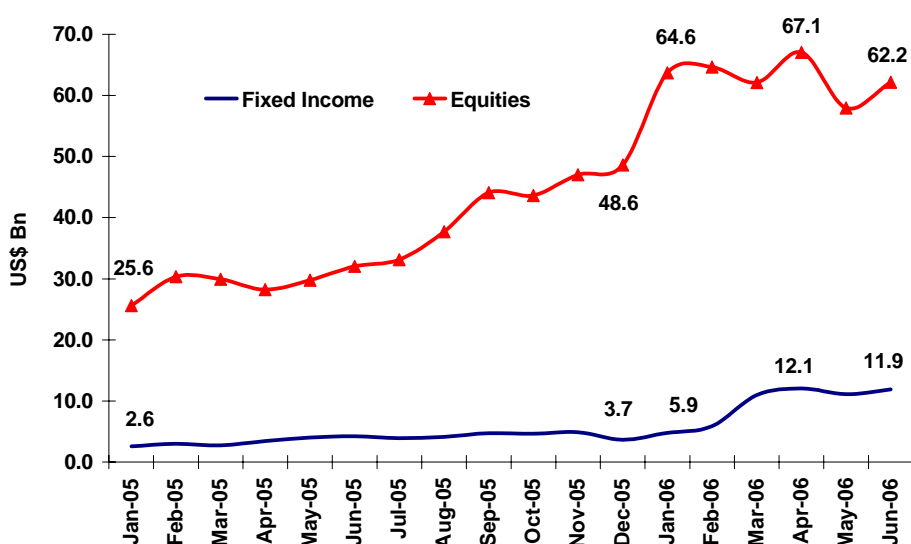
- Line up Brazilian fiscal treatment to the best standards in the other Emerging Markets;
- Reduce the cost of the Domestic Federal Public Debt;
- Increase the demand on inflation indexed bonds and fixed rate bonds;
- Extend the average maturity of domestic debt.

The positive effects caused by expectations on a significant increase of the demand of foreign investors for domestic public debt have already been priced in the Brazilian Public Debt Bonds curve.



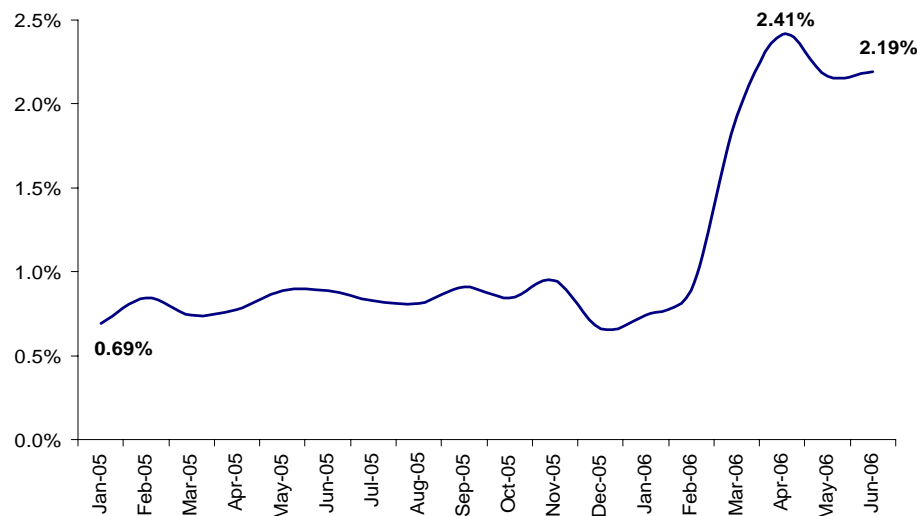
Increasing foreign access to the fixed income market

Foreigner's Investors: Portfolio level (US\$ bn)

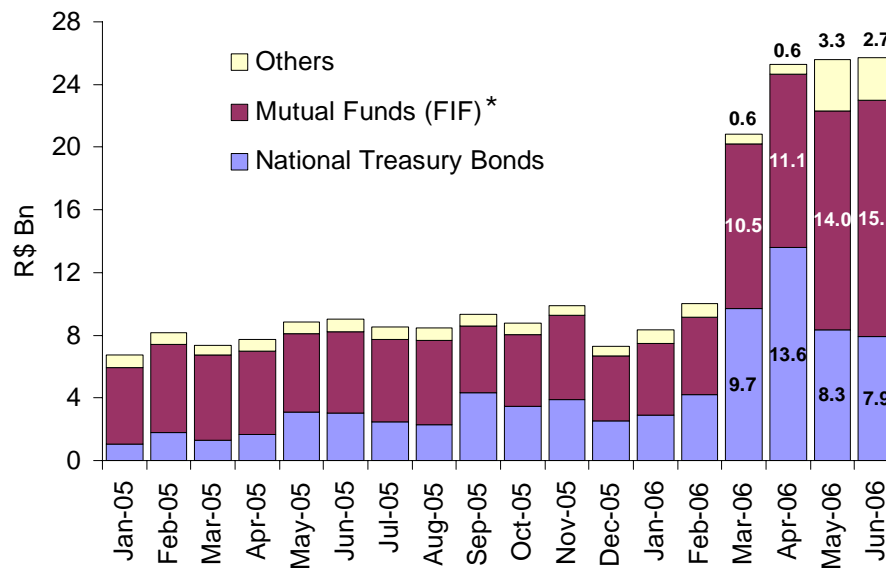


Source: CVM

Foreigner's Investors: Domestic Debt Participation



Foreigner's Investors: Distribution among Fixed Income instruments (R\$ bn)



*Public securities correspond to the greatest share of Mutual Funds assets

Source: CVM

- Considering both the public bonds and the mutual funds, little variation has been observed from the turbulence in May-06.
- These investments sum R\$ 24.7 bn, R\$ 22.3 bn and R\$ 23 bn respectively in Apr, May and Jun-06.



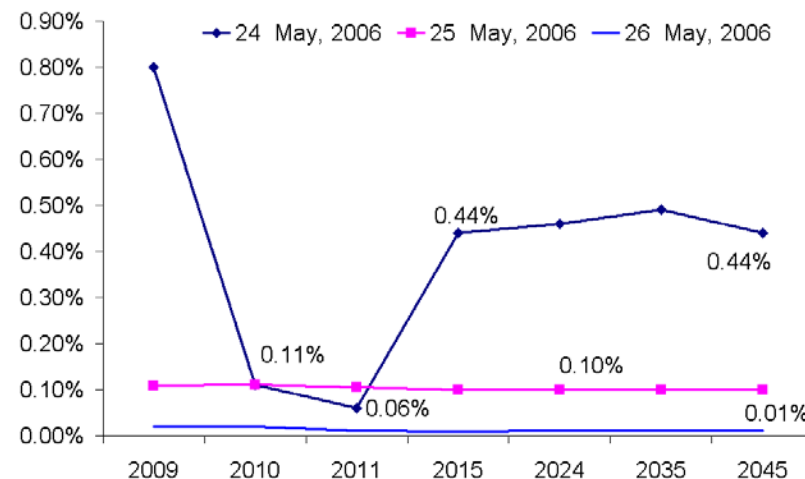
National Treasury Performance

National Treasury intervenes in unstable moment

The Brazilian National Treasury carried through, on May 24, 25 and 26, simultaneous auctions to buy and sell NTN-Bs:

- National Treasury considers the foreign investor an important partner to the improvement and lengthening of the public debt's composition;
- The interventions' guideline was providing prices' parameters to the market in a very unstable scenario;
- Historically, when facing strong fluctuation on market indicators, the National Treasury acts as a market stabilizer agent;
- The auctions' results, in terms of amounts bought and sold, confirm that the Treasury managed to bring the market back to calm levels.

Buy and Sell Auction`s Spreads



	24 May, 2006	25 May, 2006	26 May, 2006	Total
	Treasury's Financial Result R\$ mn	Treasury's Financial Result R\$ mn	Treasury's Financial Result R\$ mn	
2006			(144.67)	(144.67)
2007		(23.03)		(23.03)
2008	0.67		44.44	45.10
2009	48.33	(315.42)	42.54	(224.54)
2010	(303.65)	75.34	(656.78)	(885.09)
2011	207.79	(26.44)	185.62	366.97
2015	(24.20)	191.32	(256.89)	(89.77)
2024	(283.93)	(227.43)	19.41	(491.95)
2035	(168.44)	22.00	116.82	(29.61)
2045	(542.93)	(121.88)	489.97	(174.83)
Total	(1,066.35)	(425.54)	(159.53)	(1,651.42)

NET ISSUANCE

NTN-B Auctions

	2005	2006 ¹
Issuance	23.47	35.53
Redemption	(2.08)	(4.53)
Early Redemption*	(8.70)	(13.29)
Exchange	27.28	46.26
Buy and Sell Auction	-	(1.65)
Issuance	-	2.33
Early Redemption	-	(3.98)
Net Issuance	39.96	62.32

¹ Until July 2006

*It includes the NTN-B received as payment on the Exchange auctions



More transparency and liquidity for Federal Public Bonds

COMPARE - Online System of Federal Public Bonds Quotation

- The ANDIMA (Brazilian National Association of Financial Market Institutions) launched it in June-06. It's a system that allows investors to check on-line information of transactions with bonds registered in the SELIC (clearing and settlement public debt bonds house);
- The new system, called COMPARE, releases to investors real time information regarding prices and volumes of federal public bonds negotiated in the secondary market;
- More transparency stimulates a bigger liquidity in this market. Particularly in Brazil, this is extremely important;
- There are several investors that would rather be outside the market, than buying these bonds too cheap and facing problems with the regulatory institutions later. More transparency and information means bringing these investors back to the market.

Improvements in Debt Management Practices

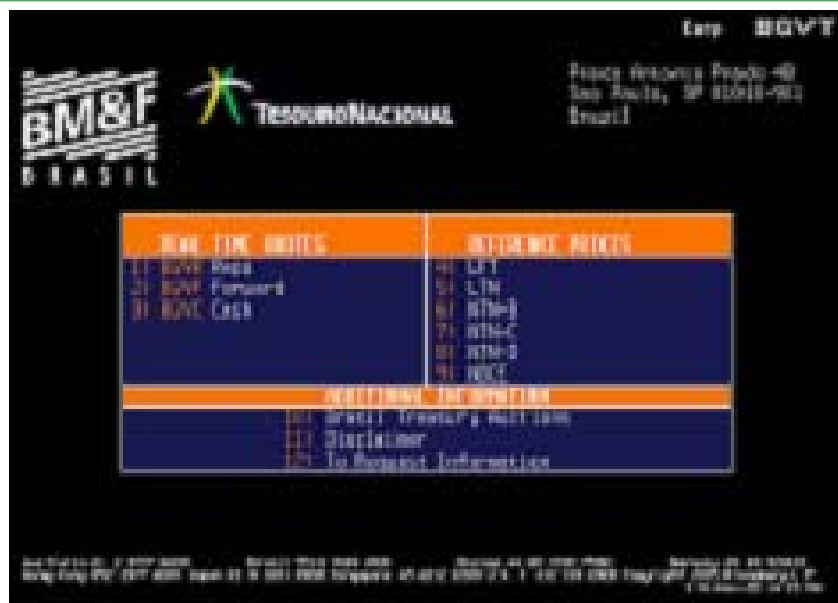
Asset Clearing Promotion

The BM&F has been working with the aim of fostering electronic clearing through screen trading, using such systems as Sisbex. This task began in 2004 and took significant importance in 2005 when the BM&F made screens available in real time to the investors throughout the world citing the prices of these assets, using the services of such financial information agencies as Reuters and Bloomberg.

These measures are taken with the aim of:

- Facilitate the participation of foreign investors in the Brazilian domestic debt through measures that will bring more transparency and liquidity to the market, thus expanding and diversifying the investors base;
- Stimulate the participation of institutional investors, such as Pension Funds, in the bonds negotiations in the secondary market;
- Stimulate the bonds negotiation by the dealers through the electronic platform.

Bloomberg and BM&F Sisbex Screen



Reuters and BM&F Sisbex Screen





Brazilian Economic Overview

Macroeconomic Overview

Public Debt Management

- Annual Borrowing Plan
- Recent Events
 - Domestic Public Debt
 - External Public Debt



A steady level of public external debt with improved profile

“Cleaning Up” the External Debt

- Jul-05: Pre payment of IMF obligations (USD 4.9 bn);
- Aug-05: C-Bond vs A-Bond exchange (USD 4.5 bn);
- Sep-05: Issuance in Reais - BRL 2016 (USD 1.5 bn);
- Oct-05: Exercise of the call option embedded on the C-Bonds (USD 1.1 bn);
- Dec-05: Pre payment of IMF obligations (USD 15.5 bn);
- Jan-06: Announcement of pre payment of Paris Club debt (USD 1.7 bn);
- Jan-06: Beginning of the early redemption of bonds with maturity until 2010 and Brady Bonds (USD 5.1 bn until Aug, 16th);
- Apr-06: Exercise of the call option embedded on the Brady Bonds (USD 6.5 bn);
- Jun-06: External Debt Tender Offer, repurchasing USD 1.3 bn (face value).
- Jul-06: External Debt Exchange Offer, exchanging 2020, 2024, 2024B, 2027, 2030 Global bonds by the Global 2037 (around USD 0.5 bn);
- Sep-06: The Treasury extended its buyback program in order to include securities maturing also up to 2012.

By not meeting the maximum values announced on the Tender Offer (USD 4.0 bn) and the Exchange Offer (USD 1.5 bn), investor´s reveal their comfortable position with holding the Gov´t securities.



A steady level of public external debt with improved profile

Impact of the "Cleaning Up" on the Federal Government External Debt

		(US\$ bn)
Operations	Face Value ¹	
External Public Debt in Bonds		14.0
C-Bond call (Oct-05)		1.1
Early Redemption Program ² (Jan-Aug/06)		5.1
Brady Bonds call (Apr-06)		6.5
Tender Offer (Jun-06)		1.3
Contractual Debt		22.1
IMF early payment I (Jul-05)		4.9
IMF early payment II (Dec-05)		15.5
Paris Club early payment (Jan-06 ³)		1.7
Total		36.1

¹ It captures the impact of the operations on the outstanding public debt

² The program started in January. The value of US\$ 5.1 bn refers to the bonds repurchased up to 08/16/06.

³ Announcement



External Public Debt

External Borrowing Program for 2006-2007

Consolidated Table - US\$ mn (as of 08/16/2006)

	2006*	2007	2008	TOTAL
a) Debt in Securities	2,230.16	8,371.44	6,270.27	16,871.87
b) Multilateral Organisms (contractual)	574.47	2,755.06	2,751.86	6,081.38
c) Private Creditors	158.34	791.65	469.22	1,419.21
d) Early Foreign Currency purchase **	2,962.97	-	-	2,962.97
e) Gross Foreign Currency requirement (a + b + c - d)	-	11,918.15	9,491.35	21,409.49
f) Multilateral Org. Expected resources (IADB and IBDR)	2,068.43	2,987.47	2,159.89	7,215.79
g) Net Foreign Currency requirement (e - f)	(2,068.43)	8,930.68	7,331.45	14,193.70

* For 2006 it corresponds to Aug-Dec period.

** It does not include the USD already purchased to face 2007 maturities.

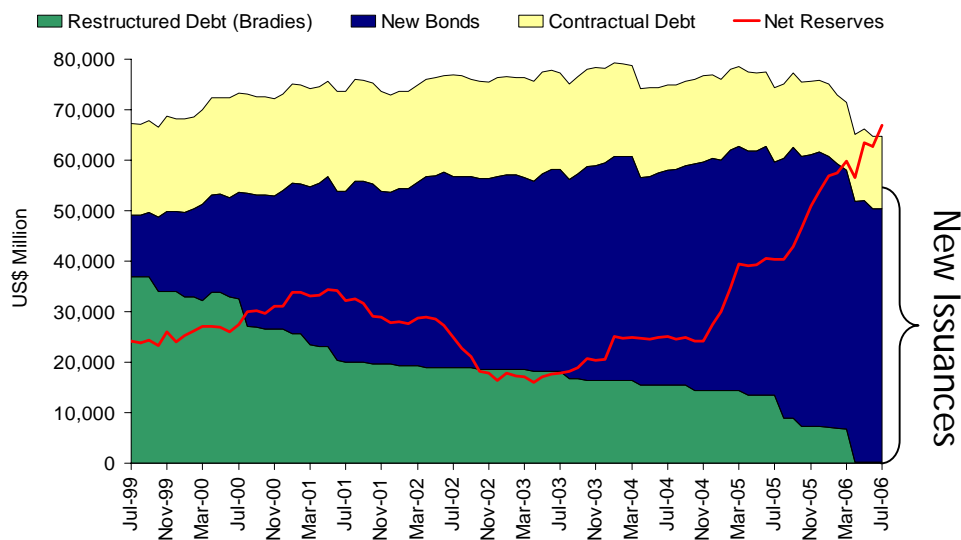
- Foreign currency needs for external debt payments until 2008 should be acquired in the local domestic FX market or, alternatively, by means of purchasing Brazilian Central Bank foreign reserves.
- Foreign currency issuances shouldn't aim at raising FX resources for financing needs in this period. They are going to be qualitative in nature, observing market conditions, aiming at consolidating the foreign yield curve by means of construction and maintenance of benchmark bonds;
- This strategy might include BRL issuances in international markets, aiming at constructing a foreign yield curve denominated in Brazilian local currency;
- Maintenance of the buy-back program, observing market conditions;
- Maintaining the strategy of correcting the foreign yield curve distortions;



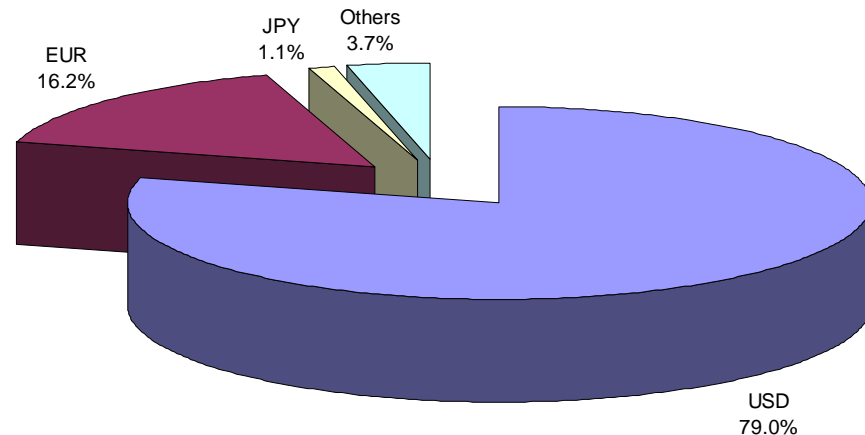
External Public Debt

Composition of External Debt- by currency (July 2006)

External Debt - National Treasury

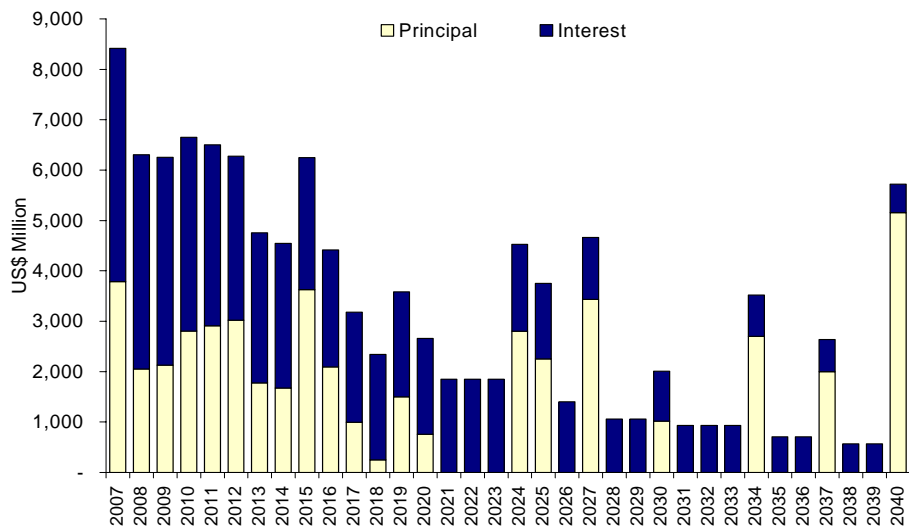


Source: National Treasury



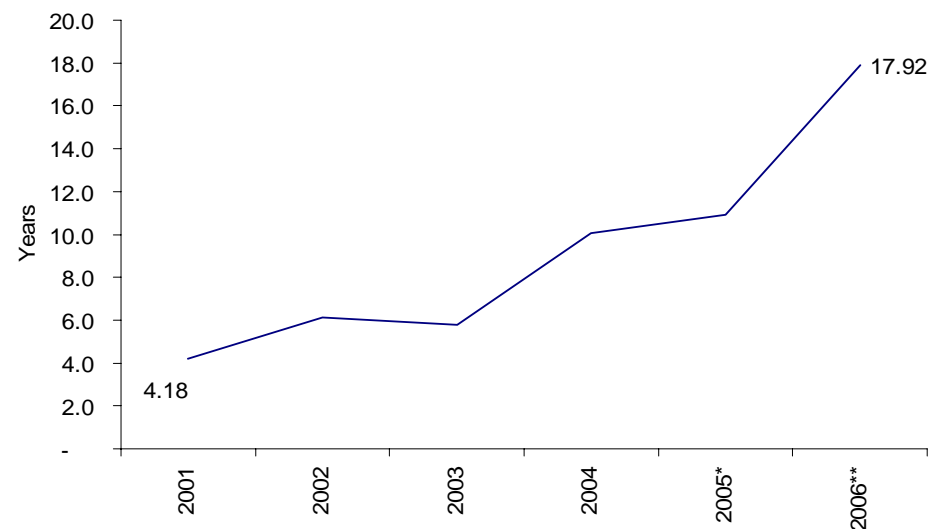
Source: National Treasury

External Public Debt Profile - New Bonds and Bradies



Source: National Treasury. The outstanding amount between August and December for 2006 is US\$ 828 million for principal and US\$ 1.1 billion for interest.

Average Maturity - At Issuance of New Bonds



Source: National Treasury
*Does not include the A-bond.
** As of May/06

EXTERNAL PUBLIC DEBT



**For additional information access
Brazilian National Treasury site:**

www.tesouro.fazenda.gov.br

Or contact Institutional Relations area:

brazildebt@fazenda.gov.br

Translation of the original text of this document is provided only for the convenience of the reader. While reasonable care has been taken to ensure the authenticity of the translation, its accuracy cannot be guaranteed. Reliance upon this translation shall be at the reader's own risk. Under no circumstances, shall the Brazilian National Treasury, its officers, employees or agents be liable to the reader or anyone else for any inaccuracy, error, inconsistency, omission, deletion, defect or alteration of the content of the translation from the original Portuguese text, regardless of cause, or for any damages resulting therefrom. The original Portuguese text of this document is the only official version, which can be found in <http://www.stn.fazenda.gov.br/index.asp>. In the event of any discrepancy or contradiction between the Portuguese and translated version, the Portuguese version shall prevail.



ANNEX I

Cross-Country Comparative Analysis



Comparative Analysis

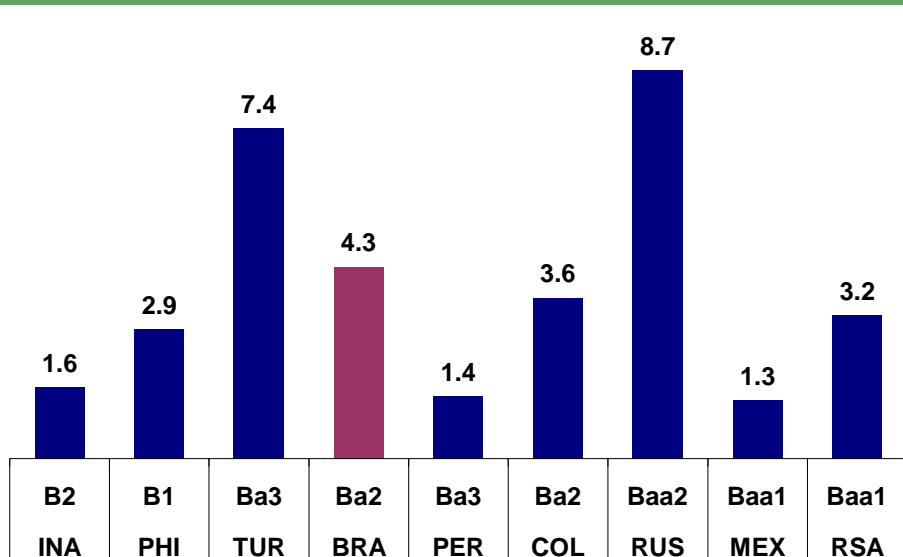
Selected Countries in Comparative Analysis

		S&P	MOODY'S	FITCH
INA	Indonesia	B+	B2	BB-
TUR	Turkey	BB-	Ba3	BB-
BRA	Brazil	BB	Ba2	BB
PHI	Philippines	BB-	B1	BB
PER	Peru	BB	Ba3	BB+
COL	Colombia	BB	Ba2	BB
IND	India	BB+	Baa2	BBB-
RUS	Russia	BBB+	Baa2	BBB+
MEX	Mexico	BBB	Baa1	BBB
RSA	South Africa	BBB+	Baa1	BBB+
CHN	China	A	A2	A



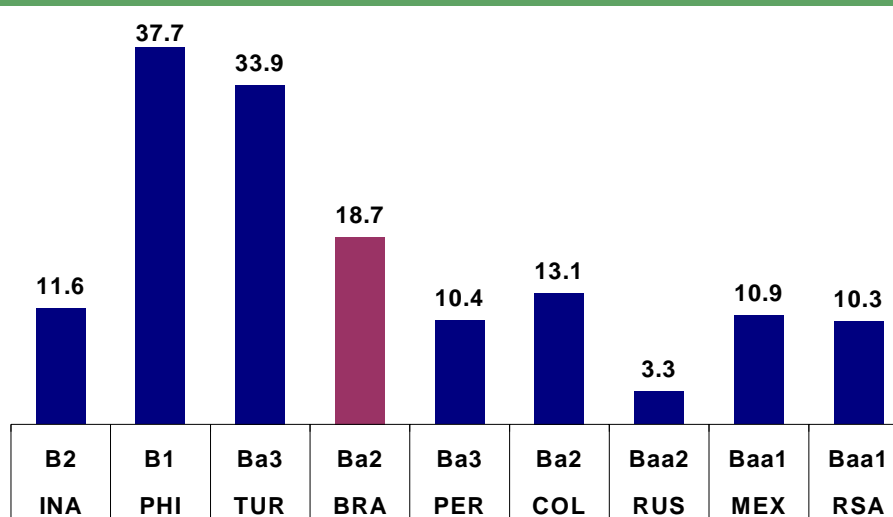
Comparative debt burden and fiscal position

General Government Primary Balance 2005 (% of GDP)



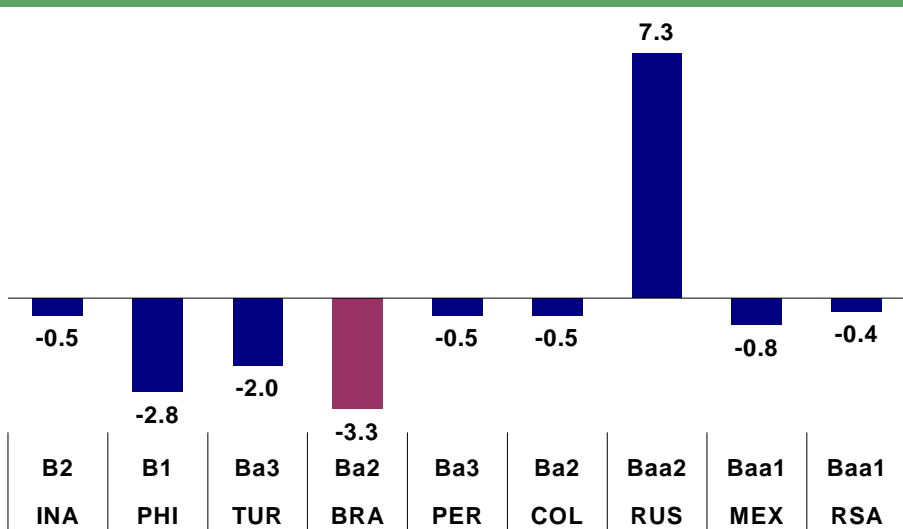
Source: Moody's

General Government Interest Payments 2005 (% of Revenues)



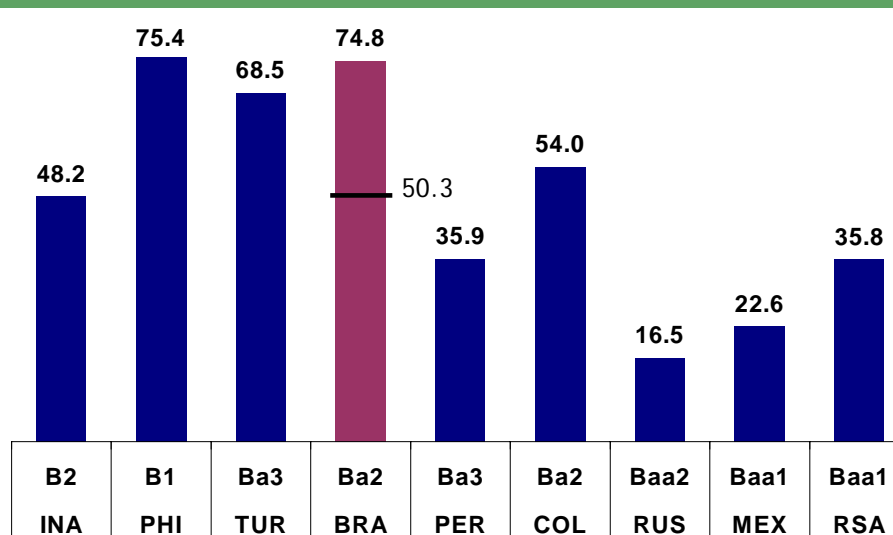
Source: Moody's

General Government Nominal Balance 2005 (% of GDP)



Source: Moody's estimates , Central Bank

General Government Gross Debt 2005 (% of GDP)



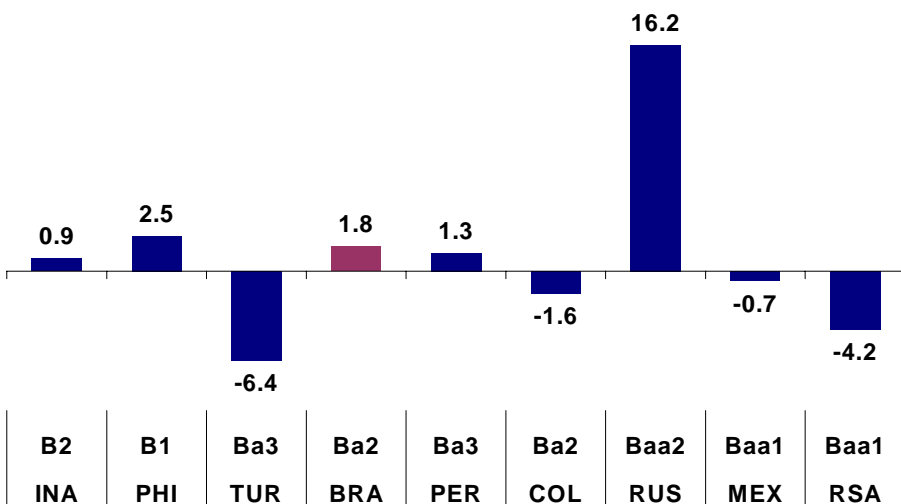
Source: Moody's and Central Bank.

* Net Debt reached 50.3% of GDP as of Jul/06. The GG Gross Debt, excluding the Treasury's deposits in Central Bank reaches 60.4% of GDP.



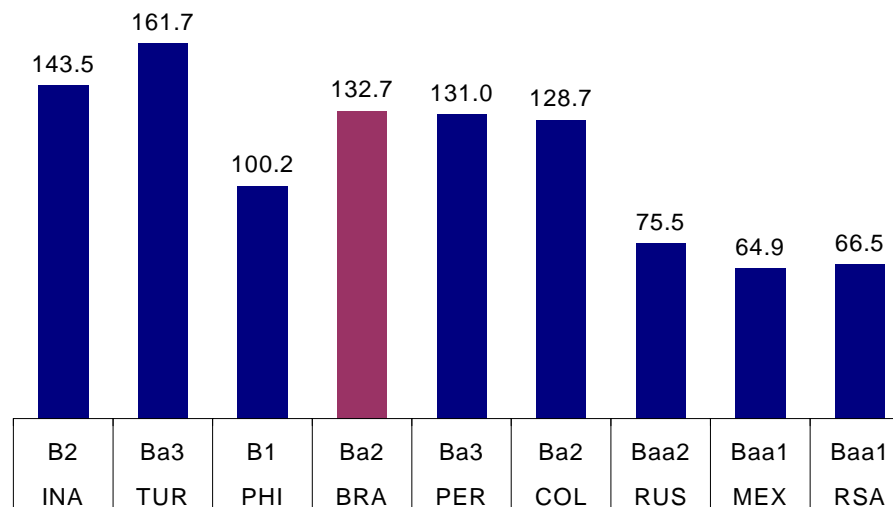
Brazil in comparative perspective (cont'd)

Current Account Balance 2005 (as % of GDP)



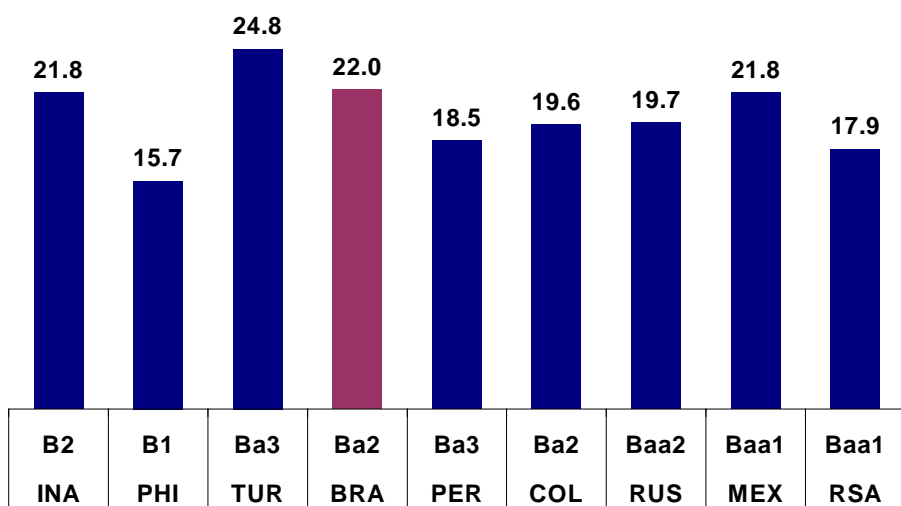
Source: Central Bank, IIF

External Debt 2005 (as % of Current Account Receipts)



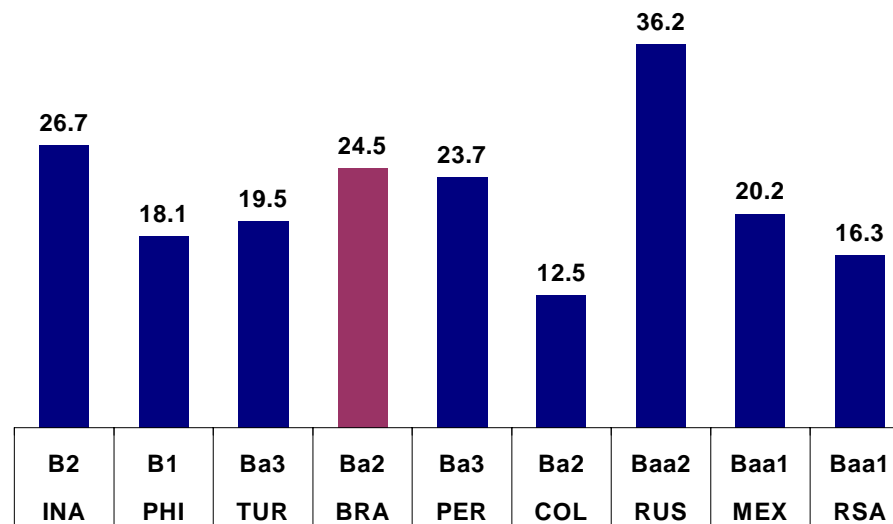
Source: Central Bank, IIF

Gross Investment 2005 (as % of GDP)



Source: Moody's

Savings 2005 (as % of GDP)



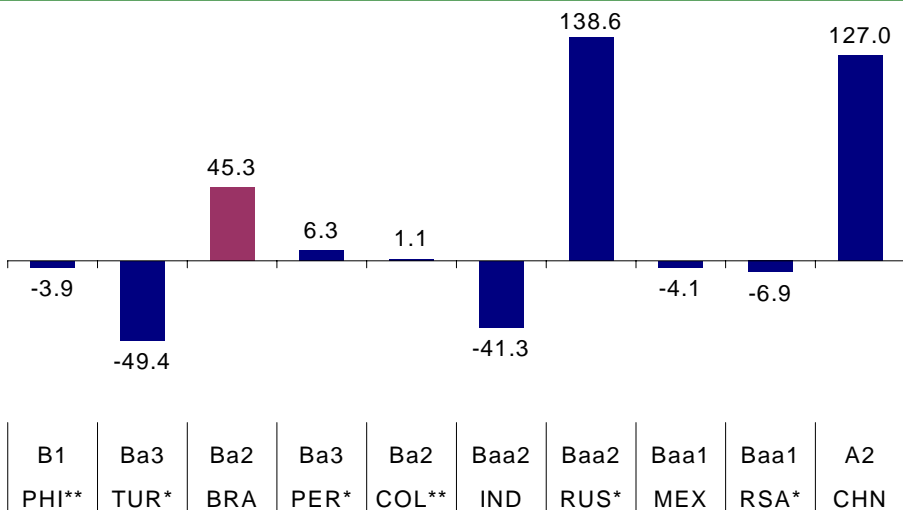
* As of 2005. III Qtr Source: Moody's. IBGE

Note: Savings were computed as the sum of CA Balance and Gross Investment

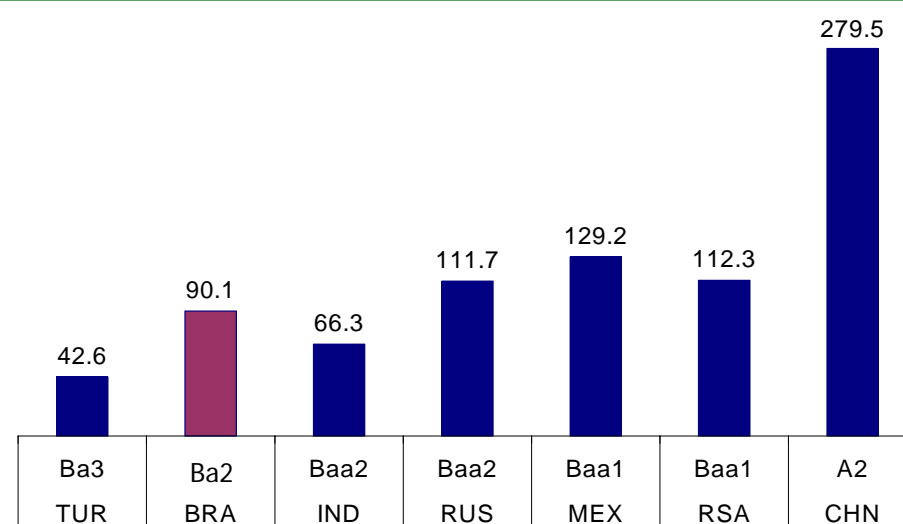


Brazil in comparative perspective (cont'd)

Trade Balance (US\$ Bn - 12 months cumulated as July/06)



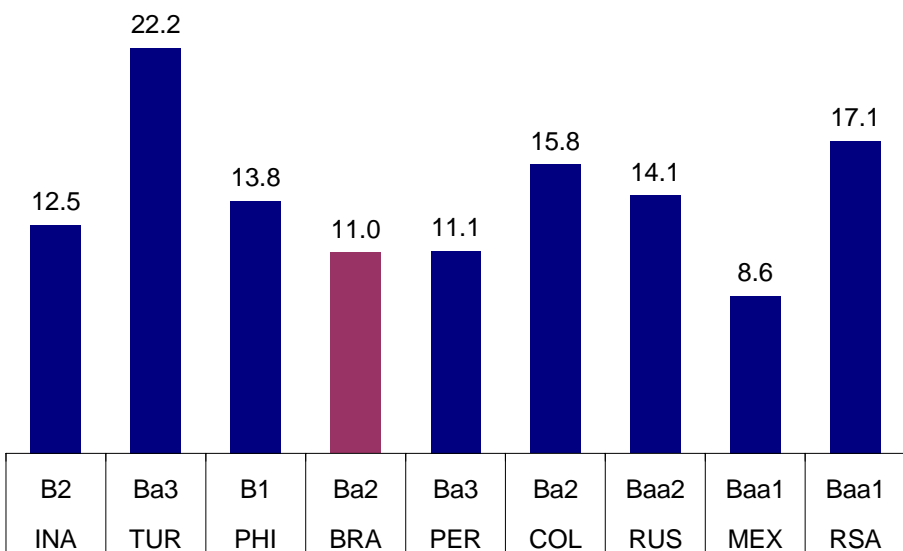
Exports 2005 (as % of External Debt)



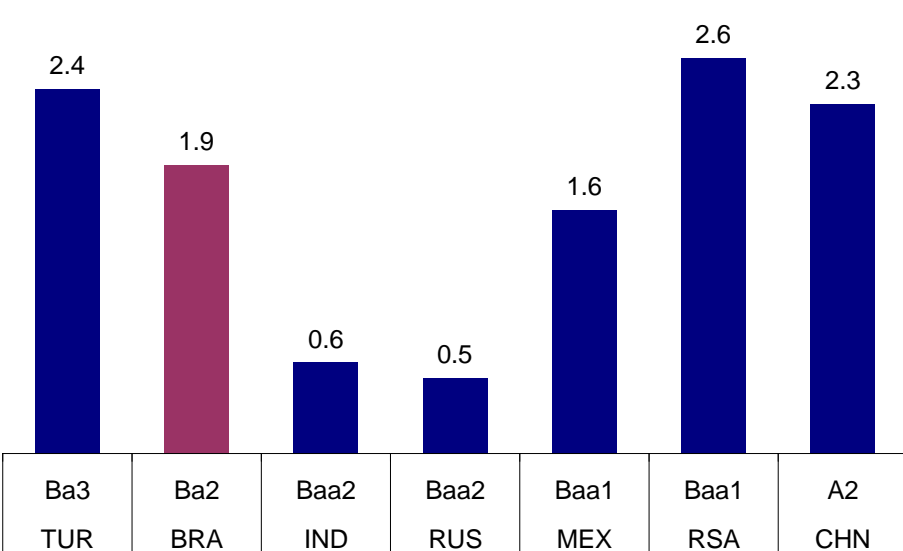
Source: The Economist.
* Until Jun06. ** Until May06

Source: Central Bank, WTO

Short Term External Debt 2005 (as % of Total External Debt)



Net Foreign Direct Investment 2005 (as % of GDP)



Source: IMF, OCDE

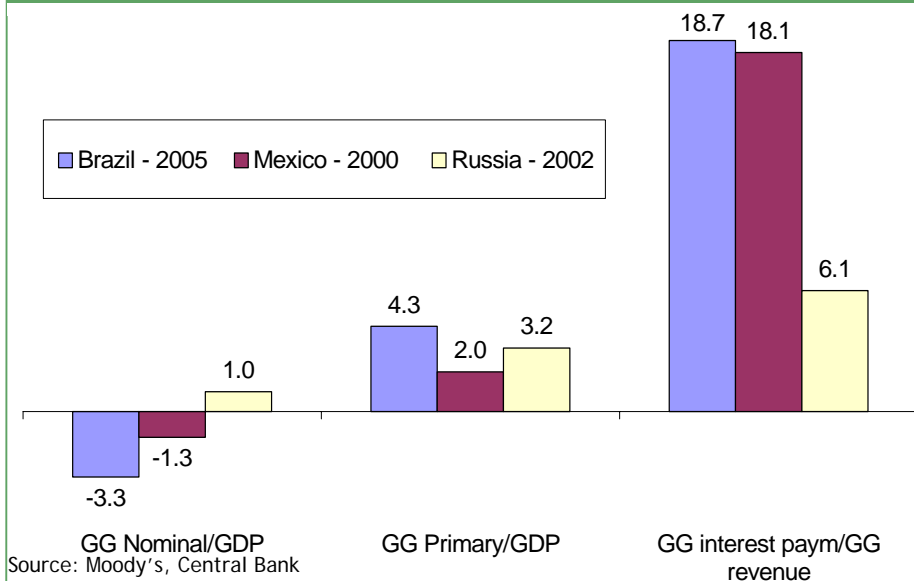
Source: Moody's

COMPARATIVE ANALYSIS



Comparing Brazil vs Russia and Mexico, dated from their Investment Grade event - Key Indicators

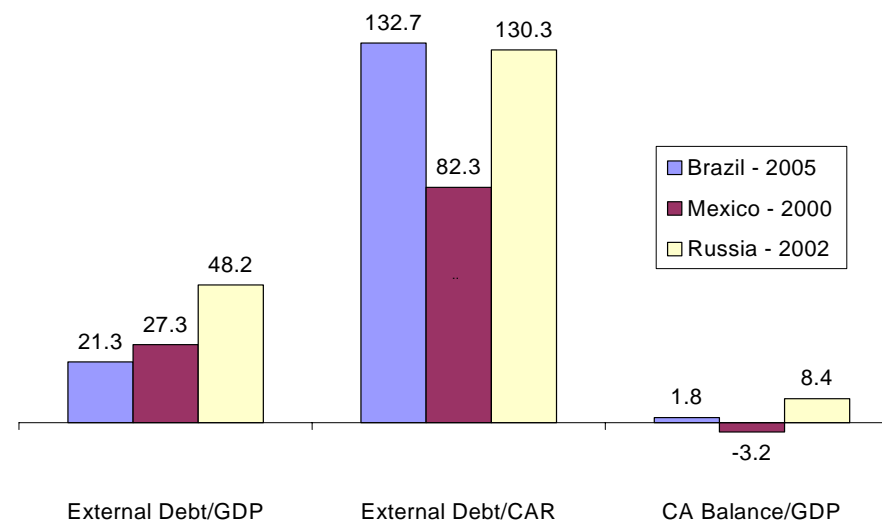
Fiscal Side



- Although GG Debt (%GDP) is higher in Brazil, this is a more conservative indicator for the country.
- Brazilian revenues do not depend heavily on the oil sector. Differently from other countries, *Petrobras*® is treated at arms length by the government.

- External Indicators compare positively with those two countries.
- External debt has improved its profile and has shrunk over the past months.
- Brazilian exports are much more diversified across countries and products than Russia and Mexico. It provides a buffer against external trade decline.

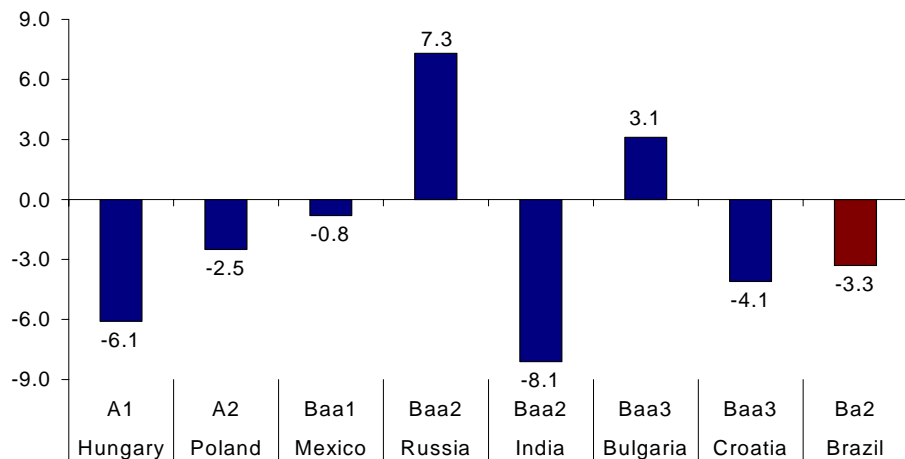
External Side





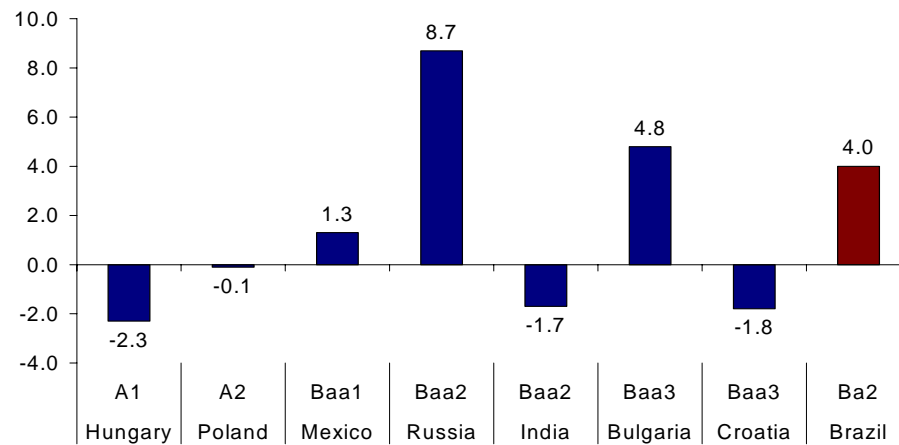
Comparing Brazil vs Eastern Europe, Russia, Mexico and India

General Government Nominal Balance 2005 (% of GDP)



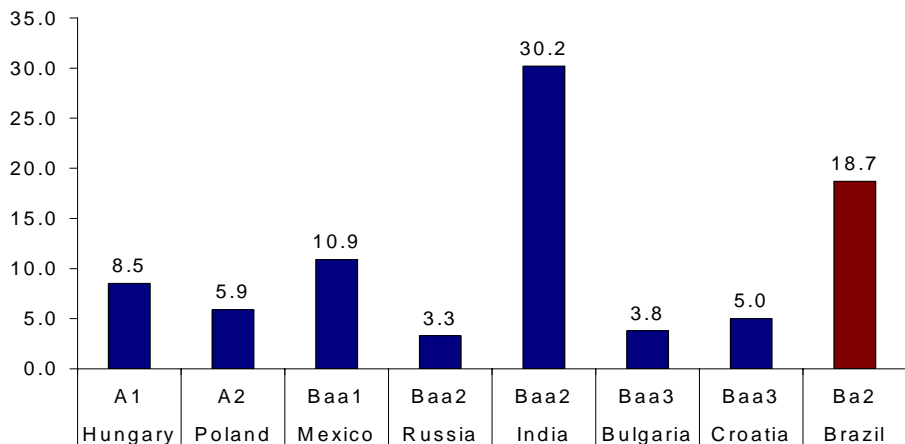
Source: Moody's and Central Bank

General Government Primary Balance 2005 (% of GDP)



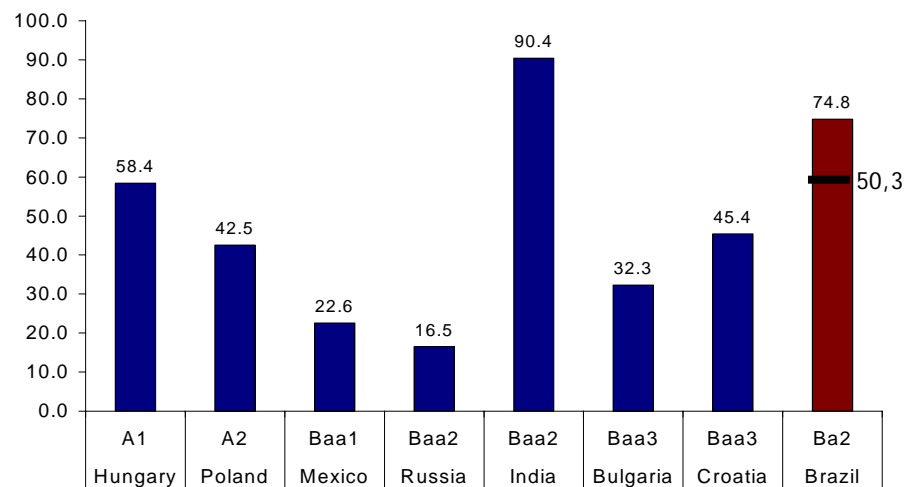
Source: Moody's and Central Bank

General Government Interest Payments 2005 (% of Revenues)



Source: Moody's

General Government Gross Debt 2005 (% of GDP)



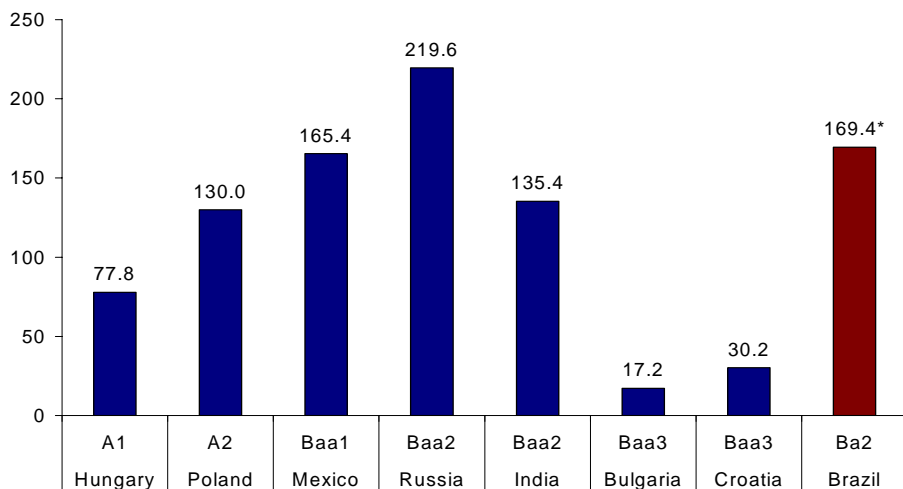
Source: Moody's and Central Bank.

* Net Debt reached 50.3% of GDP as of Jul/06. The GG Gross Debt, excluding the Treasury's deposits in Central Bank reaches 60.4% of GDP.



Comparing Brazil vs Eastern Europe, Russia, Mexico and India

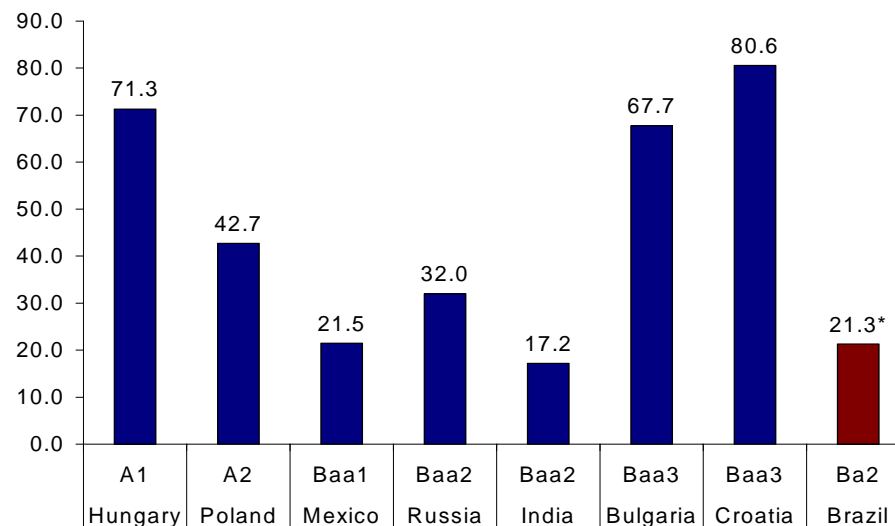
External Debt (USD bn)



* USD 157.6bn as of Jun-06

Fonte: Moody's and Central Bank

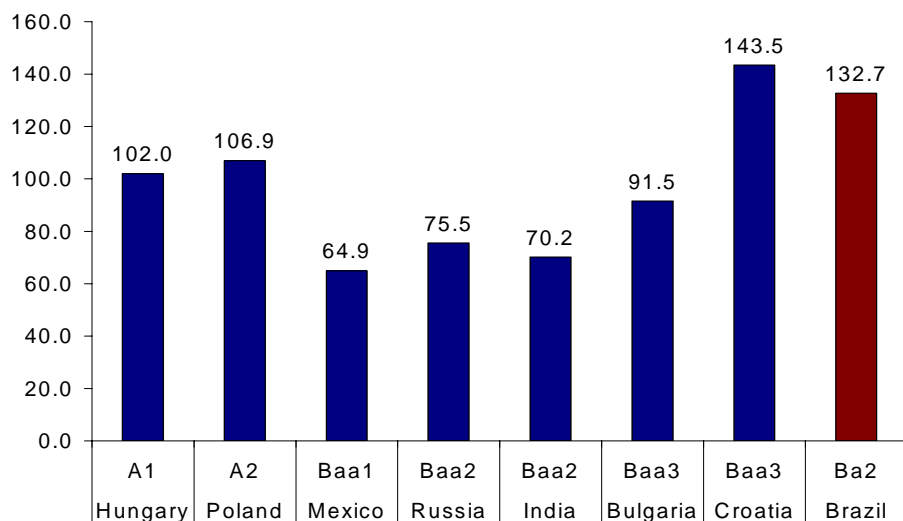
External Debt (% of GDP)



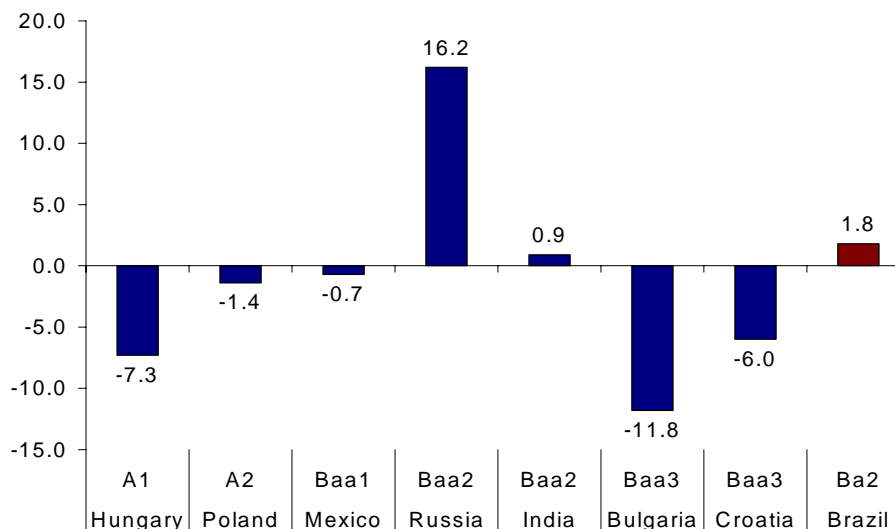
**18.6 as of Jun-06

Source: Moody's and Central Bank

External Debt (% of Current Account)



Current Account (% of GDP)

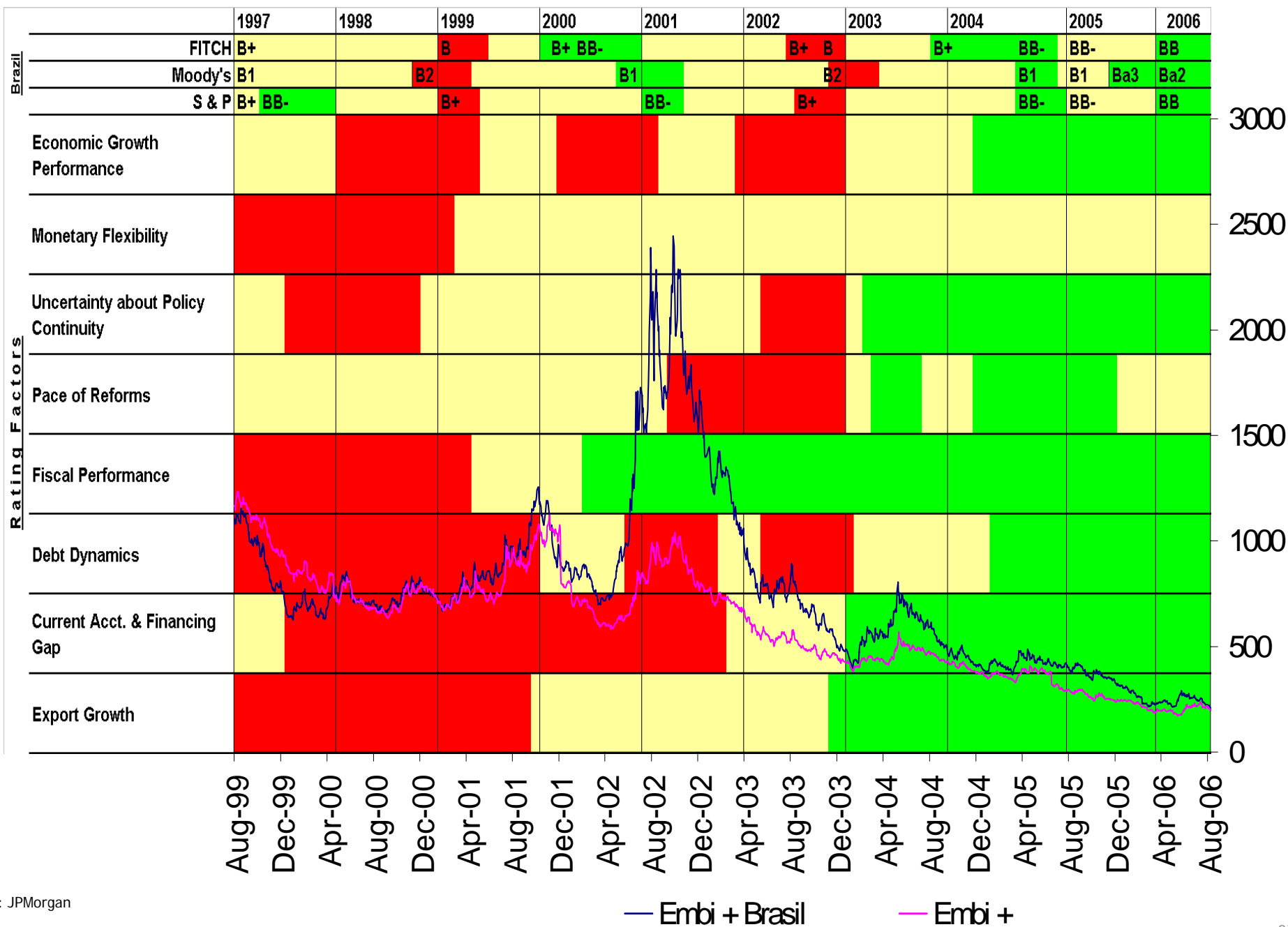


Fonte: Moody's and Central Bank

Fonte: Moody's and Central Bank



Ratings: market developments vs fundamentals





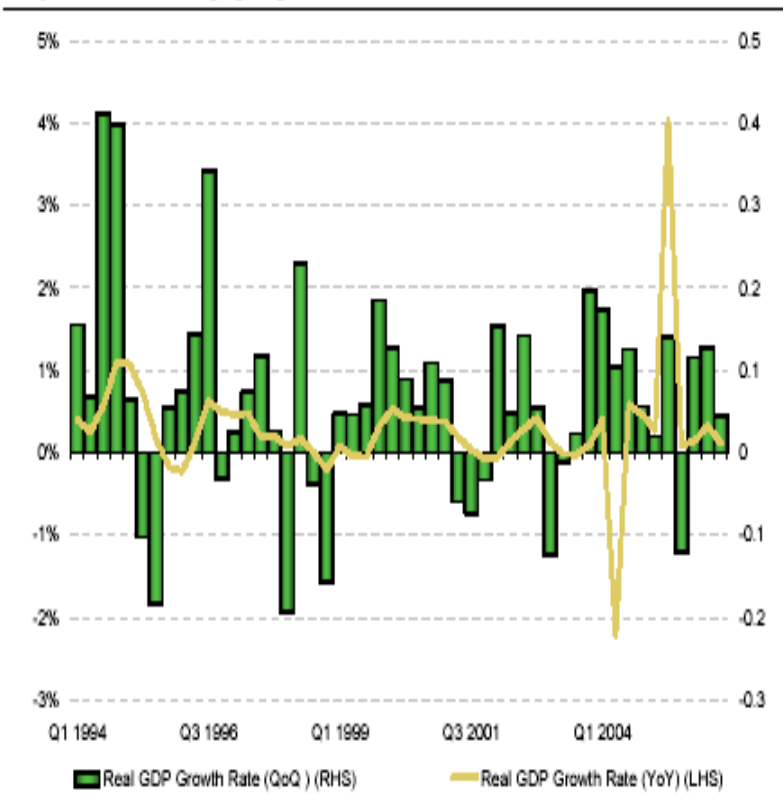
ANNEX II



REAL GDP

Real GDP 02.Q.2006

Graph1: GDP YOY and QOQ SA growth rates



Source: IBGE

- 2Q06 domestic real GDP growth came at 0.5% QOQ AS. The YOY growth rate declined to 1.2% from 3.5% in the previous quarter.

- Aspects such as the continuous exchange rate appreciation, with its accumulative effect over economy, despite seasonal problems, such as the Federal Revenue strike (which affected international trade), the Petrobras platforms shutdown and the FIFA World Cup were pointed by the institute as responsible for the deceleration in growth rate.

- Nonetheless, the fact that falling real interest rates and stronger employment conditions together with higher primary goods exports should reverse the slowdown that took place in the second quarter.



GDP

Real GDP 02.Q.2006

Table 1: GDP Demand Indicators

	QoQ Seasonally Adjusted					Annual Growth rate	Contributions to Q2 2006 Growth
	2Q06	1Q06	4Q05	3Q05	2Q05		
<i>Aggregate Demand</i>							
GDP	0.5%	1.3%	1.2%	-1.2%	1.4%	1.7%	0.5%
Consumption	1.2%	0.6%	1.3%	0.9%	0.8%	3.5%	0.6%
Government	0.8%	1.2%	0.2%	-0.4%	0.9%	1.5%	0.2%
Investment	-2.2%	3.7%	1.7%	-0.9%	4.7%	2.9%	-0.4%
Exports	-5.1%	3.4%	0.5%	0.9%	4.0%	7.2%	-0.9%
Imports	-0.1%	10.4%	-0.5%	1.9%	2.7%	10.3%	0.0%

Source: IBGE

Table 2: GDP Supply Indicators

	QoQ % Seasonally Adjusted					Annual	Contributions to Q2 2006 Growth
	2Q06	1Q06	4Q05	3Q05	2Q05		
<i>Aggregate Supply</i>							
GDP	0.5%	1.3%	1.2%	-1.2%	1.4%	1.7%	0.5%
Agriculture	0.8%	1.1%	1.0%	-2.6%	-0.4%	-0.6%	0.1%
Industry	-0.3%	1.2%	1.3%	-0.8%	1.9%	1.7%	-0.1%
Services	0.6%	0.6%	0.7%	0.2%	0.9%	2.0%	0.3%

Source: IBGE