

## THE GOLD RUSH THAT CAME AND WENT IN THE 90'S

(Provided with significant data support from SRC)

After lying dormant for a lost decade in the 1980's, Latin America sprang to life in the 1990's with growth figures that began to rival the Asian economies. Those who try to explain the turnaround of Latin America cite the emergence of democracy, the deregulation of infrastructure, the implementation of trade agreements or the neo-liberal policies of local government. One fact is clear – Latin America's large economies experienced record consumption growth, enough so to raise the region's GDP growth to world class levels.

Latin America Regional Consumption Growth	1995	1996	1997	1998
	4.6%	9.7%	7.7%	3.5%

Source – Strategy Research Corporation

### What brought on the Consumer Goldrush?

To best understand the region's upsurge, it is worth studying the patterns of its three largest economies. Brazil, Mexico and Argentina together represent 70-75% of the region's GDP and consumer spending. All three countries' political leadership engineered drastic changes to their respective economic structures.

Mexico began its reforms with the election of President Salinas de Gotari in 1988. His six-year term achieved great changes. Over 700 government-held companies were privatized, consumption tax levels and income tax levels were lowered, currency restrictions were lifted, foreign investment laws were liberalized, and the NAFTA was created.

In 1989, Argentina elected for the first time Carlos Menem. The President appointed Cavallo as Finance Minister and change began. Argentina bravely tied its peso to the US dollar, and controlled the peso with a currency board. Mercosur was initiated, and tariffs on non-Mercosur exports were dropped. Argentina's government went farther than any other in Latin American in divesting public assets.

Brazil's reforms began later and continue to lag behind those undertaken by the more centralized governments of Mexico and Argentina. The Real plan, introduced in 1994 by Finance Minister Cardoso, created a moving peg currency policy similar to that of the Salinas administration in Mexico. Privatization was achieved in telecom and is slated for other sectors such as electricity and perhaps oil and gas. Free trade was signed with Mercosur members and some tariff concessions were made in accordance to the WTO.

In all three economies, the results of reform follow a similar pattern. Strong currency policies brought inflation down to single digit levels, though not fast enough to avoid an over-valuation of the local currency. Lower inflation allowed the banks to extend credit to a previously un-bankable middle class. Freer trade created a tidal wave of cheaper than before imports – consumer electronics from Asia, boutique items from Europe, processed food and software from the USA. Trade balances quickly turned negative but were kept in check by increased foreign investment, at first via the stock market and later in the form of direct investment, which grew over 500% in the 1990's to US\$50+ Bn per year.

Protectionism and weak currencies created a growing latent demand for consumer goods throughout the 1980's. The convergence of so many reforms unleashed a spending spree that lasted 3-4 years in each country. Consumer spending across Latin America swelled to \$1.3 trillion in 1997 (roughly the size of Germany's consumption levels).

In the 1990's, Latin American economies with fixed currencies created the lowest consumer savings levels (highest consumption levels). In 1996, Mexico and Venezuela's savings rates rose after the currency devaluated and spending slowed. Chile, whose currency has been the most flexible throughout the decade, fosters traditionally high savings rates and more stable growth.

### What ended the Goldrush?

Latin America is traditionally volatile – just ask any export manager servicing its markets. However, the volatility in the 90's was greater than in previous decades because the stakes were much larger this time round. Latin America embraced globalism in the '90's and multinationals responded with unprecedented foreign investment in the region.

In 1999, consumption growth shrank to 0.5%, the lowest level since the beginning of the decade, due in large part to Brazil's devaluation. Strong currency policies were unsustainable in the wake of freer trade and a weakening investment climate that drove capital flight. But currency-economics cannot explain everything.

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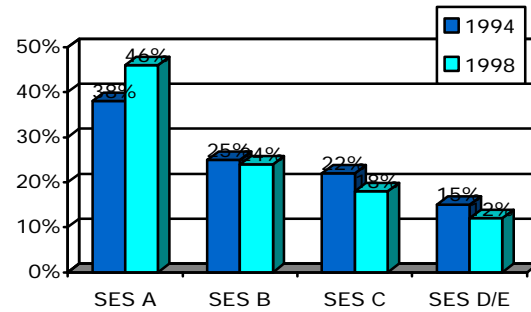
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**The Middle Class Mystique**

Political opportunists like to believe that Latin America's middle class is growing and it is only a matter of time before the region joins the ranks of industrialized modern economies. Demographic statistics portray another reality and help explain the limits to Latin America's growth potential. In every Latin American economy, except Uruguay, the proportion of society considered to be middle class shrank in the 1990's. Real wages and purchasing power for the middle and lower classes have steadily declined since the 1970's when high commodity prices enriched the region.

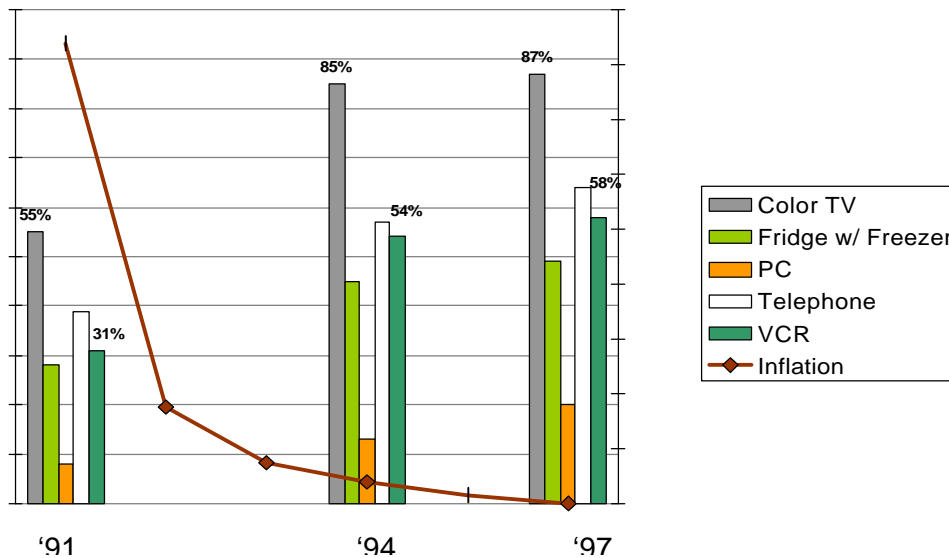
Pct. of National Income by SES - Chile



**Saturated Demand for Imports**

The spending power of Latin Americans is impressive in aggregate figures. However, the top 8-10% of its citizens holds a disproportionate amount of its wealth. In Brazil the median income of the wealthiest 10% of the population is almost 30 times greater than that of the poorest 40% and their disposable income (after taxes, food and housing are paid) is 80-100 times greater. The consumer spending unleashed in the region throughout the 90's eventually slowed as middle and middle upper class consumers exhausted their demand for modern amenities. The import of luxury items may continue unabated but the latent demand for basic imported goods eventually subsides and consumer-spending growth levels with GDP growth. A case in point is Argentina, whose currency has remained strong for 10 consecutive years, outliving the historical boom-bust cycle.

**Argentina's Post-Inflation Boom Tapers Off...**



**The Foreign Invasion**

The foreign invasion began with a huge export trade push into Latin America, led by US companies whose brands enjoyed elevated status in the region. Northern Mexico's industrial belt led the region's imports of manufacturing technology and manufacturing inputs (components and raw materials). Throughout the region, inefficient distribution systems were quickly reformed by the introduction of US styled retail mega-stores. This shortened the distribution chain, lowered prices to consumers, and boosted the presence of foreign products, which were often brought to market at the request of the foreign retail chain. Beyond retail distribution, foreign investment is directed primarily at privatized infrastructure and manufacturing. Oil and gas, telecom, electricity, water, waste management, road building, railways, ports, and even postal services are now privatized or are targets for future government divestment. These capital-intensive utilities and industries require massive private investment and operational experience, both of which require foreign involvement.

FDI (foreign direct investment) does not end with privatization. Latin America's 30 year old import substitution policies created a grossly inefficient manufacturing sector, particularly in Mexico, Brazil and Argentina. The liberalization of investment laws spawned a flurry of takeovers and Greenfield investment in the region's autoparts, electrical assembly, steel, chemical and textile industries. Globalization forced many mid-size manufacturers to close down. Few had developed export markets, a key to survival, and fewer still could access the financing needed to retool for exports. Today, the level of foreign ownership in Argentina is the highest of the region's major economies, followed by Mexico. Foreign investment in Brazil is more restricted and remains correspondingly low.

FDI should continue at a brisk pace in Brazil but many speculate that it will now begin to drop in Argentina and flatten out in Mexico. In both of the latter countries, most of the infrastructure privatizations are finished (except for the politically coveted energy sector in Mexico).

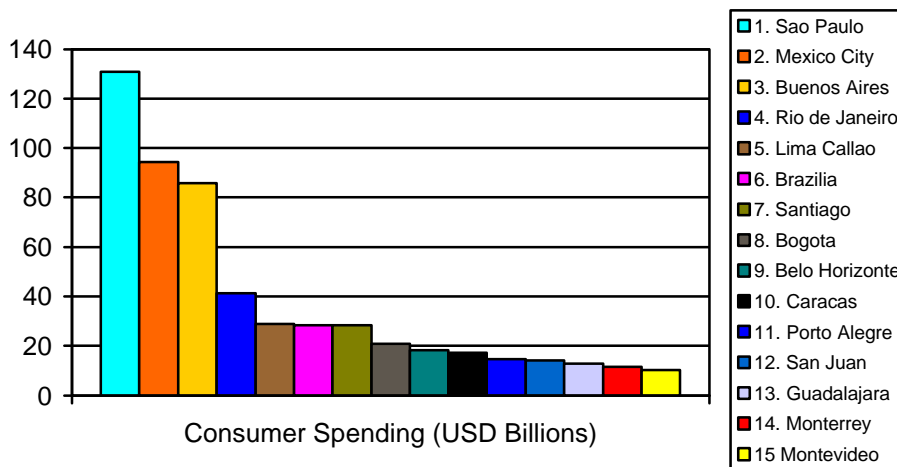
**Post Devaluation Policies**

Since Mexico and Brazil suffered their most recent respective devaluations, both governments have adopted free-floating currency regimes in an effort to avoid the vices and hazards of pegged currencies. Under a floating currency, neither country can artificially overvalue its currency. This prevents consumers from splurging on cheap imports and throwing the trade balance into unmanageable negative levels.

The currency risk created by free-floating regimes forces central banks to maintain very high real interest rates. This restricts both domestic investment and consumer spending. With the exception of oil (and only recently), commodity prices continue their descent in real terms as extraction technologies improve and cash strapped suppliers like Russia keep supply growth ahead of demand. The result is the end of a consumer led goldrush and a new reality in Latin America.

**Post Goldrush Reality**

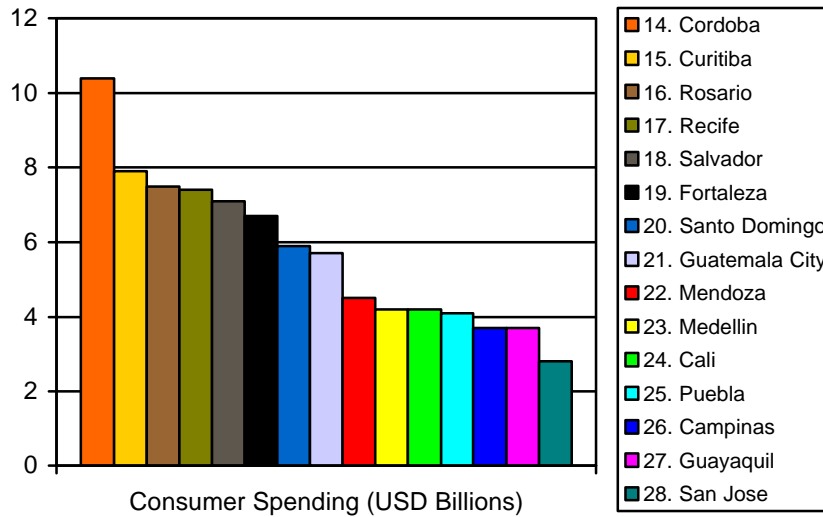
**Latin America's Top Urban Markets – 1998 Consumption Levels**



A simple but accurate demographic description of the region paints Latin America as a sea of poverty, sprinkled with islands of wealth. The tremendous consumer power of Latin America's rich is concentrated in a handful of neighborhoods in the region's largest cities. The top 15 urban markets represent 45% of the region's consumption and have attracted most of the foreign competition to date.

In all of these cities, with the exception perhaps of Montevideo, the presence of foreign companies is impressive. These cities attracted the bulk of foreign investment and export sales during the 1990's. Left relatively unscathed to this point are the 2<sup>nd</sup> tier consumer markets, mid-size cities across the continent. These markets are next in line for expansion.

**Latin America's Middle Markets – 1998 Consumer Spending Data**



**A Profile of the Region's Consumer**

Consumers are often segmented into 5 levels, A through E. In Latin America, most foreign companies focus their sales efforts on levels A and B. Mass marketers also target the much larger segments of C and D. Level E in Latin America maintains an almost subsistence lifestyle, consuming almost no branded products.

**A/B Consumer in 1<sup>st</sup> Tier Cities**

Throughout the 1990's, most consumer-driven foreign companies focused their efforts on servicing the needs of the A/B consumer segments in the 1<sup>st</sup> tier cities. Product development, distribution strategies, and advertising were all directed at this small but wealthy segment of Latin American society. Today, this segment enjoys access to global brands found in modern retail outlets at somewhat elevated prices vis-à-vis the US. The A/B citizen is now a globalized consumer. He can travel to the US or Europe once per year and see for himself the variety, quality and service associated with the newest consumer products. His expectations have grown over the last 10 years and he now demands customized service, just like his free spending brethren in North America, Europe and Asia. He is no longer dazzled by the mere presence of high-end retailers in his back yard.

**C/D Consumer in 1<sup>st</sup> Tier Cities**

The middle and working classes of Latin America's largest cities are acutely aware of global brands having been bombarded by the mass marketing campaigns directed at their wealthier neighbors in the A/B segment. Though they might prefer Rice-a-Roni to the local brand, they simply cannot afford it.

Depleted real wages turned Latin America's largest consumer class into pragmatic penny pinching customers. Their ability to purchase imported goods is reduced to the few months during an economic cycle when the currency is strong enough to permit such a luxury. For the most part, their product selection is restricted to locally made goods that are designed for their simple needs. Washing machines sold in Latin America to this segment contain no fancy bells and whistles, simply a wash, rinse and spin cycle. The retailers who most successfully service this sector offer credit terms on purchases. These customers, who live from paycheck to paycheck, and hold very low personal savings, are willing to pay excessive credit terms in order to clothe their children and outfit their homes with basic domestic goods.

**A/B Consumers in 2<sup>nd</sup> Tier Cities**

The upper classes of Latin America's mid-size cities are neglected. Through national media and print campaigns, they have been exposed to global brands. Purchasing those products is another challenge. The outdated distribution channels in their home cities deliver few imported goods and those that arrive do so at elevated prices after heavy middleman handling. The economies of these cities tend to be more cyclical than the larger cities that receive steady investment. The boom-bust effects on consumption are therefore greater, exacerbating the fear of large retailers to fund expansion in mid-size cities. The lack of mass merchandizing in these cities leaves the A/B consumer unsatisfied.

**C/D Consumers in 2<sup>nd</sup> Tier Cities**

Beyond the consumption of basic food and drink items, this market is blissfully ignorant of most global brands. The purchasing power of these consumers is so damaged that they can almost never afford imported goods.

## Forecast and Strategic Recommendations

The ripest fruit has been plucked in traditional consumer markets in Latin America by the bold and brave who poured into the region over the last ten years, as well as the few long term players who have operated there for decades. Consumption in Latin America, in a world of floating currencies and prudent governance, will now begin to lose some of its volatility and take on modest growth. Governments are almost universally resigned to promote savings and adhere to debt obligations. Such discipline is necessary if they are to continue renewing debt through a more experienced and cynical global lending market. Many Latin American voters are tired of populist rhetoric, even in the face of austere fiscal measures, as demonstrated by elections in Argentina, Brazil and Mexico. Floating currencies, tight monetary policies, higher savings rates, and fiscal cut-backs will all dampen future consumer growth in the leading economies of the region but will provide for a more stable environment that allows companies to plan and strategize.

A more competitive environment will demand better treatment of top consumers and a new approach towards middle and working class consumers.

## Recommended Strategies

1 <sup>st</sup> Tier Consumer Markets	2 <sup>nd</sup> Tier Consumer Markets
<p><b>A/B</b></p> <ul style="list-style-type: none"> <li>- Include this segment in global product launches</li> <li>- Match local product warranties with global levels</li> <li>- Shift from a broad-cast to narrow-cast marketing</li> <li>- Focus value-added proposition on saving the consumer time</li> </ul>	<p><b>A/B</b></p> <ul style="list-style-type: none"> <li>- Develop direct links to local distributors</li> <li>- Duplicate successful promotional tactics used in 1<sup>st</sup> tier markets</li> <li>- Work with local distributors to develop POP promotional materials</li> </ul>
<p><b>C/D</b></p> <ul style="list-style-type: none"> <li>- Develop locally made, simplified products with global brands</li> <li>- Focus on pragmatic product features, not timesaving or esthetically pleasing feature add-ons.</li> <li>- Market through retailers who offer credit</li> </ul>	<p><b>C/D</b></p> <ul style="list-style-type: none"> <li>- Ignore for now (exceptions noted in the snack food category)</li> </ul>

## BRAZILIAN WASTE WATER INDUSTRY FORECAST

After being deregulated in 1995, the market for water and wastewater services in Brazil is poised to receive vital private investment. Until recently investor confidence was tepid because of 1998's presidential elections and then 1999's crisis. Next year, however, will kick-off with the sale of three state water companies and a number of smaller municipal contracts. Over ten private companies confirmed their interest in the sales in late November and the sector is preparing for US\$3 billion in investment, of which US\$1Bn will translate into equipment sales.

The Brazilian National Development Bank (BNDES) estimates that US\$3.2Bn per year in private investment is needed to reach the goal of universal coverage by 2010. Average investment in the 90's barely reached US\$1Bn so next years rise must be successful to continue the trend. Opportunities are projected for equipment sales, viability studies, maintenance contracts and consulting services amongst others.

**Brazilian Waste Water Equipment Demand Forecast - USD Millions**

<b>Technology in Demand</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Water Treatment Equipment</b>	\$120	\$160	\$200	\$270	\$350	\$450
<b>Pipes</b>	\$350	\$450	\$450	\$500	\$520	\$550
<b>Hydrometers</b>	\$60	\$80	\$98	\$123	\$131	\$135
<b>Pipe Cleaning Equipment</b>	\$10	\$15	\$15	\$17	\$21	\$23
<b>Valves</b>	\$10	\$15	\$15	\$20	\$26	\$33
<b>Pumps</b>	\$30	\$40	\$45	\$52	\$58	\$67
<b>Others</b>	\$25	\$30	\$32	\$38	\$44	\$52
<b>Total</b>	\$605	\$790	\$855	\$1,020	\$1,050	\$1,310

Source: ABIMAQ, USDOC, InfoAmericas Analysis

In a country with 164 million inhabitants, a full 60% are not connected to proper sewer systems. Of the actual sewer collected only 20% is treated. Only in the supply of piped water do the statistics improve. Despite leaks maiming nearly half the supply, piped water reaches roughly three fourths of the population; this is in a country that holds 8% of the world's fresh water reserves.

The shortcomings of the system will dictate where investment will concentrate over the next five years. Sewage disposal and treatment will account for 55% of investment through 2004. Future plants will likely use traditional activated sludge technology, as natural biological processes do not act fast enough to treat most of the country's flow rates. In areas where sewer treatment is still not widely available the state governments are considering septic tanks as short-term solutions. Private industry, particularly the textile, petrochemical and pulp and cellulose sectors, pressured by stricter environmental laws and ISO 14000 quality standards, will also invest more in wastewater equipment and services. Smaller opportunities exist for treatment of acid leaching in the mining industry.

Water delivery and urban drainage will likely absorb 60% of equipment needs. There is urgent need for leak detection technology and automation software. Some emphasis will be given to underground reservoir tapping implying the need for drilling equipment and fluvial mapping technology. Demand for consulting services will likely reach US\$100 million per year through 2004.

The market for equipment related to waste water and water distribution is dominated by Brazilian suppliers who hold 70% of the market. Roughly half of these companies hold some form of technology agreement with foreign partners. One of the most significant players is the Brazilian Filsan and its subsidiary companies Enfil and Aquamec. These Brazilian companies have operated for over 30 years and have built enviable relationships with most municipal and state clients. In this highly politicized market, it is vital to launch any operations with an established Brazilian firm who can open doors.

Likewise, foreign companies are needed to fill the technology gaps of their Brazilian counterparts. Hydrometers, leak detection equipment, and wastewater treatment equipment and chemicals are still dominated by imports. As the number of privatized companies grow the role of foreign operators like Thames Water and Iberdrola will dilute the importance of political connections and increase the need for state of the art equipment.

In 2000, state and municipal governments will decide how to privatize their assets and/or operations. Over 3,700 municipalities hire-out water and wastewater services, or basic sanitation as it is known in Brazil, to one of 27 state companies. The 1,300 municipalities that opted not to use the state companies operate independently (or not at all). Only 30 municipalities at present use private concessions.

Over 20 years without a consistent national development plan lead to a confusing coexistence of both state and municipal water and wastewater companies. In the 1970's the government launched a national sanitation plan that granted development funds to municipalities only if they signed concessionaire contracts with the corresponding state water and sewage company (Cesb).

However no regulatory body was created to supervise the activities of the 27 Cesb's and when funds ran dry during the recession of the 1980's the program crumbled in the poorer regions and became inefficient throughout.

Brazil's Most Competitive Equipment Suppliers	Brazil's Least Competitive Equipment Suppliers (Most imported)
1. Pumps	1. Water Treatment Parts
2. Valves	2. Water Treatment Chemicals
3. Pipes	3. Hydrometers
4. Drilling Equipment	4. Mapping Technology
5. Septic Tanks	5. Automation Software

In the debate on how to privatize the system, foreign firms are lobbying for state size concessions that create an efficient economy of scale, and argue that privatizing municipal systems only will exclude the poorest and most isolated municipalities. The opposite is true for Brazilian companies that are scared of being squeezed out of the market and are therefore interested in finding smaller markets the multinationals would pass up.

### Privatization Schedule of Leading Markets

	Rio de Janeiro	São Paulo	Espirito Santo	Mato Grosso do Sul	Mato Grosso	Bahia	Pernambuco
Total Municipalities	81	625	71	77	126	415	177
Municipalities Serviced by Cesb	64	358	52	75	93	406	177
Piped Water %	78%	99%	95%	94%	92%	58%	66%
Sewer Collection %	44%	73%	12%	10%	14%	9%	12%
Sewer Treatment %	13%	19%	8%	2%	4%	1%	1%
% Losses/ Billings	50%	36%	28%	34%	48%	30%	40%
Form of Privatization	State Sale	None	State Sale	State sale with Municipal Ownership	Municipal Sale	State Sale	State Sale
Likely Date of Privatization	2001	N/A	2000	2001	2001	2000	2000

Sources: IBGE - SEPURB – SANEMAT- ABES

### Leading Private Operators in the Sector

Foreign	Brazilian
Thames Water	Bechtel
Lyonnaise des Eaux	Iberdrola
General des Eaux	Dresser & McKee
Silec	Harza
Agua de Portugal	Montgomery Watson
CH2Mhill	Enron
ICF Kaiser	
Ogden	
	Amafi
	Multi service
	Resil
	Tejofran
	Isratec
	Hidrogesp
	Carioca
	Developer

**Brazil Waste Water Supplier and Operator Challenges & Strategies**

	Challenges	Strategy for Success
State Level Privatizations	<ul style="list-style-type: none"> <li>• High Profile</li> <li>• Undefined rates and tariffs</li> <li>• Government support of local competitors</li> </ul>	<ul style="list-style-type: none"> <li>• Clear public communication</li> <li>• Ally with local operator</li> <li>• Negotiate rates directly with the State</li> </ul>
Municipal Level Privatizations	<ul style="list-style-type: none"> <li>• Smaller Economy of Scale</li> <li>• Less infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• BOT Programs</li> <li>• Ally with local operator</li> <li>• Provide training services and consulting</li> </ul>
Equipment Sales	<ul style="list-style-type: none"> <li>• Strong local competition</li> <li>• Well connected competition</li> <li>• High import tariffs</li> <li>• Government loans to national suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• High Tech Equipment</li> <li>• Ally with local company</li> <li>• Provide financing</li> </ul>

**Current Projects**

Sector	Markets Studied	Description
Automotive Repair Service	Mexico	A national level evaluation of the productivity of one of Mexico's leading auto dealership/after sale service networks.
Computer	Mexico	Competitive intelligence and price tracking of computer hardware for various US and Asian computer hardware producers.
Credit Cards	Brazil	Market size and trend analysis of consumer and business to business credit cards.
Electrical Appliance Parts	Mexico	A market and competitive analysis of Mexican production of electrical appliances on behalf of a leading parts supplier.
Energy, construction, environment	Mexico	Development of a market intelligence Website for Alberta exporters interested in the Mexican market. Includes weekly updated project intelligence, Mexican distributors and agents database, Industry news, Pemex tender translations, and useful Website links in Mexico.
Packaged Food	Mexico	J/V Partner search on behalf of a leading US beverage ingredient producer.
Wireless ISP	Argentina, Brazil, Chile, Colombia, Ecuador, Central America, Mexico, Paraguay, Peru, Uruguay, Venezuela	An analysis of potential market "pockets" across the region based upon demographics, spending power, telecom penetration, telecom liberalization, and computer ownership.
Waste Management	Brazil, Argentina	Strategic market research of waste management policies and regulations, waste collection market, competition, market entry options on behalf of a leading US waste collection equipment supplier.
Wireless telecom	Mexico	Marketing strategy consulting for a leading Mexican paging company.

## ECONOMIC FORECAST – BRAZIL FOCUS

The economic debacle predicted for Brazil following its currency devaluation in January 1999 turned into a cautious success story. Brazil owes much of its success to prudent central bank governance. Despite an accumulated 65% currency devaluation, Brazil successfully maintained single digit inflation and should finish the year just above zero GDP growth, a far sight better than the –6% growth originally forecast.

However the fiscal challenges that handicap the country's long-term recovery remain unsolved. The 1999 fiscal deficit will reach US\$56Bn or roughly 10% of the nation's GDP. When interest payments are withdrawn from the equation, the government will reach a fiscal surplus of 3% of GDP, implying annual debt payments of US\$73Bn, a serious burden to the nation's finances and growth potential.

Cardoso continues to face opposition on tough reform measures, ironically most of all from his own coalition. The divisive issue of pensions is slowly being addressed. Recent bill passage allows the government to tackle the US\$5Bn private sector pension deficit funded at present by the government. Efforts to reverse the more serious US\$11Bn public pension annual deficit were recently stalled by a Supreme Court ruling.

IMF inspired bills that have succeeded include an increase on income tax ceilings from 25% to 27.5%. Real income tax payment levels are expected to reach pre-devaluation levels during the first quarter of 2000, reflecting a general economic recovery. Furthermore, an easing of fiscal constraints for state governments in exchange for their support of the needed reforms is slowly converting opponents.

Public spending cuts coupled with high interest rates will limit GDP growth during 2000 to 3%. Interest rates were not lowered in the latest meeting of the monetary committee, kept at 19%. This coincides with a renewed rise in inflation and the desire to keep the capital markets attractive in the days prior to Y2K.

Large privatizations in the banking, energy and waste management sectors are expected during 2000. FDI will continue to grow to US\$28Bn in 2000, capturing half of the region's total. A year after the devaluation, asset prices are still low in Brazil and multinational acquisitions of Brazilian companies will reach a feverish pace in 2000. New Mercosur bound manufacturing investment is almost exclusively focused on Brazil due to its favorable treatment in the bloc's trade treaty and its new found competitiveness in assembly costs thanks to the devaluation. New Argentine manufacturing investment is suffering as a result. In spite of the devaluation, Brazilian exports are down 7% from their peak in 1997. Unlike Mexico, Brazil is not positioned to export its way out of the devaluation-induced recession.

Brazil is not likely to steer away from the path set by the IMF in 2000. Brazilian recovery will rely on fiscal discipline and the positive message that carries to the markets where it must continue to renew onerous debt obligations. The greatest obstacle to growth is debt and resolving that problem in Brazil is a political process. Unlike Argentina, Mexico or Peru, Brazil's presidential authority is weak, kept in check by a vociferous congress, an independent judiciary, and powerful state governments. Cardoso's beguiling of opposing forces over the years has been impressive but reversing 20 years of populist legislation is a slow process in Brazil. Much like the US, the Brazilian congress has limited time for governing between mid-term and full-term elections. 2000 will be a crucial year for pushing through reform before elected officials hit the campaign trail in early 2001.

Another political test in 2000 will be rising public pressure to lower interest rates. Nominal rates sit at 19% and are unlikely to drop. Lending rates to large businesses continue to top 30% and credit card rates are quoted at 60%. This limits investment and consumption. Many politicians want to lower rates but if the central bank follows the populist route, the market has proven its readiness to dump Reais, causing further devaluation and reactionary interest rate hikes. More likely, a tight monetary policy will continue, limiting Brazilian consumer power. Export opportunities in Brazil have shifted as a result. From 1995 to mid-98, consumers ruled the day buying record quantities of electronics, clothing and packaged food imports. Consumer imports will not return to 1997 record levels until 2002. In the short term, foreign direct investors are the most promising customers in Brazil as they fulfill their launch plans with heavy spending on IT, professional services, construction, and specialized capital equipment. FDI over the last two years and the next couple of years will be centered on telecom (including Internet), electricity, transportation, manufacturing, food processing, IT, and waste management (featured in this issue).

### Statistical Snapshot

Indicator	1998	1999f	2000f
GDP (USD Bn)	\$780	\$550	\$605
Real GDP Growth	0%	0.2%	3.5%
Inflation	1.65%	9.2%	7.5%
Interest Rates	29%	19%	17%
Fiscal Balance (% of GDP)	-8.2%	-10.5%	-6.0%

Exports (USD Bn)	\$51.2	\$48	\$56
Imports (USD Bn)	\$57.7	\$51	\$54
Trade Balance (USD Bn)	-\$6.5	-\$3.0	+\$2.0
Current Acct (USD Bn)	-\$33.7	-\$27.0	-\$22.0
Current Acct (% of GDP)	-4.3%	-4.9%	-3.6%
Foreign Direct Inv. (USD Bn)	\$26.2	\$27.5	\$28.0
FDI/Current Acct Deficit (%)	77.8%	102%	127%
Foreign Reserves (USD Bn)	\$44.5	\$40	\$43

Foreign Debt (USD Bn)	\$234	\$240	\$250
Foreign Debt (% of GDP)	30%	43.6%	41.3%
Real/USD (end year)	1.2	1.90	2.15

Sources include but are not limited to: *Latinvestor, El Universal de México, El Financiero, SECOFI, Bancomext, EIU, & Business Monitor.*

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