BRIC Countries in Comparative Perspective

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Outline

- Importance of the BRIC countries for the World economy
- BRIC countries today
  - Demographic indicators
  - General economic indicators
  - Fiscal indicators
  - Debt indicators
  - Institutional indicators
  - Business environment

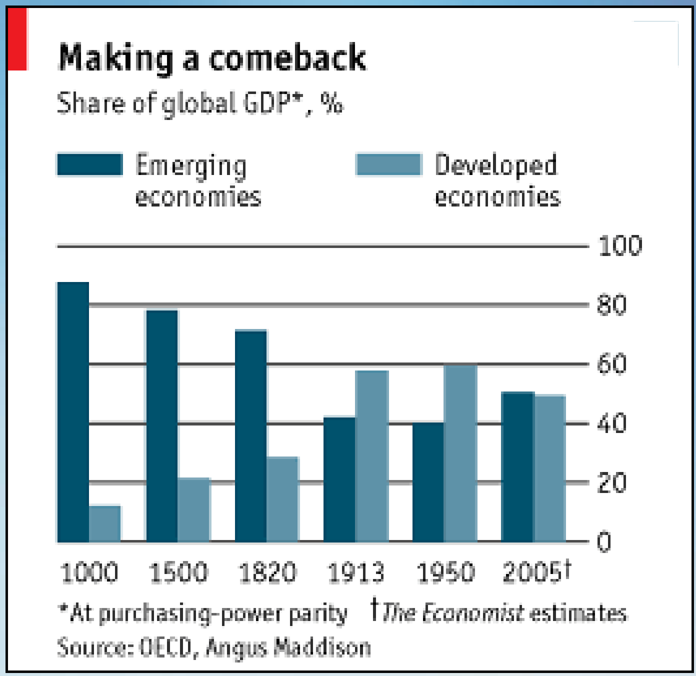
- Short and long-term outlook
- Conclusions

Why are the BRIC countries important?

- Fast growing economies with the biggest source of labor;
- They will soon change the consumption and production pattern in the world economy;
- As their influence on the global economy grows so do the risks for the sustainable world development;
- Their role in the global policy is increasing as well the geopolitical importance for their regions and the world.

Why are the BRIC countries important?

§In 2005 the emerging economies overcome developed economies by their share in the World GDP calculated at purchasing power parity.
§The BRIC countries were the main driving force for GDP growth of the emerging economies.



BRIC Countries

These 4 large countries account for more than 40% of the world's population and almost a third of the world's land mass.

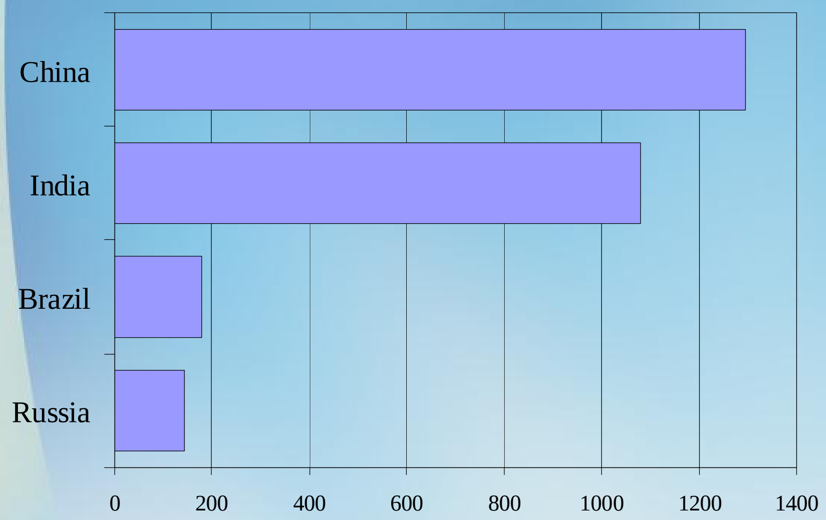
	Population, mln people	Land area, thousand sq. km	Number of regions/provinces
	2004	*2004*	*2004*
Brazil	179	8459	27
China	1296	9327	22
India	1080	2973	35
Russia	143	16888	89
World	6345	130329	

Source: World Development Indicators

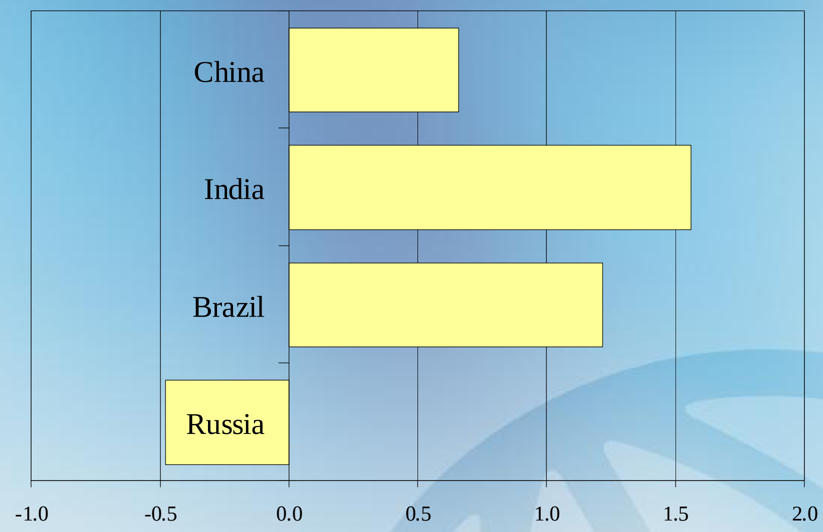
Demographic indicators: size and growth of population

These countries exhibit considerable variability with respect to population and population growth. Only Russia is experiencing an absolute population decline, which is expected to increase in future years as the population ages.

Population: 2004 (millions)



Average population growth: 2000-2004 (annual %)



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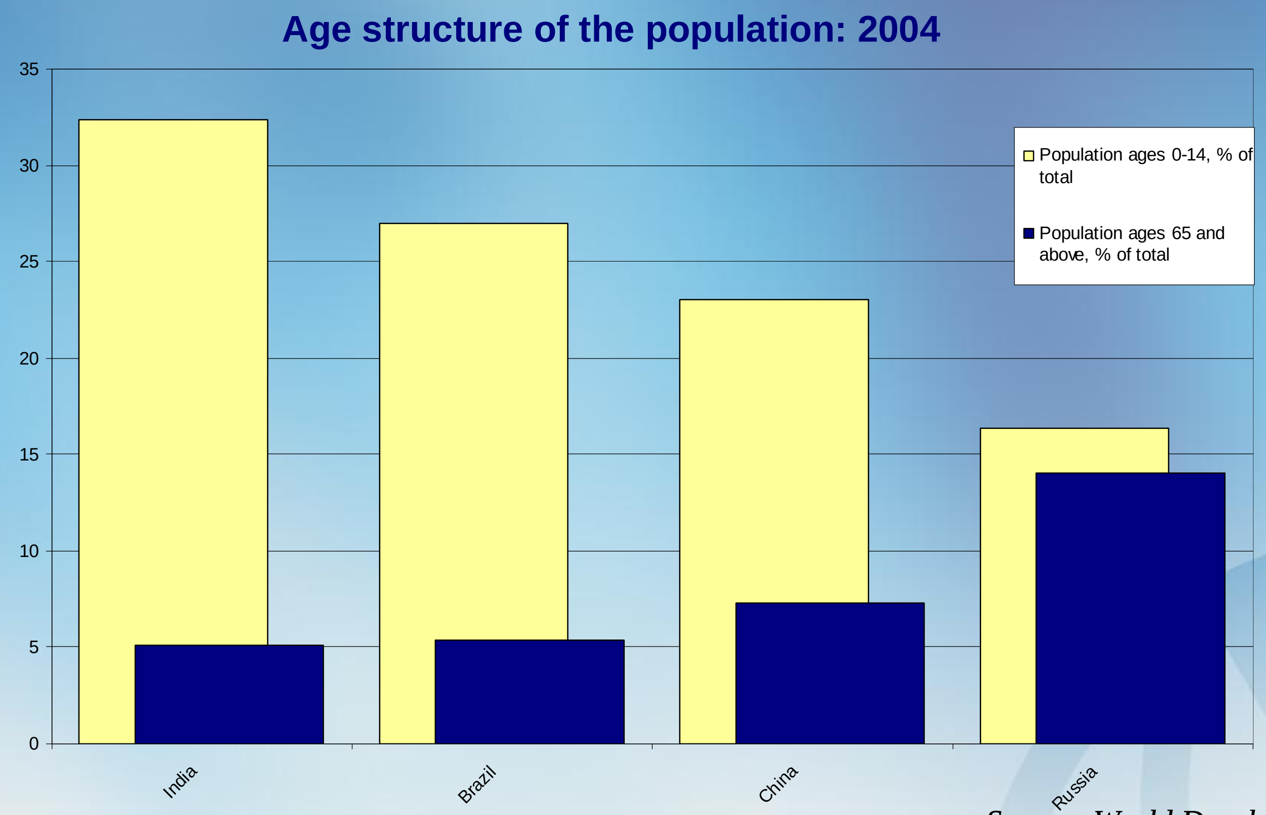
Source: World Development Indicators

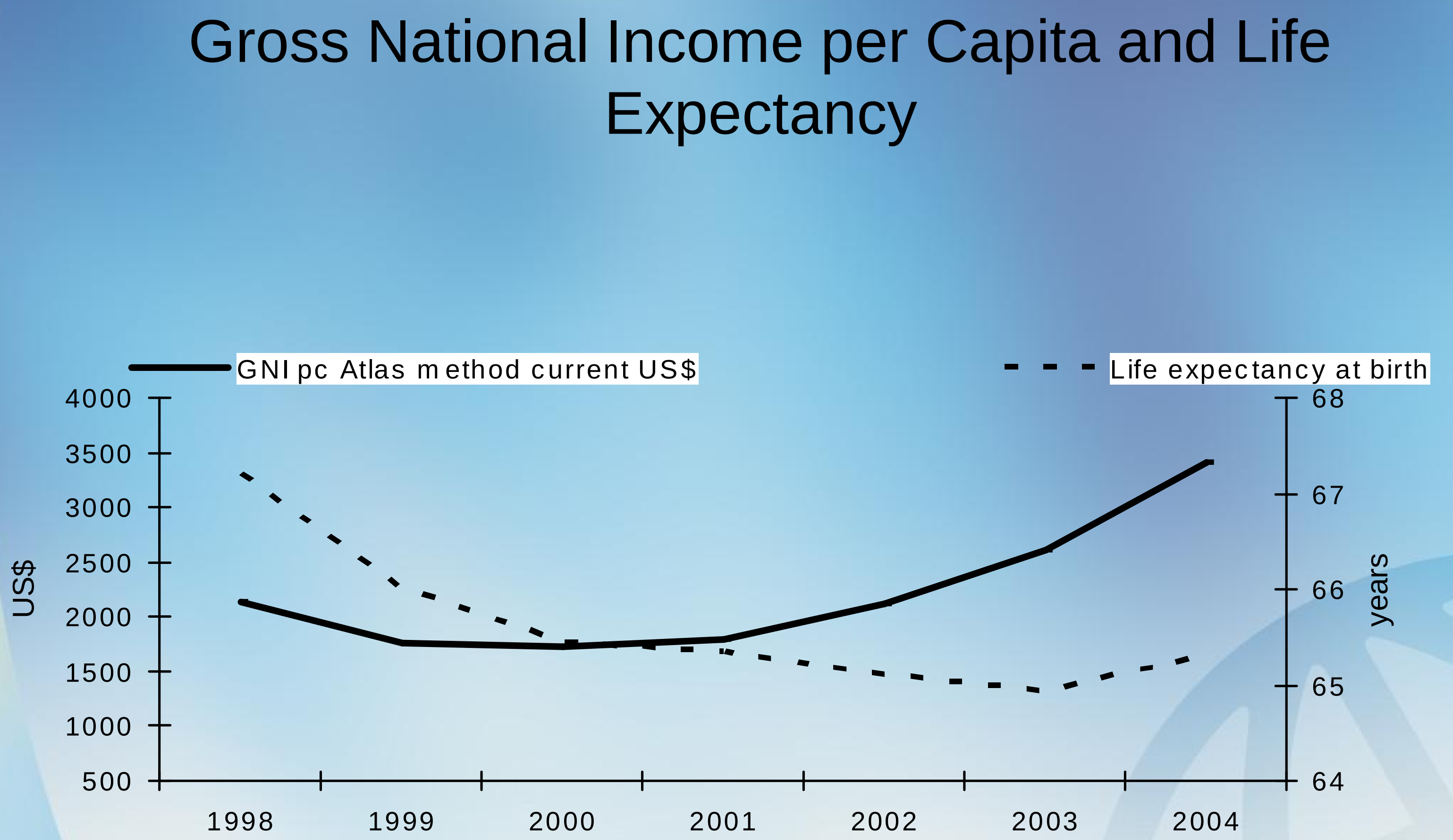
Demographic indicators: age structure

Russia has a significantly older population than the other 3 countries.



Source: World Development Indicators

Russia is the only country where until recently life expectancy was not correlated positively with strong growth in incomes



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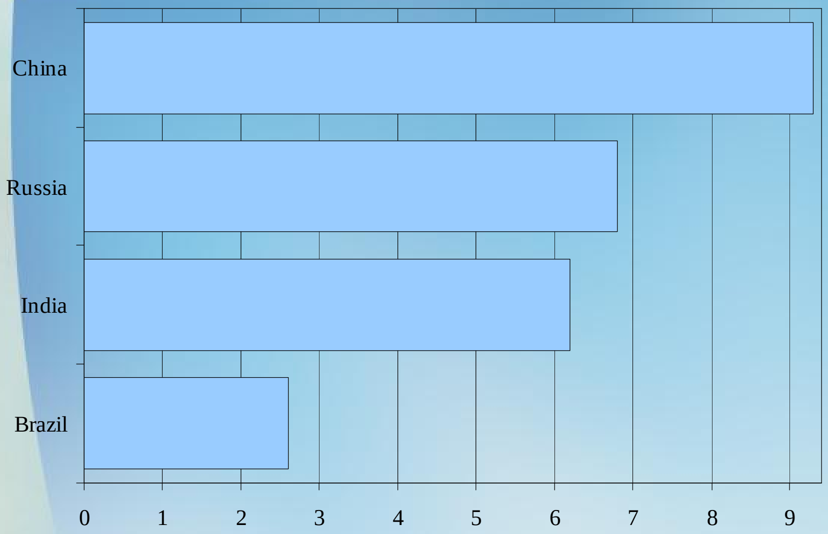
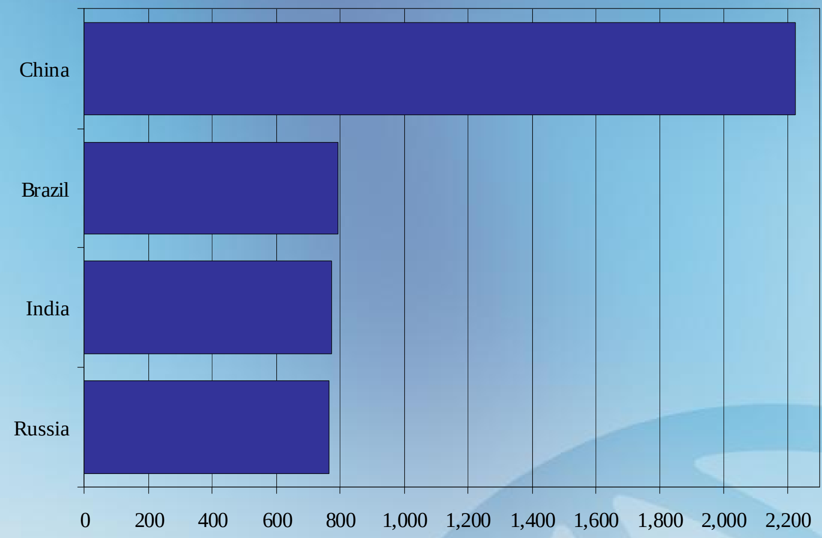
General economic indicators: GDP volume and GDP growth

Most of these countries have been experiencing significant economic growth in recent years, particularly a number of those countries with relatively low GNI per capita.

Average GDP growth: 2000-2005 (annual %)



GDP: 2005 (bln USD)



Source: World Development Indicators, World Economic Outlook

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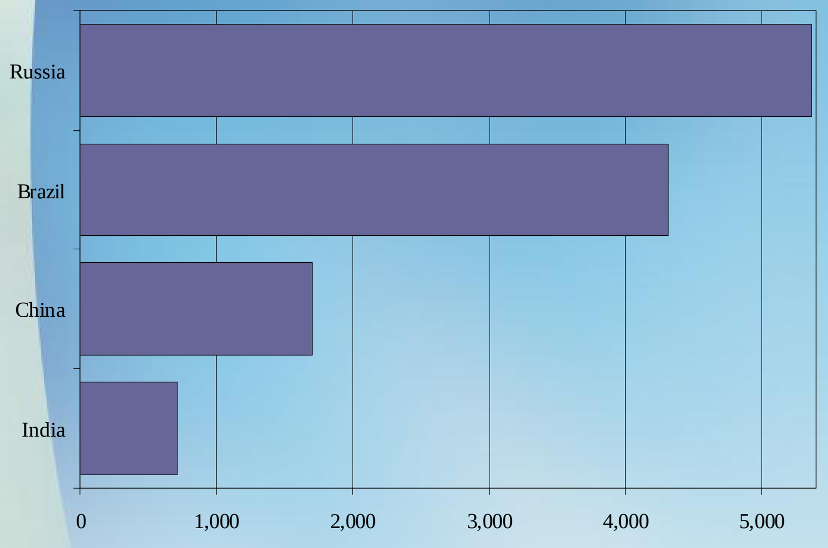
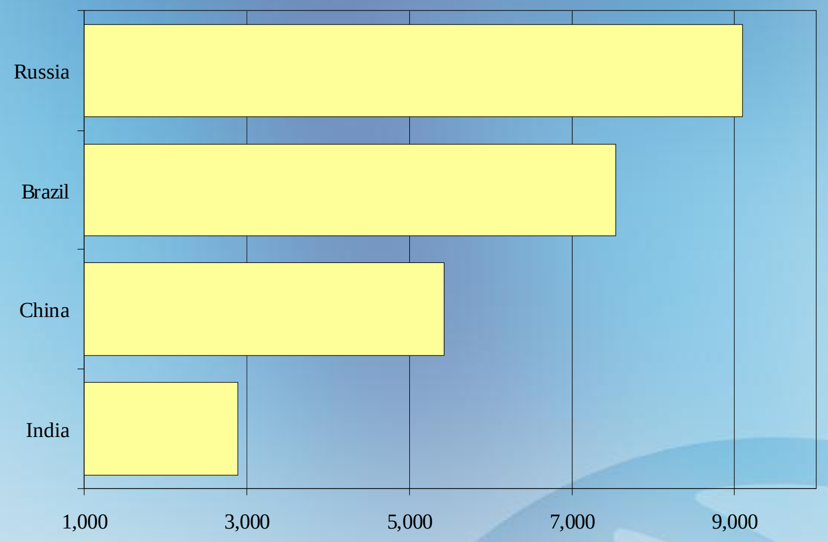
General economic indicators: GDP per capita

GDP per capita: 2005 (USD)



GDP per capita, PPP 2004 (constant international 2000 $)



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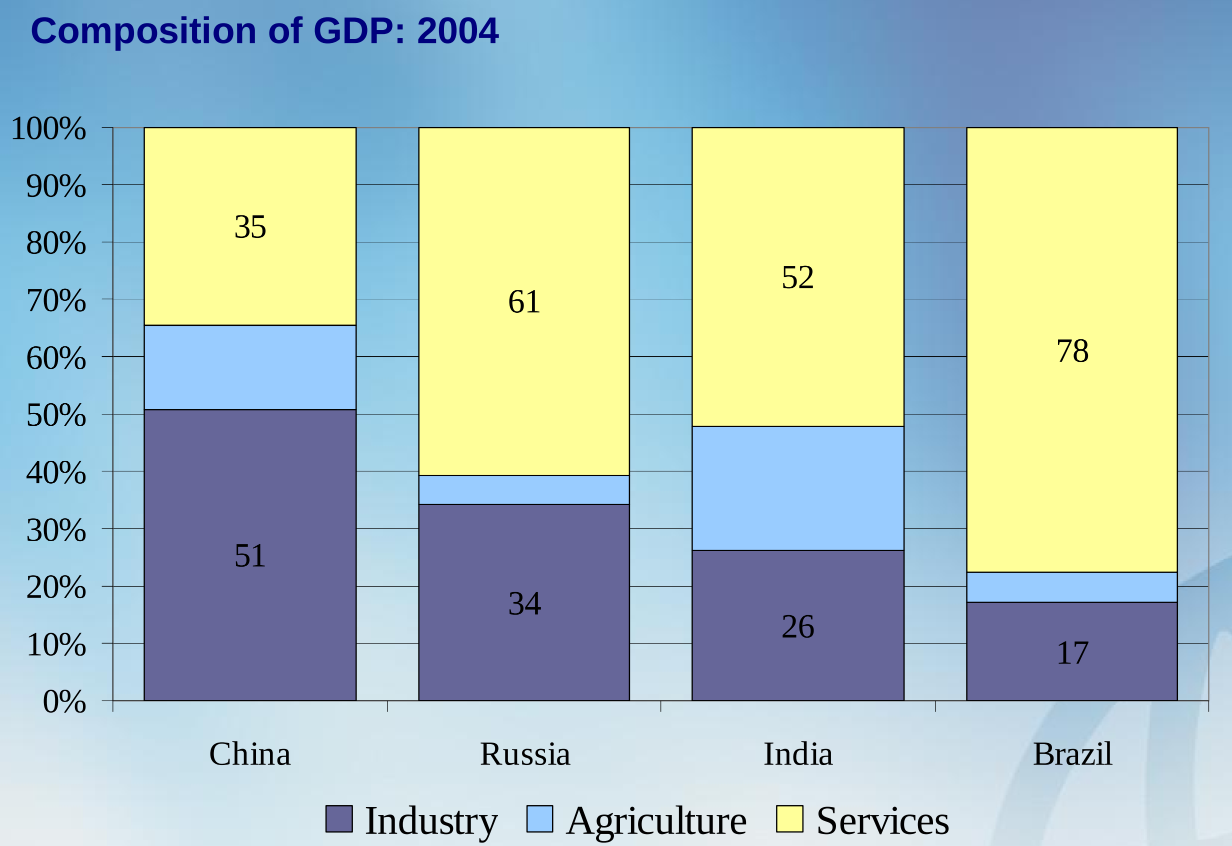
General economic indicators: GDP composition

China has a relatively small service sector, and a relatively large share of industry in GDP. In reality, Russia may be a bit closer to China than appears in the graph due to transfer pricing schemes that shift a good share of oil profits to services (trade).



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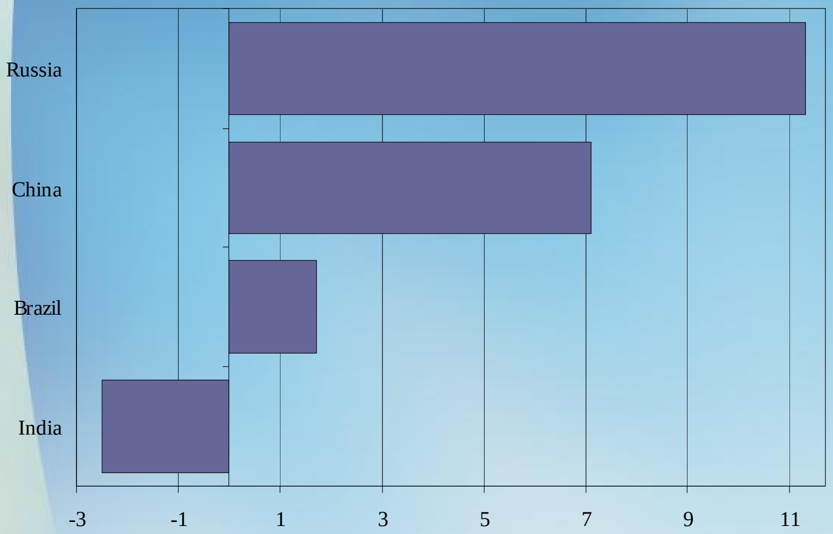
Source: World Development Indicators

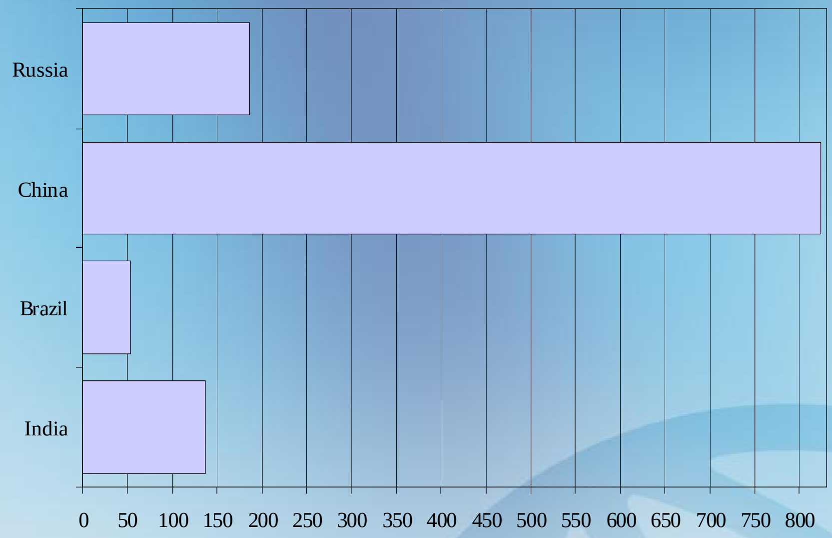
General economic indicators: current account and gross foreign reserves

With the exception of India, BRIC countries exhibited current account surpluses in 2005. Russia's current account is particularly strong due to high oil prices. China has accumulated foreign reserves that dwarf those of any other of these countries.

Current account balance: 2005 (% of GDP)



Gross foreign reserves: 2005 (bln USD)



Source: World Economic Outlook

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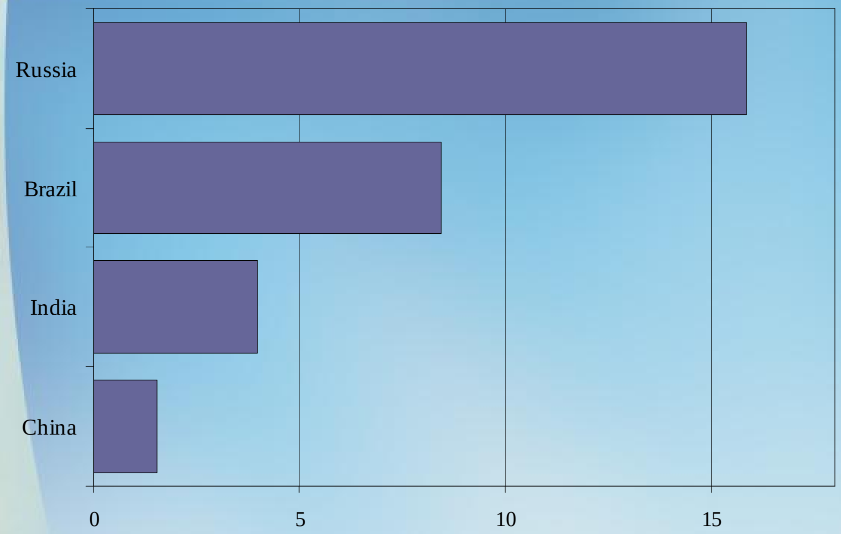
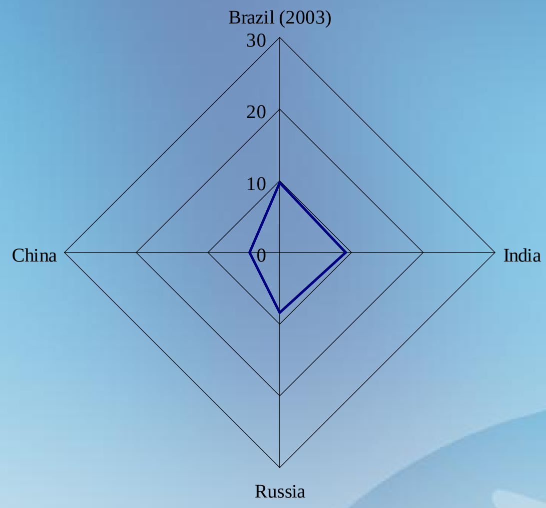
General economic indicators: inflation and unemployment

BRIC countries have achieved unemployment rates of close to or less than 10 per cent of the active population. But many of these countries still have significant disguised unemployment as surplus labor in the countryside or budgetary sphere.

Average CPI inflation: 2000-2005



Unemployment: 2004 (ILO definition, %)

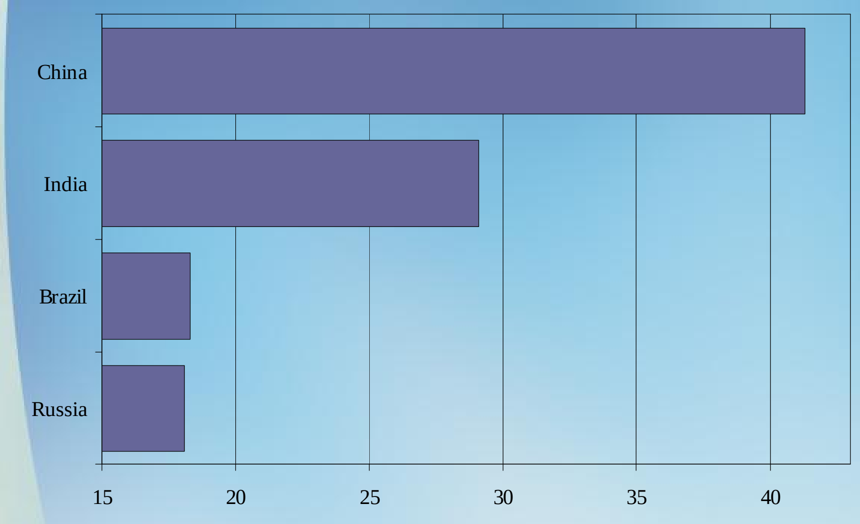


Source: World Development Indicators, World Economic Outlook, ILO

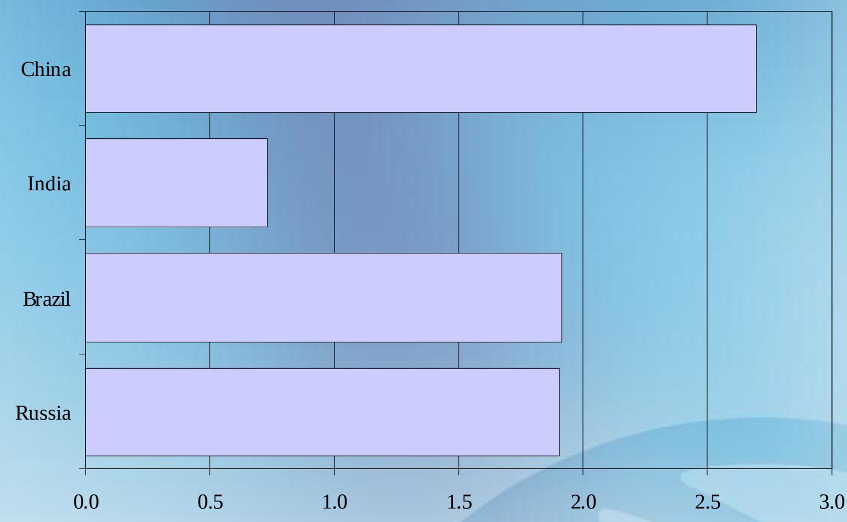
General economic indicators: investments and FDI flows

With respect to levels of investment and the attraction of FDI, China's performance dwarfs that of other large client countries. Investment rates in Brazil and Russia appear to be rather low.

Share of investment in GDP: 2005 (%)



FDI inflows: 2005 (% of GDP)



Investment = gross fixed capital formation

Source: World Development Indicators, World Economic Outlook

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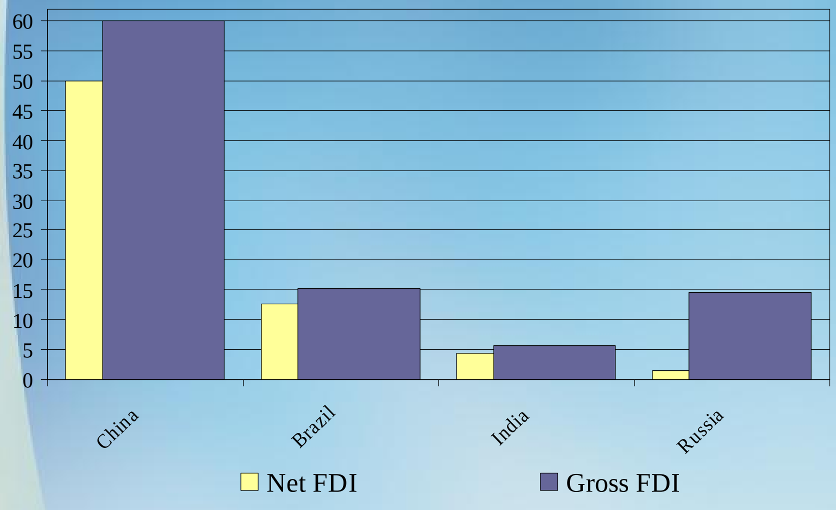
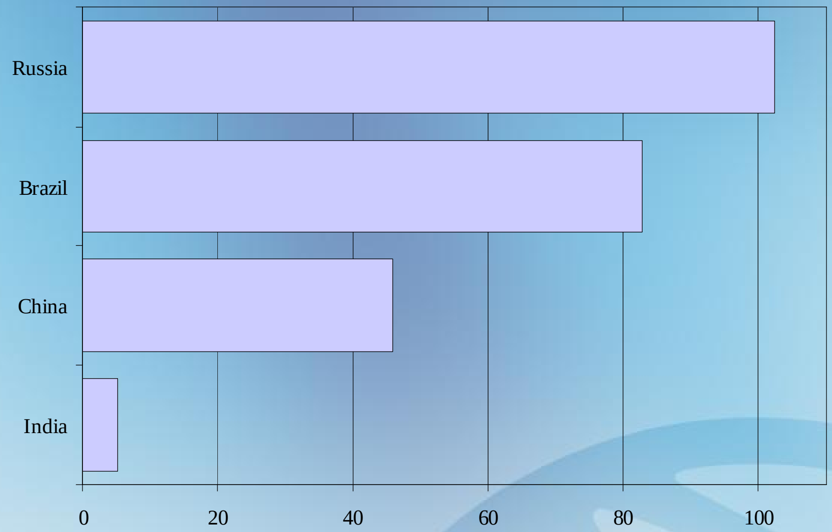
General economic indicators: gross and net FDI

In per capita terms, inflows of FDI in 2005 favor Russia. Russia exhibits substantial fixed capital investment abroad.

Gross FDI inflows and net FDI: 2005 (bln USD, from BoP)



Gross FDI per capita: 2005 (USD, from BoP)

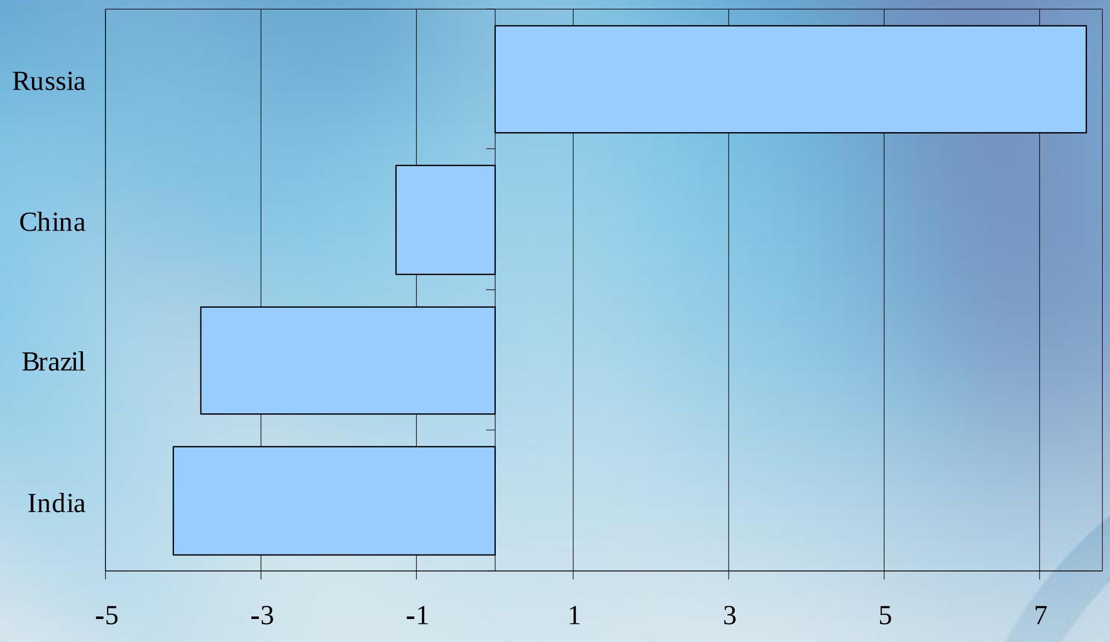


Source: World Economic Outlook

Fiscal indicators: central government fiscal balance

With the exception of Russia, BRIC countries operated with budget deficits in 2005. Fiscal imbalances were particularly severe in India. Adding the regional budget deficits would bring India's deficit to over 7 percent of GDP.

Central government fiscal balance: 2005 (% of GDP)



Source: Rosstat, World Economic Outlook

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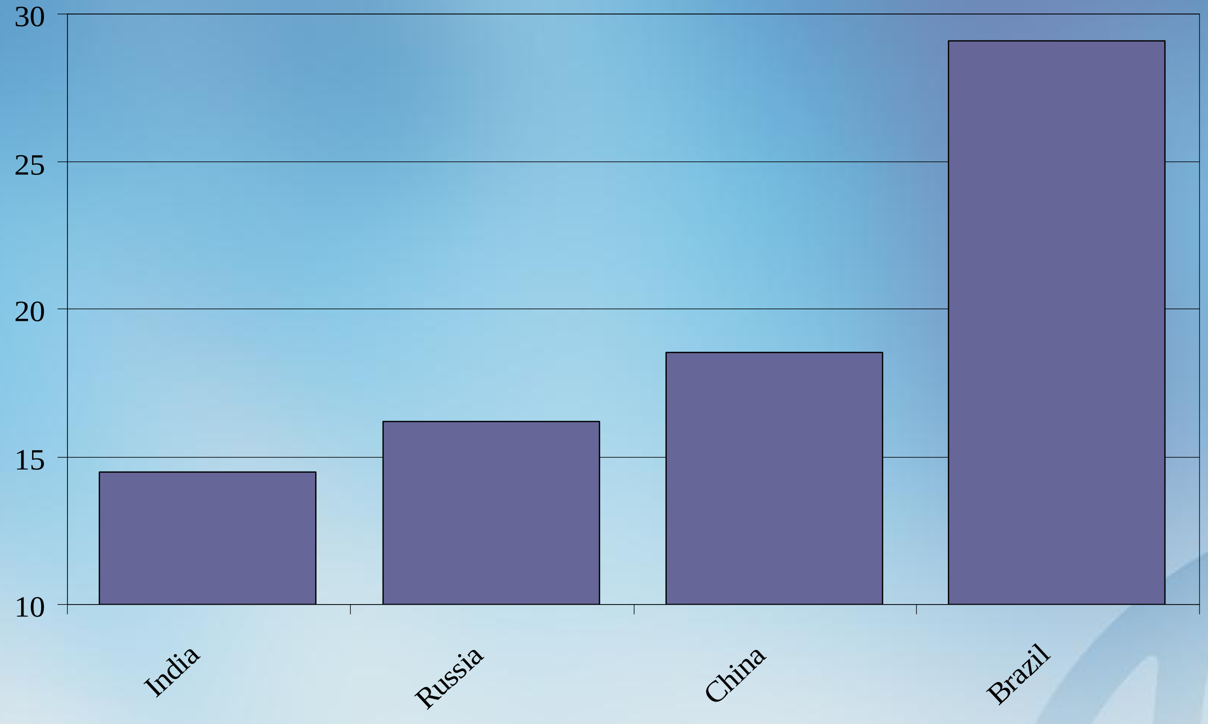
Fiscal indicators: government expenditures

With the exception of Brazil, central government expenditures for these countries fall in the range of 15-20 percent of GDP

Central government expenditure and net lending: 2005 (% of GDP)



Source: World Economic Outlook

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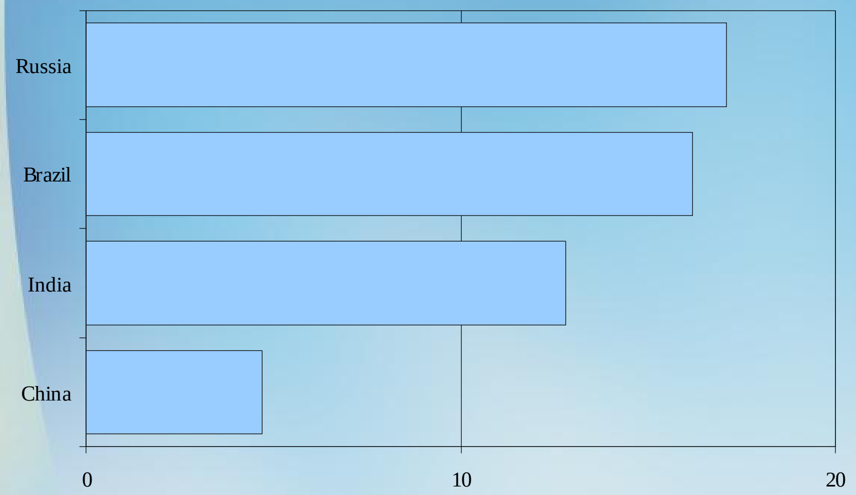
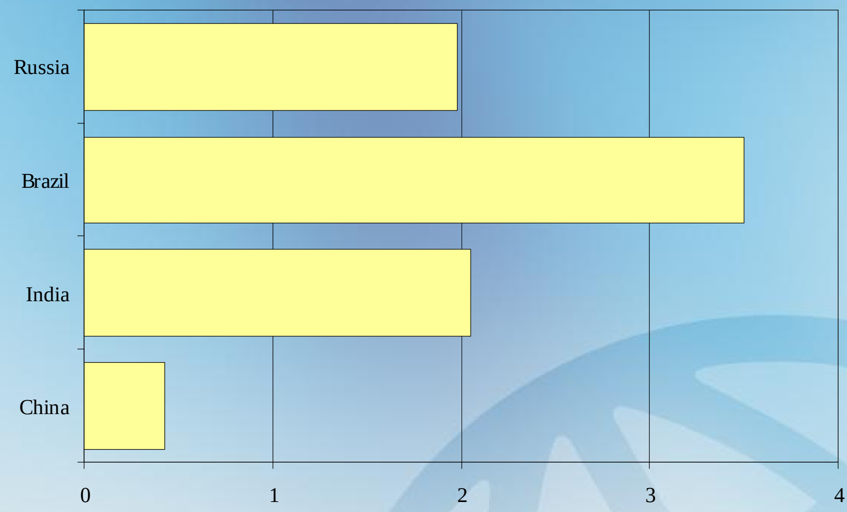
Debt indicators

Brazil is relatively burdened by government debt and debt service.

Public sector long term debt outstanding and disbursed: 2004 (% of GDP)



Public and publicly guaranteed debt service: 2004 (% of GNI)



Source: World Development Indicators

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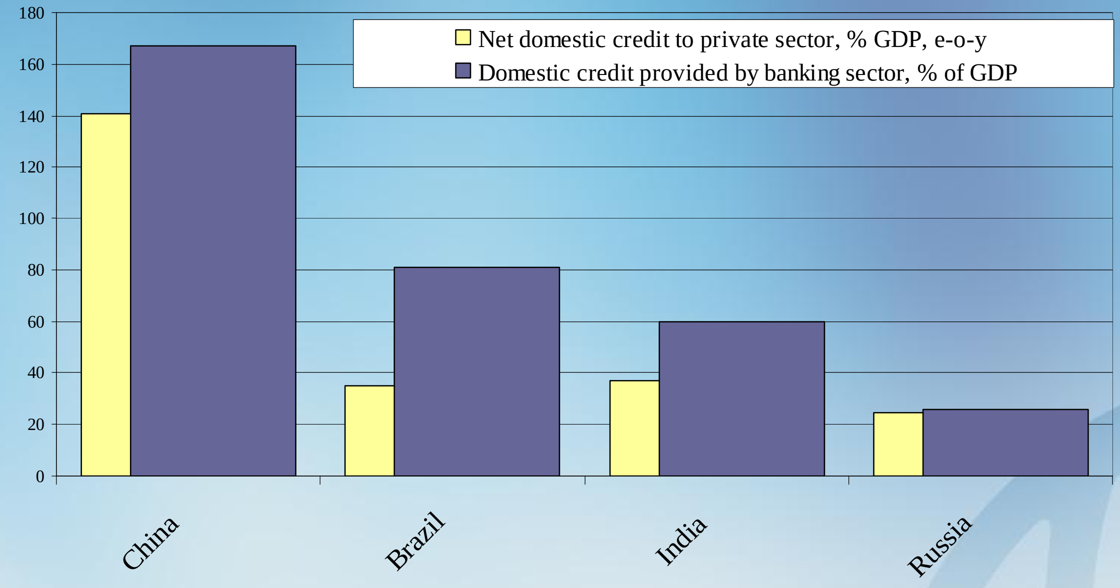
Institutional indicators: banking sector

Outstanding domestic credit at end-2004 was an order of magnitude higher in China than in any other of these four countries. Financial markets are relatively poorly developed in Russia.

Private sector and domestic banking sector development: 2004

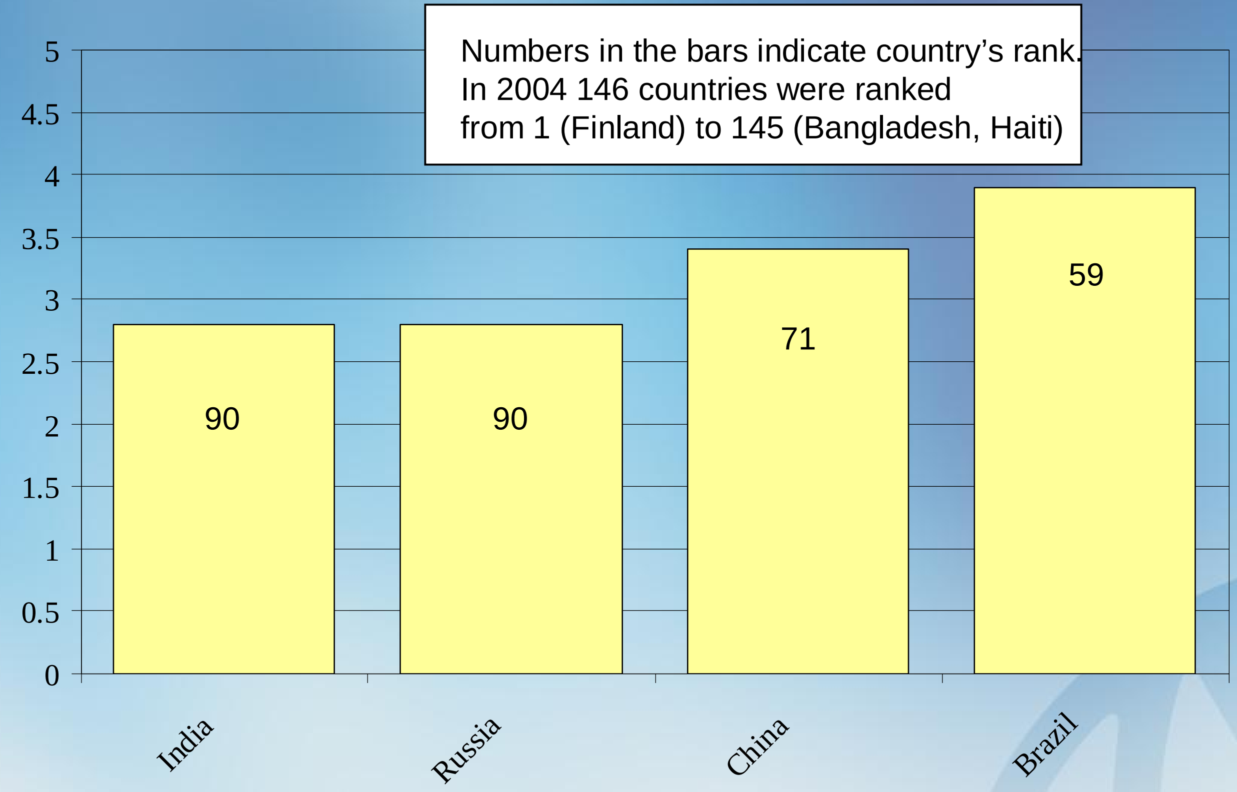


Source: World Development Indicators

* Estimate ВСЕМИРНЫЙ БАНК

Institutional indicators: corruption

Corruption perception index
(10 – highly clean, 0 – highly corrupt): 2004



Source: Transparency International

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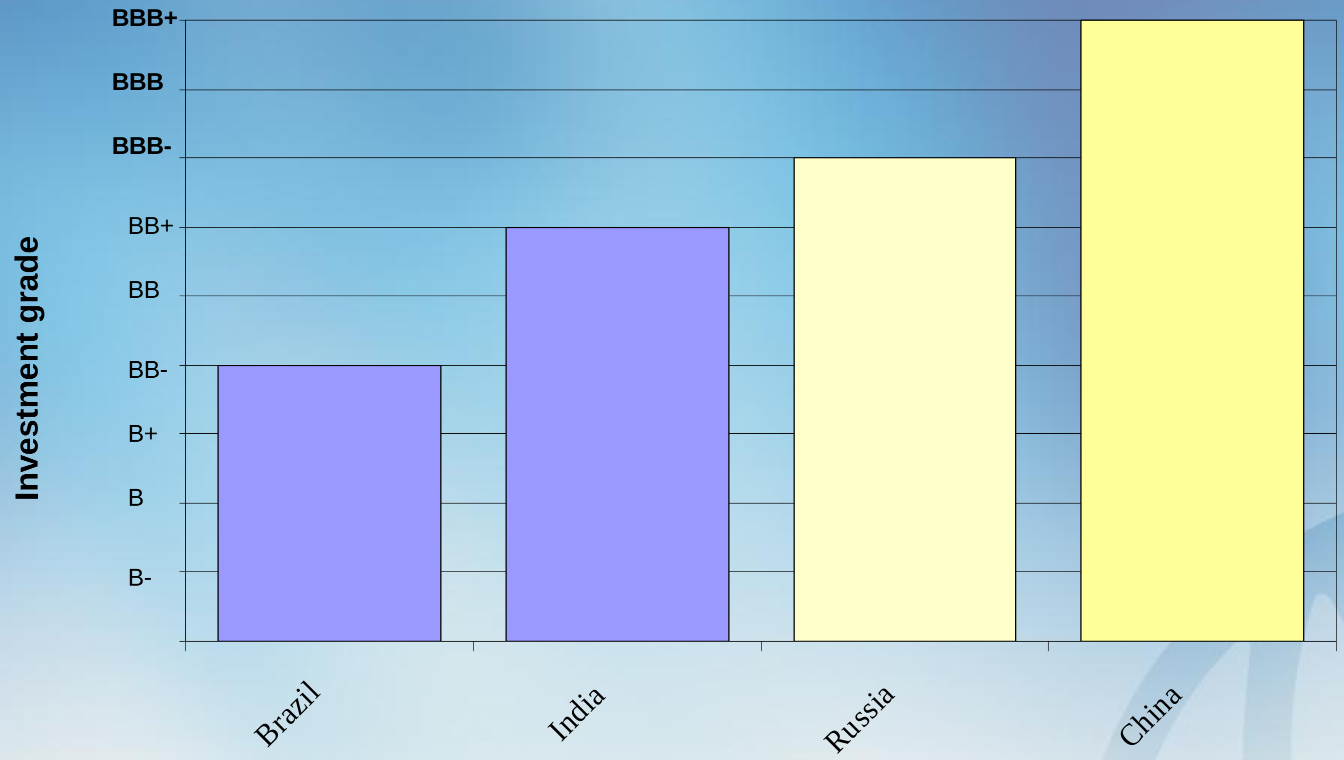
Institutional indicators: investment ratings

China, Russia, and India now have Standard and Poor's sovereign investment ratings of BB+ and above.

Standard & Poor's foreign currency sovereign investment rating: 2005



Source: Standard & Poor's

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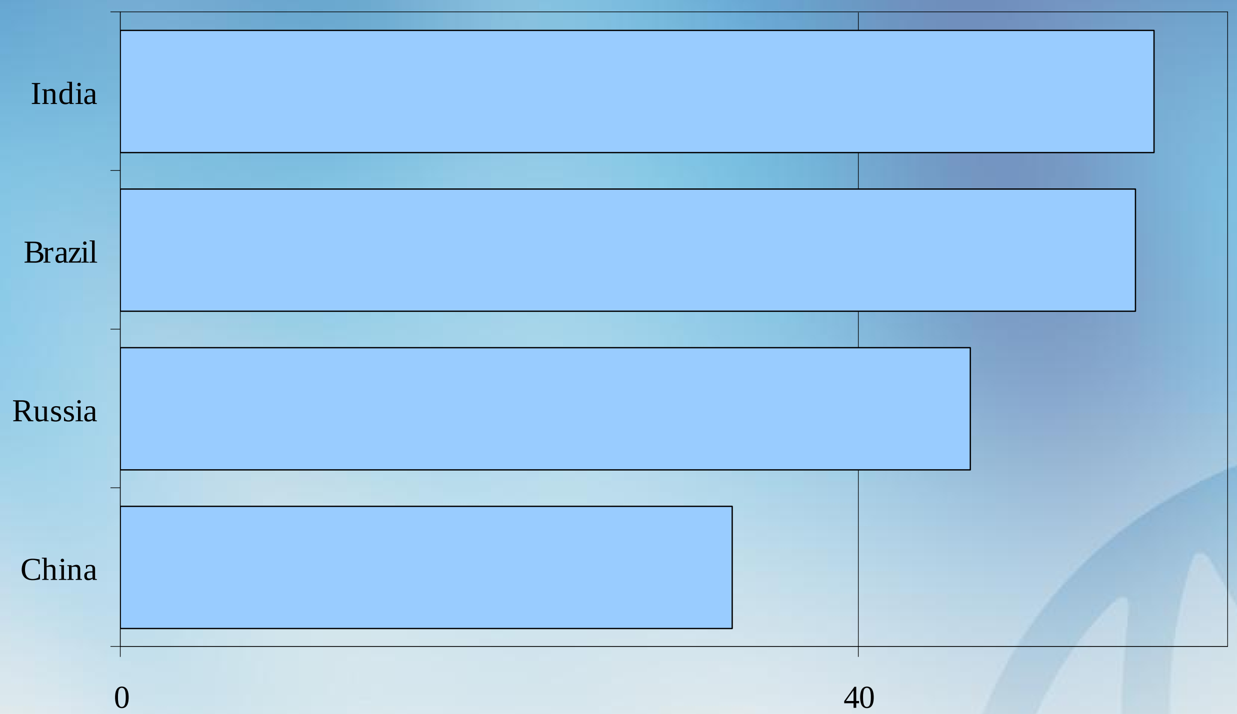
Institutional indicators: market capitalization

Market capitalization in BRIC countries is less than 60 percent of GDP.

Market capitalization: 2004 (% of GDP)



Source: World Development Indicators

Business environment

	Brazil	China	India	Russia
Ease of Doing Business	119	91	116	79
Starting a business	98	126	90	31
Dealing with Licenses	115	136	124	143
Getting Credit	80	113	84	148
Protecting Investors	53	100	29	73
Enforcing Contracts	70	47	138	62
Closing a Business	141	59	118	71

Source - Doing Business in 2006: Protecting Investors

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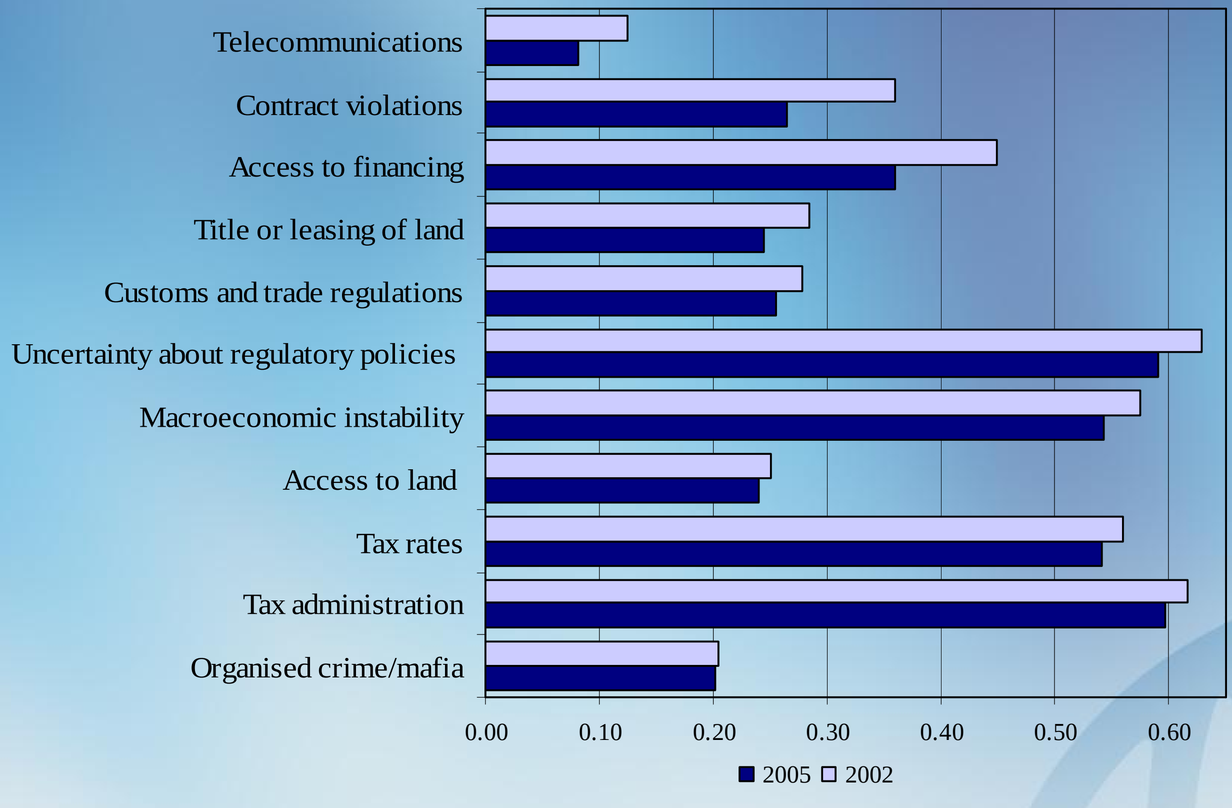
Russia: positive changes in the business environment, 2002-2005

Percent of firms indicating a problem:



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Source: EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS)

Russia: negative changes in the business environment, 2002-2005

Percent of firms indicating a problem:

Source: EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS)

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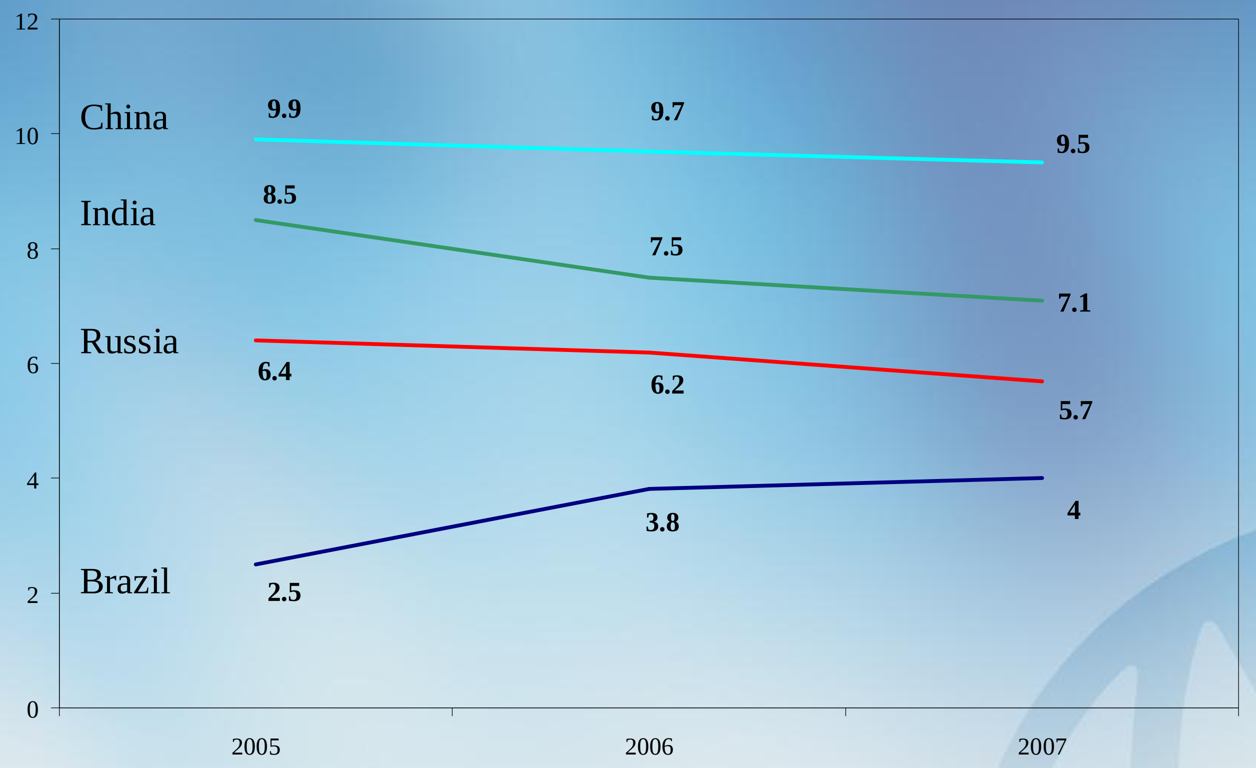
Short term outlook: GDP growth rate projections



Source: OECD Economic Outlook

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Short term outlook:
fiscal balance and inflation

Cons government fiscal balance projection

	2005	2006	2007
India	-7.7	-7.2	-6.8
Brazil	-3.1	-2.5	-1.8
China	-0.7	-1.1	-1.2
Russia	7.6	6.5	5

Inflation projection

	2005	2006	2007
India	4.2	4.8	4.3
Brazil *	5.7	4.5	4.5
China	3.8	3.4	3.5
Russia*	10.9	10.5	10

* - *year end inflation*

Source: OECD Economic Outlook

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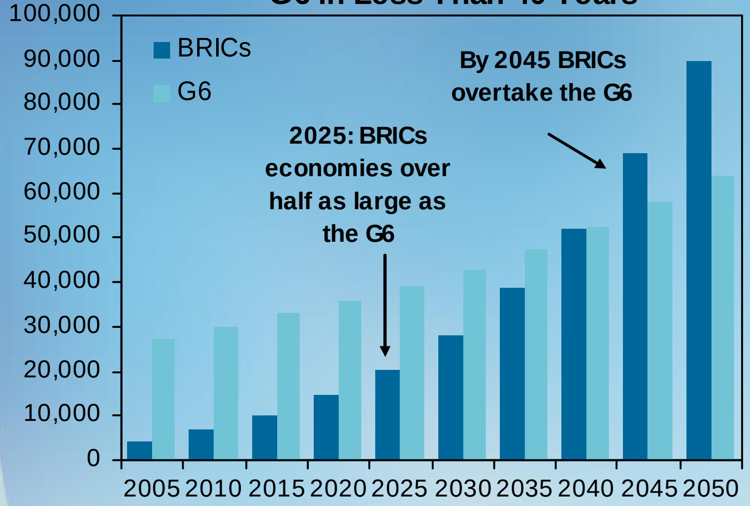
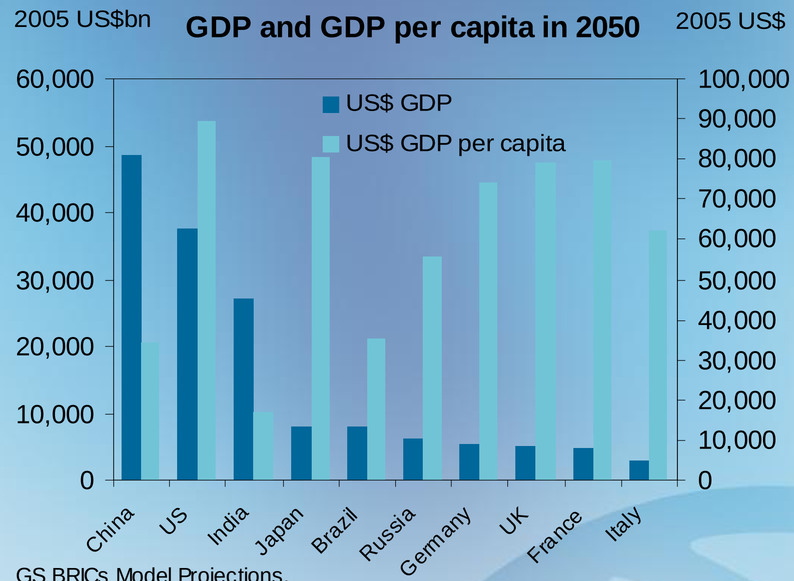
Long term outlook:
The rise of the BRICs



GS BRICs Model Projections

The Largest Economies Will Not Be the Richest



GS BRICs Model Projections.

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Source: Goldman Sachs

Conclusions (1)

- In the short term, strong overall macroeconomic fundamentals sustained in China, India and Russia and improvements reached in Brazil. This will continue to attract substantial flows of foreign investment, further boosting potentials for the future output growth.
- Risks related to global economic imbalances will continue to weight on the outlook for BRIC countries and especially Brazil.
- Country specific risks and challenges include:
  - *Russia* - sustained upward pressure on the exchange rate and inflation; potential fiscal easing.
  - *China* - potential for increased protectionism at Chinese exports.
  - *India* - high level of off-budget subsidies for petroleum products.
  - *Brazil* - expansionary fiscal policy.
- Presidential election in October 2006 (in Brazil) and in March 2008 (in Russia) may add uncertainty to the outlook for these countries.

Conclusions (2)

- The BRICs are likely to maintain their comparative advantages in the long term. This will help to ensure relatively high growth rates and therefore increasing share of these economies in the world market.

- But the sustainability of high growth will depend on the several crucial factors:
  - sound and stable macroeconomic and development policies;
  - development of strong and capable institutions (including political);
  - human development (improved healthcare and education);
  - increasing degree of openness.