



Interview: Roundtable discussion with São Paulo Federation of Industries (Fiesp) President Paulo Skaf, Fiesp Chief Economist Paulo Francini and Fiesp International Affairs Director Thomas Zanotto on the outlook for 2014

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Brazil’s economy will suffer another year of slow growth in 2014, hurt by inflation, high interest rates and sluggish consumer demand. One of the few bright spots will be exports, which should rise as manufacturers shift from a soft domestic market to burgeoning overseas opportunities. Directors of the powerful São Paulo Federation of Industries met with reporters recently to discuss the outlook for 2014. Excerpts follow:

- **Skaf:** “Some of the problems undermining Brazil’s competitive position improved in 2013 but most did not. High taxes continue to be the rule, despite some temporary tax breaks. We’re still seeing bureaucracy and regulation without end. We have libraries full of laws that no one understands. Most are out-dated. Lack of infrastructure remains a major challenge. We can only hope progress will be made in these areas in 2014.”
- **Francini:** “GDP growth will slow in 2014 because of a slowdown in domestic demand due to higher interest rates. Business confidence, in turn, has declined as a function of poor prospects for demand. That will undermine the investment rate in 2014. Weak consumer demand shows that the model for development based on stimulation of consumption has been exhausted.”
- **Zanotto:** “In 2013, we encouraged the government to revive the Mercosur-EU trade talks and the government is doing just that. We were the ones to suggest the idea of a multi-track approach under which some countries would comply with free trade rules over a longer period of time than others.”
- **Francini:** “Trade will show an inversion in 2014 from the 2013 trend. In 2014, exports will rise faster than imports. That’s because of soft domestic demand, which will reduce import pressure and also redirect manufactured products from the domestic market to exports.”
- **Skaf:** “We’re forecasting an exchange rate of R\$2.40 to-the-dollar. We think that’s also going to make a big difference for exporters.”
- **Zanotto:** “Now, we are preparing a road map for trade negotiations between Mercosur and Japan. We are hoping to deliver it to the Brazilian administration that takes office in January of 2015. After that, we are eyeing a road map for Mercosur-U.S. trade.”
- **Francini:** “Unfortunately, our deficit when it comes to trade in manufactured goods will continue in 2014. In 2013, the deficit was \$108 billion, up from \$94 billion in 2012. In 2014, it will grow again, but not as fast, to \$112 billion.”

Top News of the Week

Long power struggles finally comes to an end at Brazil's largest supermarket chain. Brazil's largest supermarket chain, GPA, last week announced the resignation of president and CEO Enéas Pestana after four years at the helm. Pestana will be replaced by Ronaldo labrudi. The changeover marks the final move in an elaborate chess game for control of GPA. The company was founded by the Diniz family in the 1940s. In 1999, French retail giant Casinó bought a large stake in GPA, with an option to gain control in 2012. However, efforts to exercise the option generated conflict between Casinó and GPA Chairman Abílio Diniz. The issue was finally resolved when Diniz stepped down from GPA's board in September. Pestana was originally appointed GPA chief executive by Diniz in 2010. The company's new president, labrudi, previously served as Casinó's representative on the GPA board. His appointment as CEO marks the effective takeover of GPA's management by Casinó.

Both UN and IMF reduce Brazil growth forecasts for 2014, 2015. Both the United Nations and the International Monetary Fund last week reduced forecasts for Brazilian GDP growth in 2014 and 2015, citing high interest rates and lack of investment, especially in much needed infrastructure. The UN cut its forecast to 3.0% and 4.2% for 2014 and 2015, respectively. The UN's previous forecasts were 4.5% and an enviable 5.6%. The IMF was much less sanguine in its projections, saying Brazil will grow only 2.3% this year and 2.8% in 2015. The IMF's previous forecasts were 2.5% and 3.2%. The IMF cited problems for the Brazilian economy ranging from persistent government deficits to lower international commodities prices and a burgeoning current account deficit. For the most part, Brazil will lag behind global and emerging-country growth rates over the next two years. Here is a summary of UN and IMF economic growth projections:

		IMF	UN
Global	2014	3.7%	3.0%
	2015	3.9%	3.3%
Emerging	2014	5.1%	5.1%
	2015	5.4%	5.3%
Brazil	2014	2.3%	3.0%
	2015	2.8%	4.2%

Sources: IMF and UN

Brazil posts biggest current account deficit in history, Central Bank says. Brazil posted its largest ever current account deficit in 2013, some \$81.3 billion, or 3.66% of GDP, the Central Bank said last week. The figure represented a sharp increase over the 2012 deficit of \$54.2 billion. The deficit rose last year on weak trade performance and rising debt-service costs. Big deficits in areas such as travel and tourism and profit remittances also contributed to the record current account gap. The Central Bank is forecasting a small improvement in 2014 performance, with the current account deficit narrowing to about \$78 billion. The Central Bank is hoping a weaker Brazilian Real this year will produce a trade surplus of \$10 billion, up from the 2013 figure of just \$2.56 billion. For the first time since 2001, foreign direct investment did not cover the current account deficit in 2013. FDI was only \$64.0 billion, down slightly from \$65.3 billion in 2012. FDI is expected to remain broadly stable this year. Economists said a current account gap of 3.66% was worrisome but not critical. Brazil has more than \$370 billion in foreign reserves and is unlikely to face any short-term or even medium-term balance of payments problem.

Rousseff, Mantega tout concession program, appeal to investors at Davos. For the first time under President Dilma Rousseff, the Brazilian government came out in full force at the World Economic Forum in Davos, Switzerland this year. In a 30-minute speech to the Forum last week, President Rousseff touted the administration's new policy of auctioning concessions to highways, ports and airports. She said private investment, including from overseas, was essential to the success of Brazil's infrastructure development program. She repeated many of the points made at previous meetings with investors, including Brazil's respect for contracts and commitment to economic stability. The President said, "Foreign investment is always welcome. The government is taking steps to make its entrance into Brazil even easier." Finance Minister Guido Mantega elaborated on some of the same themes, saying Brazil was firm in its battle to pull down 6% annual inflation while reining in government spending. He predicted a rise in Brazil's investment rate from the current 19% of GDP to 24% over the next half decade.

Business News

Investment News:

AB Inbev, the global brewer created from Belgium's Interbrew and Brazil's AmBev, last week announced a major foray into the Asian market. The company paid \$5.8 billion to purchase control of South Korea's Oriental Brewery. AB Inbev will add Oriental to its already extensive list of properties, including Mexico's Modelo and U.S. brewer Anheuser-Busch.

Company News

Pedro Parente last week announced his resignation as president of the Brazilian subsidiary of global commodities giant **Bunge**. Parente said he was leaving the company to enter into semi-retirement. Parente was named president and CEO of Bunge's Brazil unit in 2010. In the 1990s, Parente served as a top aide to Brazilian President Fernando Henrique Cardoso. Bunge said it will name a new president for its Brazilian operation in the next few weeks.

Brazilian startup airline **Azul** last week named a new president. He is 38 year-old consultant and executive Antonoaldo Neves. He will replace Azul founder David Neeleman, who will remain as the carrier's chairman. The move comes ahead of a planned initial public offering of shares in Azul. As a consultant for McKinsey, Neves organized the recent merger of Azul and Brazil's Trip airline.

Brazilian Calendar

Tuesday, January 28, Summit of Latin American and Caribbean Leaders, Havana, Cuba

Wednesday, January 29, Brazilian Central Bank release of data on lending volume, interest charges and loan defaults, Brasília

Thursday, January 28, Brazilian Census Bureau (IBGE) release of monthly unemployment figures, Rio de Janeiro

Friday, January 29, Brazilian Central Bank release of primary budget surplus data, Brasília

Indicators

Foreign exchange rate: **R\$2.40 = \$1.00**

Arrears in payments on **consumer credit** operations fell in 2013 by 2% against the previous year, the first decline in 14 years, according to a report last week by consumer credit rating agency Serasa. Bounced checks fell back by 9.4% while arrears on credit card payments declined 4.8%. Arrears on bank loans rose by a nominal 0.6%. Economists said arrears were in decline as consumers scaled back on new credit operations in order to pay down existing debt. Meanwhile, banks and credit card companies tightened up on credit-granting operations.

Brazilian federal **tax revenues** reached a record R\$1.14 trillion in 2013, an increase of 4.1%, in inflation-adjusted terms, against the previous year, the Federal Tax Authority reported last week. The increase beat government projections for a 3.5% rise. Revenues were aided by an emergency program for renegotiation of back taxes owed by corporations. In November and December, the government collected extraordinary revenues of R\$21.8 billion from the program. The government surpassed its 2013 targets despite a sluggish economy and tax breaks for businesses and consumers equal to some R\$77.8 billion in lost revenue.

