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BRAZIL BULLETIN INTERVIEW: Carlos Alberto Safatle, Chairman of the São Paulo Economists Association –"In the rest of the world, interest rates are near zero. Even if Brazil had a base rate of 8%, it would still be one of the highest in the world."—
"Watch fiscal policy…it's the key to everything," according to Carlos Alberto Safatle, Chairman of the São Paulo Economists Association. Safatle discussed policies and prospects for the new Dilma Rousseff administration in an interview. Excerpts follow:

- On taxes and the tax burden: "Brazil's tax burden is close to 40% of GDP. The global average is 30%. This is Brazil's Achilles Heel. Any more increases in the tax burden will make Brazilian manufacturers uncompetitive. On the other hand, if we could cut the tax burden by one percentage point per year until we reach 30%, that would be enough to double GDP."
- On fiscal reform: "Fiscal reform is the key to everything. If you cut deficits, you can cut interest rates. That, in turn, will stimulate investment and growth. Interest rates are a consequence, not a cause. Dilma Rousseff has said she wants to pull the base rate down to 8%. The only way to do that is by starting with fiscal reform."
- On Brazilian interest rates: "In the rest of the world, interest rates are near zero. Even if Brazil had a base rate of 8%, it would still be one of the highest in the world."
- On investments and GDP growth: "Today, we have an investment rate equal to only 18.5% of GDP. To get sustainable growth, we need 25%. To do that, we need the private sector. Brazil's private sector is highly competitive. Our executives and our companies have proven admirably adaptable through periods of high inflation. They have been successful and profitable in the face of a huge tax burden and high interest rates. That goes for services as well as manufactured products."
- On de-industrialization: "De-industrialization is already happening. Twenty years ago, commodities represented 20% of our exports. Now, they account for 40%. Imports are so cheap that contractors are importing building materials! We're importing paint!"
- On the foreign exchange problem: "The strong Brazilian Real is making our exports less competitive. But high taxes are an even worse problem. If we had a real tax reform we could have a dollar at R$1.50 and still be competitive."

Brazil closes out 2010 with $47.5 billon current account deficit, highest since 2001. Brazil's current account deficit nearly doubled in 2010 to $47.5 billion from $24.3 billion in 2009, on rising profit remittances and a declining trade surplus, the Central Bank said last week. Battered by competition from cheap imports, Brazil's trade surplus fell in 2010 to $20.7 billion from $25.3 billion the previous year. Profitable local units of multinationals remitted $30.4 billion to parent companies in 2010, up from $25.2 billion in 2009. An over-valued Brazilian Real, meanwhile, hurts exports but made foreign travel seem cheap to Brazilians, who spent an unprecedented $10.5 billion overseas in 2010, more than double the previous-year figure of $5 billion. The deficit was covered, but just barely, by foreign direct investment, which rose to $48.5 billion in 2010 from $25.9 billion in 2009. FDI jumped spectacularly in December to a monthly figure of $15.4 billion, of which nearly half, $7.1 billion, represented investments by Chinese oil group Sinopec and Spain's Repsol. Central Bank economists expect an even bigger current account deficit in 2011 at $64 billion. FDI, at a projected $45 billion, will not be enough to plug the gap. Instead, Brazil will have to rely on volatile short-term portfolio investments, which totaled $52.3 billion in 2010, up from $47.2 billion in 2009.

Britain's BG Group announces massive Brazilian oil and gas investments. Britain's BG Group said last week it will boost investments in its Brazilian oil and gas operations to the equivalent of $10 billion over the next ten years. BG invested $5 billion in Brazil over the previous decade-and-a-half. The company's goal is to reach output of 400,000 barrels per day-equivalent of oil and gas in Brazil by 2020. That would make the company Brazil's number two oil and gas producer, after state-run behemoth Petrobras. Investments will go to 13 offshore platforms, on-shore storage facilities and a $1.5 billion research center.

Brazil kicks off ambitious uranium enrichment program this year. Brazil's government this year will begin implementation of a $700 million plan to make the country self-sufficient in enriched uranium, the Brazilian Nuclear Industries Corp. (INB) said last week. The state-run company's plant in Resende, Rio de Janeiro will be equipped with 16 cascade production lines and 200 enrichment units. Brazil currently has two nuclear generating plants, with a third due to come on line in 2015 and four more by 2030. Production of enriched uranium will continue to rise until the totality of domestic demand is met by 2030. Meanwhile, the need for enriched uranium will continue to be met under an agreement with European consortium Urenco, INB officials said.

Economatica: U.S. dollar at lowest ebb since 1994 Real Plan**.** In U.S. dollar terms, Brazil is now more expensive than at any time since introduction of the Real currency, according to a study by the Economatica consulting group. According to the study, $100 was equal to one market basket of basic foodstuffs in 1994, the year the Real Plan was introduced. Today, because of inflation and currency fluctuations, $100 buys only 45% of a basic market basket. At its peak, in 2002, the dollar was strong enough for $100 to buy 1.8 market baskets. The dollar has lost ground gradually against the Real since 2003. Over the last two years, the dollar has lost about 30% of its value against the Brazilian currency, partly because of a worldwide trend toward a weaker dollar and partly because of improvements in the Brazilian investment climate.

Investment News: Fuel and petrochemicals holding company **Ultrapar** last week announced a 2011 capital budget of R$1.04 billion, with slightly more than half destined for the company's fuel distribution division, Ipiranga. Investments in 2010 totaled R$820 million.

Company News: Brazilian mining, energy and logistics conglomerate **EBX** last week announced the opening of an international unit. EBX International will be based in New York and will coordinate increasing investment, funding and sales operations of the parent companies. EBX is owned by Brazilian billionaire Eike Batista.

Indicators: Brazilian **energy consumption** jumped 7.8% in 2010, led by industrial users, the National Energy Research Corp. (EPE) said last week. Total energy consumption reached 419,000 gigawatt-hours during the year. Industrial output rose 10.6% as manufacturers resumed and expanded operations following the brief 2009 recession. *** Total **lending volume** in the Brazilian financial system expanded by 20.5% in 2010 to R$1.703 trillion, or the equivalent of 46.6% of gross domestic product, the Central Bank said last week. Lending volume rose 1.6% in December alone. Average interest rates, however, remained high at 35.0% at the end of 2010, while the average default rate was equal to 4.6% of total outstanding loans. *** Brazil ended 2010 with record low **unemployment** of 5.3%, the Brazilian Census

Bureau (IBGE) said last week. The previous record was 5.7% in November. Job opportunities are growing on the heels of estimated 7.5% economic growth in 2010. *** The Getulio Vargas Foundation's **Consumer Confidence Index** (ICC) showed a slight decline in January to 121.6 points from 121.7 in December. But the index remained well above the neutral level of 100 and the historic average of 107.0 points.

Other News: In his State of the Union speech last week, **U.S. President Barrack Obama** announced his intention to visit El Salvador, Chile and Brazil in March. Brazilian officials confirmed the visit but said dates and meeting venues have not yet been selected. *** Brazil's **National Development Bank** (BNDES) posted record lending in 2010 of R$168.4 billion, a rise of 23% from the previous year, the bank said last week. Lending was led by a huge R$25 billion loan to state-run energy giant Petrobras. The BNDES approved a record 610,000 loans last year, up 56% from 2009. *** The **Central Bank** last week announced yet another measure in efforts to curb the unwanted appreciation of the Brazilian Real against the U.S. dollar. The latest rules change allows the government to operate on the foreign exchange forward sales market. In effect, the measure allows the government to buy and sell U.S. dollars for delivery at future dates. Expectations are that the government will buy dollars on the forward sales market in efforts to reduce supply pressures.

Brazilian Calendar for Week of January 31:

- **Monday, January 31** - Central Bank release of 2010 primary budget surplus figures, Brasília
- **Tuesday, February 1** - Trade and Development Ministry release of January trade figures, Brasília
- **Tuesday, February 1** - Treasury Secretariat release of annual borrowing plan for 2011, Brasília
- **Wednesday, February 2** - Brazilian Census Bureau (IBGE) release of 2010 industrial production figures, Rio de Janeiro

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R$1.68 = $1.00