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BRAZIL BULLETIN INTERVIEW: Miriam Belchior, Brazilian Planning Minister: "We are working hard to improve the quality of public spending. We believe it will be possible to do more with less." When it comes to infrastructure investments under the PAC-2 Accelerated Growth Program, Brazil is open for business and foreign investors are welcome. The need for overseas expertise and technology is especially critical as Brazil moves to develop its offshore oil reserves, according to Planning Minister Miriam Belchior. Foreign investment will also play a key role in preparations for the 2014 World Soccer Cup and the 2016 Rio de Janeiro Olympics. Belchior spoke recently with members of the overseas press corps. Excerpts follow:

- On PAC-2 investments: "PAC-2 investments will total $562 billion for the period 2011 through 2014. The private sector will be responsible for a large part of that total. The government is anxious to encourage private participation and will even offer tax, lending and other incentives to help get private companies involved. In most cases, foreign investors will be eligible for the same incentives as Brazilian companies."
- On the high-speed rail project: "We believe the high-speed rail concession between Rio de Janeiro and São Paulo will be an excellent business deal for all concerned. There are few places in the world offering the potential for rail traffic represented by these two huge metropolitan areas. A great many companies--both domestic and foreign--are organizing consortiums to bid on this project. We believe the April concession auction will be a success."
- On broader high-speed rail opportunities: "The successful bidders on the Rio-São Paulo high-speed rail project will later find that there are other, similar opportunities elsewhere in Latin America. This project is an opening wedge."
- On spending cuts: "Every year, at the beginning of the year, Brazil's government holds back a portion of its budget as a contingency against over-spending or an unexpected decline in revenues. This year is no exception. But President Rousseff has made it very clear, however, that PAC-2 investments will not be touched by any budget cuts. Similarly, spending under the government's low-cost housing program will not be cut, nor will programs aimed at eradication of extreme poverty."
- On budget cuts and inflation: "These budget cuts are also necessary in the fight against inflation and high interest rates. We are committed to economic stability, especially when it comes to inflation and fiscal responsibility."
- On the quality of public spending: "We are working hard to improve the quality of public spending. We believe it will be possible to do more with less."

Brazil posts "spectacular" 2010 GDP growth of 7.5%, but 2011 seen decelerating. The Brazilian Census Bureau (IBGE) last week posted 2010 gross domestic product figures, showing an expansion of 7.5%. Finance Minister Guido Mantega called the data "nothing less than spectacular." It was the best GDP performance since 1986, when growth was also 7.5%. Much of the expansion came from a rapid economic uptake following the 2009 recession, when Brazil's economy shrank by 0.6%. Growth was also spurred by tax breaks for consumer goods and generous supplies of government and private credit. Total lending in 2010 expanded by 20.1%. The tax and credit incentives, however, have been largely withdrawn, with economists expecting more modest growth in 2011, probably on the order of about 4.5%. Fourth-quarter 2010 growth already showed signs of a slowdown, with year-on-year growth of only 5.0%. More heartening was the rise in Brazil's investment level, which reached 18.4% of GDP, up from only 16.9% in 2009. Economists noted that 2010 marked a bigger slice of investment in a significantly expanded pie. In nominal terms, GDP rose to R$3.7 trillion in 2010, the IBGE said.

Central Bank raises Selic base interest rate for the second time in a row. The Brazilian Central Bank last week raised its Selic base interest rate for the second time this year, this time by 50 basis points to a towering 11.75%. The Central Bank vote on the rate hike was unanimous. The bank called the rate hike "part of a process of monetary adjustment" made necessary by rising inflation. Brazil ended 2010 with inflation of 5.91%, up from only 4.3% in 2009. The inflation rate has since risen and is now running at about 6.0%, well above the government target for the year of 4.5%. More interest rate hikes are seen as likely in the months ahead, with some economists forecasting a Selic rate as high as 13.0% by July.

Motor vehicle sales post their best February on record, Anfavea says. Brazilian auto makers had their best February on record, according to figures released last week by the National Motor Vehicle Manufacturers Association (Anfavea). Sales reached 274,153 vehicles, up 12% from January and 24% from February of 2010. Anfavea executives said continued heavy sales were due to rising salaries and continued plentiful credit. About 70% of new car sales are financed. Motor vehicle sales in the first two months of 2011 climbed 19% from the same period a year ago. The industry is on track for another record year in 2011, executives said. Production in February was up 19% from January and 24% from February of 2010 at 310,657 motor vehicles. Two-month output was up 15% from last year. Even exports jumped, rising 31% in February from last year and reaching $1.1 billion.

Investment News: Brazilian industrial conglomerate **Votorantim** last week announced investments of R$5.0 billion for 2011, down from R$5.8 billion in 2010. Areas targeting include the company's mining and energy ventures. Votorantim is one of Brazil's largest privately held companies. *** U.S.-based **H.J. Heinz Co.** last week announced the purchase of an 80% stake in Brazilian food packager Quero Alimentos for an undisclosed sum. Press reports put the purchase price at over $700 million. The purchase marks the first direct entry of Heinz into the Brazilian market. Previously, Heinz products were available only as imports.

Company News: Brazilian wind and solar power company **Bioenergy** last week signed a contract with **General Electric** to buy wind turbines in a deal that could eventually be worth R$1.4 billion. Bioenergy will take delivery on 18 turbines this year and 36 in 2012. The company has options to take delivery on another 250 turbines in 2013.

Indicators: Electric **power consumption** rose 6.5% in January from the same month in 2010 as both industrial and residential demand increased, the National Energy Research Corp. (EPE) said last week. Consumption reached 35,812 gigawatt-hours in January, according to the EPE report. *** January saw a modest 3.7% rise in **supermarket sales**, in inflation adjusted terms, over the same month of 2010, the Brazilian Supermarkets Association (Abras) said last week. The association predicted overall 4.0% growth in sales for 2011, down from 6.7% in 2010. Brazil's economic growth is likely to moderate in 2011 on inflation worries and higher interest rates. The economy expanded by an estimated 7.5% in 2010, with growth of about 4.5% expected this year. *** Brazil posted a February **foreign trade surplus** of $1.2 billion, up sharply from $423 million in January, the Trade and Development Ministry said last week. The surplus rose on burgeoning exports aided by higher international commodities prices, the ministry said. The country's year-to-date surplus rose to $1.62 billion, well above the figure of only $210 million for the first two months of 2010. Both imports and exports rose during the first two months of 2011 against the same period a year ago. *** January saw a small 0.2% rise in **industrial production** over the previous month following two months of decline, the Brazilian Census Bureau (IBGE) said last week. Output was also up 2.5% against January of 2010, the IBGE said. Growth was led by electronics products, steel and pharmaceuticals. *** Brazilian monthly **inflation** in February settled down a tad from the previous month at 0.80%, according to the Brazilian Census Bureau (IBGE) last week. January inflation was 0.83%. But the 12-month figure remained high at 6.01%, advancing from the 2010 year-end level of 5.91% and well above the government target for 2011 of 4.5%. The good news was that food prices rose only 0.23% in February, down from a startling 1.16% in January. Food prices have the largest weighting in the index.

Other News: Brazil's government last week released details of R$50 billion in **2011 budget cuts**. Some R$15.8 billion will come from reductions in salaries, hiring and other operating costs. The rest, R$36.2 billion, will come from reductions in government procurement spending. Among ministries, the hardest hit will be Defense and Urban Affairs. Sports and Tourism Ministries will also suffer cuts, despite Brazil's need to prepare for the 2014 World Soccer Cup and the 2016 Rio de Janeiro Olympics. Social spending and the PAC-2 infrastructure program will not be affected.

Brazilian Calendar for Week of March 7:

- **Monday and Tuesday, March 7-8 -** Carnival holidays

R$1.65 = $1.00