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BRAZIL BULLETIN INTERVIEW: Guido Mantega, Brazilian Finance Minister. –"Our main challenge is to boost exports of manufactured products, despite the trade war that's brewing." Brazilian economic policies in 2011 will focus on the increasingly evident problems associated with sustainable growth, according to Finance Minister Guido Mantega. Problems include rising inflation and a burgeoning current account deficit. Mantega discussed aspects of the government's strategy at a recent meeting with business executives in São Paulo. Excerpts follow:

- On sustaining growth: "I think we can say, at this point, that the phase of combating the international crisis is now over. Our goal now is to guarantee sustainable growth. We need to look at ways of stimulating gains in productivity among manufacturers. We also need to make sure there is enough qualified labor available as the economy continues to expand and diversify."
- On budget cutting measures: "Brazil's government will make every effort to cut its own operating costs and avoid creating new sources of spending. Our aim is to use spending cuts to hold back on monetary tightening. We are one of the best fiscally positioned countries in the world. We expect to continue as such in 2011."
- On budget cuts and interest rates: "Cuts in spending should eventually result in lower interest rates. They also open the door to timely use of tax incentives."
- On the current account deficit: "Another challenge for Brazil in 2011 will be reduction in the current account deficit. We have to find ways to make exports grow faster than imports this year. Higher commodities prices in 2011 might help. Our main challenge is to boost exports of manufactured products, despite the trade war that's brewing."
- On foreign exchange policy: "We are reviewing the foreign exchange measures we ordered last year. We're going to determine which ones worked and which ones didn't. We'll be reviewing our strategy in this area calmly and deliberately. There is a wide range of measures we could adopt."

Trade, energy and investment to top list of issues during Obama visit to Brazil. U.S. President Barack Obama begins a three-nation Latin America tour this coming weekend with a two-day visit to Brazil. The president will take in Brasília and Rio de Janeiro. The trip will focus on a number of diplomatic and economic issues. The most prominent are as follows:

- Brazilian officials will once again insist on reform of multilateral agencies such as the United Nations Security Council and the International Monetary Fund in ways designed to increase Brazilian influence. The U.S. is unlikely to endorse Brazil's plea to become a permanent member of the Security Council but may sign on to a bland statement about the need for a greater voice for emerging countries.
- Both countries are likely to join in a call for a revived Doha Round in WTO trade liberalization talks. Some business leaders in both countries would also like to breath new life into stalled talks for a U.S.-Mercosul trade deal.
- Both countries will make much of current energy development initiatives, but may steer clear of prickly practical issues. The U.S., for example, would like to assure a greater role for American suppliers of oil drilling equipment as Brazil moves forward with development of its huge sub-salt reserves. Brazil, for its part, will insist on tearing down U.S. barriers against ethanol imports.

- Brazilian officials will look for ways to boost manufactured exports to the U.S. as a way to reduce the country's large trade deficit with its northern partner. Brazil's biggest single trade deficit is with the U.S., some $10.7 billion in 2009 and $7.7 billion last year. One way to boost trade in manufactured products, for both countries, would be a U.S.-Mercosul agreement.
- With bilateral trade and investment growing, business leaders on both sides will press for nuts and bolts advances such as Brazilian Senate approval of an existing tax information exchange agreement. Brazilian President Dilma Rousseff has expressed support for passage of the agreement. Business leaders will also wish to move forward with bilateral tax and investment treaties.
- As occurred during a recent Brazil visit by U.S. Treasury Secretary Tim Geithner, currency issues are sure to be mentioned (see comments by Brazilian Finance Minister Guido Mantega above). Brazil has complained about effects of the U.S. Federal Reserve Board policy of so-called quantitative loosening. Freshening of dollar supplies on world financial markets, via the policy, have brought billions of dollars in unwanted short-term investment inflows into Brazil, leading to a weaker U.S. dollar and a stronger Brazilian Real. It is precisely this configuration of currency values that is leading to the trade imbalance that bothers Brazilian officials so much. U.S. officials, on the other hand, will likely complain about Brazil's overt intervention in the foreign exchange market, including higher taxes on short-term foreign investment inflows.

Brazil ranking falls in World Economic Forum tourism survey. Despite many natural and cultural advantages, Brazil is still not up to par when it comes to organizing its travel industry. According to a survey, released last week, by the World Economic Forum, Brazil ranks only 52nd out of 139 countries when it comes to overall tourism infrastructure and services. Brazil ranked 45th in the previous survey, undertaken in 2009. Interestingly, Brazil ranked first in this year's survey for natural beauty and landmarks. It also ranked high in cultural attractions. But Brazil still lacks basic infrastructure tools in areas such as hotels, roads and public transportation, the survey said. High crime and often poorly trained tourism personnel are also problems. The survey comes only three years before Brazil is due to host the World Soccer Cup.

Brazil raises new crop of billionaires, led by mining titan Eike Batista. There have never been so many Brazilian billionaires, according to this year's survey of world wealth by Forbes magazine. The list of 1,210 worldwide billionaires includes 30 Brazilians, up from only 18 just one year ago. The leader of the Brazilian pack, as in 2010, is Eike Batista, the world's eighth richest person. Batista has built an empire on mining, energy, shipping and real estate. According to Forbes, Batista is worth a cool $30 billion. Other Brazilians are first time entrants. These include banking mogul Andre Esteves and health care and hospital administrator Edson de Godoy Bueno. A few names are perennials, such as mining and agribusiness billionaire Antonio Ermirio de Morais and banking veteran Joseph Safra. Worldwide, the leading billionaire is Mexico's Carlos Slim, followed by Bill Gates and Warren Buffett.

Capital market activity up sharply in first two months of 2011: Anbima. Capital market activity in the first two months of 2011 nearly doubled against the 2010 level, according to a report last week by the Brazilian Association of Capital Market Institutions (Anbima). Total issuance of stocks and debt reached R$14.3 billion in January and February, nearly double the R$7.2 billion figure posted for the first two months of 2010. Anbima said Brazilian companies are taking advantage of growth prospects for the Brazilian economy as well as continued low interest rates in international markets. Many companies are tapping bond markets as a way to restructure debt. Total capital market activity in 2010 was R$238 billion.

Investment News: Brazil's largest supermarket chain, **CBD**, will invest R$1.41 billion in 2011, down from R$1.19 billion in 2010, the company said last week. Investments will target opening of new stores, development of logistics and upgrades in technology. *** Brazil-based multinational steel maker **Gerdau** last week unveiled its revised five-year investment plan, calling for total investments of R$10.8 billion for the period 2011-2015. Three-quarters of that total will go toward expansion of steel-making operations within Brazil. The previous 2010-2014 plan included total investments of R$11.0, with 80% directed at Brazil. *** British energy giant **BP** last week announced the purchase of an 83% stake in Brazilian ethanol producer CNAA. With the purchase, BP will increase its Brazilian ethanol capacity from the current 423 million liters per year to 1.4 billion, the company said. BP will control a total of three sugar and ethanol mills in Minas Gerais and Goias states.

Company News: The Brazilian Mines and Energy Ministry last week said it has sued mining giant **Vale** for back payment of royalties. The ministry alleges that Vale miscalculated prices of its iron ore in order to reduce royalty payments. Currently, mining companies pay royalties equal to 2% of sales value of mineral ores. Vale officials said they will contest the government's assertion in court. The Mines and Energy Ministry is currently reviewing royalty rules and is likely to recommend legislation that would boost royalties, possibly to as high as 5%.

Indicators: Brazilian crude **oil and natural gas output** declined in January from the previous month as output was idled at key offshore drilling platforms, the National Petroleum Authority (ANP) said last week. Oil production was 2.12 million barrels per day, down 2.7% from December but up 6.3% from January a year ago. Natural gas output was 66 million cubic meters per day, down 4.3% from December but up 13.2% from January, 2010.

Other News: The Federal Treasury last week announced a loan of some R$55 billion to the National Development Bank **(BNDES)** as part of efforts to maintain a heavy schedule of lending to small and medium-sized businesses. It was the third annual Treasury loan extended to the BNDES. The Treasury lent R$100 billion to the bank in 2009 and R$80 billion in 2010.

Brazilian Calendar for Week of March 14:

- **Tuesday, March 15 -** Brazilian Census Bureau (IBGE) release of monthly retail sales data, Rio de Janeiro
- **Thursday, March 17 -** Foresight Brazil seminar on international relations, Hotel Tivoli, São Paulo
- **Saturday and Sunday, March 19-20 -** Visit by U.S. President Barack Obama and family to Brasília and Rio de Janeiro

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R$1.66 = $1.00