Brazil-U.S. Business Council
Brazil Bulletin

Interview: Development, Industry and Foreign Trade Minister Armando Monteiro

--"The United States was the only country to see an increase in imports of Brazilian manufactured goods last year."—

Despite a rough beginning this year, foreign trade can still produce a surplus for Brazil in 2015, according to Development, Industry and Foreign Trade Minister Armando Monteiro. For the first two months of the year, Brazil rolled up a $6.0 billion trade deficit, only slightly behind the $6.2 billion deficit for the same period of 2014. To help improve trade performance, the government will announce a series of export incentives before the end of March. In comments last week to industrial leaders and reporters, Monteiro discussed prospects for trade, pointing to the United States as a key partner in efforts to boost both imports and exports. Excerpts follow:

- **On the reason for the trade deficit:** "Mainly, we are suffering effects of declining commodities prices."
- **On ways to reverse the trade deficit: "**We are going to have a trade surplus this year. We are going to have a surplus thanks to a weaker currency, thanks to the new export incentive program the government is developing, thanks to the U.S. economic recovery and thanks to the big, although somewhat delayed, soybean crop."
- **On the government's export package: "**The export plan will be based on promotion, commercial intelligence and instruments designed to offer improved financing guarantees and insurance, as well as measures to cut red tape at customs and improve logistics. Brazil is seeking to incorporate itself better into global supply chains. There is a disconnect between the fact that Brazil is the world's seventh largest economy but only the 22nd exporter and 30th exporter of manufactured goods. There is a great deal of room for export growth."
- **On international trade agreements: "**Brazil has a much greater desire today to integrate itself into a broader network of international trade agreements."
- **On trade with the United States: "**The United States was the only country to see an increase in imports of Brazilian manufactured goods last year. Some items, such as machinery and equipment, were up by 20% or more. Overall, the increase was about 7%. We think there is still room for more growth."
- **On fiscal austerity: "**Brazil is preparing itself for a new growth cycle. In order to achieve that end, we need to make some fiscal adjustments. There is no question that these are going to bring some short-term discomfort. But the fiscal adjustment is not an end in itself. It's an essential point of departure for attracting investment and kicking off a new cycle of growth."

- **On government-industry partnership:** “We need to find a common, realistic agenda and then push it forward. In the government, we want to signal to industry that industry can, and should, resume investments. A partnership with industry, and industrial leaders, is fundamental.”

Top News of the Week

Supreme Court authorizes probe of 50 politicians, including congressional leaders. In a long-awaited action, Chief Federal Prosecutor Rodrigo Janot last week sought Supreme Court authorization to investigate political figures as part of a sweeping probe into alleged corruption at state-run energy giant Petrobras. Within days, the Supreme Court authorized detailed investigations into affairs of 50 politicians, including Senate President Renan Calheiros and Chamber of Deputies Speaker Eduardo Cunha. The list also includes former Brazilian President Fernando Collor, now a senator, and a number of former advisers to President Dilma Rousseff. These latter include Antonio Palocci, Gleise Hoffmann and Edison Lobão. Prosecutors say the politicians are implicated in a broad scheme to siphon money from Petrobras, in some cases for personal use and, in other cases, to fund electoral campaigns. Calheiros and Cunha issued public statements denying the charges and promising a tough, possibly protracted, legal defense. Others on the list also denied any wrong-doing. The list hits hard at political parties supporting President Rousseff, who has pledged to root out corruption and punish those responsible for it. In a televised address Sunday night, the President attempted to assuage public worries about corruption, a sagging economy and inflation. She said the government was making “important adjustments” in spending and taxation as a temporary strategy designed to get the economy back into growth mode. “We are turning our problems into opportunities,” she said. “The adjustments we make now will assure sustainable growth in the future.”

Central Bank hikes base rate fourth time in a row, reaches 12.75%. The Brazilian Central Bank acted for the fourth time in a row last week to raise interest rates in the face of stubborn inflation. The bank hiked its base rate by a half percentage point to a towering 12.75%. In a curt statement, the bank hinted at more rate hikes to come, with most economists betting on a quarter-point hike in April to 13.0%. Brazilian inflation is running a little over 7%, which is above the government’s target range for this year of 2.5% to 6.5%. More inflationary pressures are in the offing, according to economists, as drought conditions drive up prices of farm goods and energy rates. Brazil real interest rate of over 5% is now considered the highest in the world.

Motor vehicle production, sales continue to decline in February. Rising interest rates and the end of tax breaks for consumers are taking their toll on Brazilian motor vehicle production and sales, according to the National Motor Vehicle Manufacturers Association last week. February sales of 154,923 were down 25.6% from January while monthly production was off 2.3% at 200,111. The big gap between production and sales drove inventories up to more than 300,000, the association said. Year-to-date sales are down 21% from 2014 while year-to-date production is off 22%. Government tax breaks lapsed in January. Meanwhile, the Brazilian Central Bank has been systematically hiking domestic interest rates (see item above). More than half of Brazilian motor vehicle sales require financing. The association reported a net loss of jobs for the first two months of the year of 2,200.

Business News

Investment News:

Hurt by losses related to a sweeping corruption scandal and by rapidly declining international oil prices, state-run energy company **Petrobras** last week announced a major program of disinvestments. The company said it will sell assets worth $13.7 billion during the years 2015 and 2016. The company’s previous plan called for disinvestments of between $5 billion and $11 billion during the period 2014 to 2018. Market analysts said they believe Petrobras will focus on sale of mainly overseas assets as it seeks to preserve its domestic oil and gas exploration and refining businesses.

The **Brazilian Real** suffered a sharp depreciation last week, closing at R$3.05 to the dollar, its weakest level since 2004. Total depreciation for the week was 6.8% and, for the year-to-date, 14.9%. The Real weakened on a number of factors. One was the increased global strength of the U.S. dollar against various other currencies. International investors believe the U.S. Federal Reserve Board will hike interest rates soon, making U.S. investments more attractive. The Real also weakened because of increased domestic political tensions, rising inflation and a widening current account deficit.

Company News:

Economic activity seems to be slowing for everyone in Brazil, including billionaires. This year's *Forbes* **list of international billionaires** shows only 54 Brazilians, down from 65 in 2014. On the other hand, Brazil's leading billionaire, brewery king Jorge Paulo Lemann, rose from 34th place in 2014 to 26th this year. According to *Forbes*, Lemann's personal fortune amounts to some $25 billion. Other Brazilian billionaires this year include banker Joseph Safra and Globo communications conglomerate owner José Roberto Marinho.

Brazilian Calendar

Friday, March 13, Brazilian Census Bureau (IBGE) release of monthly retail sales data, Rio de Janeiro

Indicators

Foreign exchange rate: **R$3.05 = $1.00**

Supermarket sales rose by a solid 3.4% in January against the same month in 2014, in inflation-adjusted terms, the Brazilian Supermarket Association said last week. The association said it was hopeful the positive performance will persist at least through Easter. Overall growth in sales in 2014 was a disappointing 2.2%. Association executives are fearful that 2015 could bring another disappointment because of job security fears, inflation and high interest rates.

Brazil posted another large **foreign trade deficit** in February, this time $2.84 billion for a year-to-date deficit a little over $6.0 billion. The deficit for the same period a year ago was $6.2 billion. Brazil's trade position has been weakened in recent years by declining international commodities prices and pressure from cheap manufactured imports. The early-year 2015 figures also portend another problem. Both imports and exports were down sharply from the first two months of 2014, symbolic of Brazil's slowing economic activity.

Reserves in the ultra-deep pre-salt region off the southeast coast of Brazil finally began making a difference in overall national **oil production** in January. According to figures last week released by the National Petroleum Authority, January crude oil output reached 2.469 million barrels per day, an increase of 20.3% against January of 2014. Pre-salt output was over 600,000 barrels per day.

Brazilian **industrial production** rose 2.0% in January against the previous month, largely on seasonal factors, the Brazilian Census Bureau (IBGE) said last week. Output was down 5.2% against January of 2014. According to economists, industrial production is unlikely to stage a comeback this year. High interest rates, persistent inflation and stagnant consumer demand will mean little growth in factory orders.

Inflation soared in the month of February on a one-two punch from food and fuel prices, the Brazilian Census Bureau (IBGE) said last week. Monthly **inflation** was 1.22% for a 12-month rate of 7.7%, the highest since 2005. Fuel and public transportation costs soared following a government-ordered hike in wholesale prices of gasoline and diesel. Food prices have been rising on the heels of a drought in key producing regions. Inflation is now holding stubbornly above the 6.5% ceiling of the government's targeting range for the year, with many economists predicting continued interest rate hikes.