



BRAZIL BULLETIN INTERVIEW: Marcio Pochmann, President of the Applied Economics Institute (IPEA) –“We’re not talking about tigers anymore, but whales.”

Controversial government economist Marcio Pochmann defended increased social spending at a recent conference with investors in São Paulo. Pochmann pointed to the “multiplier effect” social spending has on incomes, consumer spending and economic growth. The economist heads Brazil’s Applied Economics Institute (IPEA), which is the research arm of the Planning Ministry. Excerpts follow:

- On economic growth and the BRIC countries: “The BRIC countries (Brazil, Russia, India and China) will be responsible for 43% of the world’s economic growth in 2011. We’re not talking about tigers anymore, but whales. That’s because all four BRIC countries have large internal markets.”
- On Brazilian growth and inequality: “Brazil’s per capital income has risen steadily since 1960 but social inequality remained the same until the last five years or so, when it began to decline. Social spending is directly responsible. With increased social spending, we have created a new middle class. These consumers, in turn, are helping sustain economic growth.”
- On social spending: “Social spending rose from 13.9% of GDP in 1980 to 23.9% in 2010. Incidentally, this corresponds with the advent of democracy. Social spending promotes a multiplier effect for economic growth. Every 1.0% of GDP applied to social spending generates a 1.85% increase in family income.”
- On the emerging “trade war” in global commerce: “The 2008 global crisis will continue to resonate for years to come. Even the big industrial countries are trying to emerge from the global crisis by appealing to export markets. They are devaluing their currencies in order to become more competitive. This is making the world more and more vulnerable to a veritable trade war.”
- On the currency problem in Brazil: “The appreciation of the Brazilian Real is already causing de-industrialization in some segments of the economy. The government has cut spending and this could help a little to inhibit further appreciation. The fact is interest rate hikes are having little impact on inflation. We need a more creative approach.”

President Rousseff signs investment, technology deals with China. In one of the longest presidential journeys in Brazilian history, President Dilma Rousseff spent virtually the entire week in China, cementing an increasingly important international relationship. Rousseff signed more than a dozen separate accords with Chinese officials before participating in a summit of BRIC (Brazil, Russia, India, China) leaders on Chinese soil. Highlights of the week included the following:

- China’s Foxconn Holding Co. agreed to a five-year, \$12 billion investment program in Brazil. Among other activities, Foxconn manufactures Apple products, including the iPod. Brazilian production of iPods, under the Foxconn aegis, could begin later this year.
- A number of Chinese airlines agreed to purchase \$1.5 billion in aircraft manufactured by Embraer. Separately, the Brazilian company also announced an accord for joint manufacturer of aircraft in China.

- China agreed to study ways of reducing the flow of cheap Chinese manufactured products to Brazil while opening China's market to increased inflows of more sophisticated Brazilian manufactured goods. China runs an annual trade deficit with Brazil of more than \$10 billion, but Brazil's advantage is due mainly to high Chinese imports of Brazilian raw materials, especially iron ore.
- Chinese officials promised to review procedures for import of Brazilian agricultural products, many of which have faced non-tariff barriers.
- Petrobras signed technology exchange accords with Sinopec and Sinochem, covering areas such as oil exploration development, petrochemicals technology and offshore drilling.
- Brazil invited Chinese companies to bid on rapid rail transport projects slated for development in Brazil ahead of the 2014 World Soccer Cup and the 2016 Rio de Janeiro Olympics.
- China's largest bank, The Industrial and Commercial Bank of China, announced it will open a branch in Brazil.
- At the BRICS summit, China and Brazil agreed that highly volatile commodities prices are hurting the world economy. They asserted that emerging market countries, in general, should encourage trade in local currencies, by-passing the U.S. dollar. They renewed calls for greater representation in the IMF, the World Bank and the United Nations.

Mantega defends both free-floating currency and capital controls at IMF. Finance Minister Guido Mantega represented Brazil at the annual meeting of the International Monetary Fund in Washington over the weekend. At the meeting, Mantega defended the idea that all members of the Group of 20 nations should float their respective currencies. The G-20 brings together the world's 20 largest economies. Mantega's comments were aimed at China, which controls its currency artificially in order to boost exports. But Mantega also defended each country's right to impose controls over investment flows. Brazil's government has acted in recent months to restrict short-term investment inflows because they bring an unwanted appreciation to the local currency. Those comments were aimed chiefly at the U.S., which has antagonized Brazil and other emerging market countries with a policy of monetary loosening. The policy has freed up billions in short-term investment funds, with many investors seeking high returns from short-term capital markets overseas. Brazil, with an 11.75% base interest rate, is an especially attractive haven. Mantega also sent some barbed comments in the direction of France, saying Brazil opposed any effort by IMF member countries to impose controls over international commodities trading. France has proposed the need for such controls, given unusually high commodities prices in recent months. Mantega said the way to pull down commodities prices is by increasing investment and production. Mantega also commented on the domestic economy, saying economic growth has cooled in recent months. He predicted 4% GDP growth this year, down from 7.5% in 2010. He said inflation was likely recede from the current 6.3% in the next few months as economic growth slows. He added that Brazil will likely have to "live with" a strong Brazilian Real, at least for the next several months.

EBX Chairman Batista and partners create BRIX energy exchange. Flamboyant Brazilian billionaire Eike Batista, with a group of business partners, last week announced creation of Brazil's first private energy exchange. To be called BRIX, the exchange will allow businesses to match up their energy consumption needs with electric power distributors. The new exchange will be managed by one of the partners, Intercontinental Exchange Inc. (ICE). Currently, electric power not contracted by industries or distributors, so-called "free" energy, is

bought and sold through a government cooperative called the CCEE. Volume on the CCEE is equal to about R\$25 billion per year. BRIX aims to triple that volume within the first few years and then add more commodities to its trading mechanism. “Free” energy is currently equal to about 25% of the Brazilian market.

Anbima: Capital market activity posts unexpected decline in first quarter. Brazilian capital market activity took an unexpected dive in the first quarter of 2011, according to data from the National Association of Capital Market Institutions (Anbima) last week. Total capital market activity, including both equities and debt, reached R\$23.3 billion, down 12.7% from the first quarter of 2010. Anbima blamed the drop on high domestic interest rates, which reduced investor interest in share offers. Brazil’s Selic base rate is a towering 11.75%. Foreign investors, in particular, are more attracted to fixed-income investments than to stocks, according to economists.

Investment News: Brazilian utility **CPFL** last week announced the purchase of wind-power provider Jantus SL for R\$950 million plus assumption of R\$544 million in debt. CPFL will purchase Jantus SL from U.S.-based **Liberty Mutual Insurance Company** and **Citicorp**. Jantus SL holds wind-generating properties in Ceara and Rio de Janeiro and is building additional units in Ceara and Piaui. *** Brazil’s largest private bank of Itau last week announced purchase of a 49% stake in **Banco Carrefour**, the consumer lending arm of French-owned retailer Carrefour. Itau will pay R\$725 million for the stake. The bank has a total loan portfolio of R\$2.2 billion. Carrefour is Brazil’s number two supermarket chain, after CBD, which owns the Pao de Acucar brand.

Company News: U.S. pharmaceuticals company **Amgen** last week announced an increased presence in the Brazilian market. The company announced the purchase of a privately held Brazilian counterpart as well as the repurchase of Brazilian rights to medications it previously sold to Brazil’s Mantecorp. Amgen will buy privately-held Brazilian pharmaceuticals company Bergamo for \$215 million. It will also repurchase rights to market Vectibix and Mimpara in Brazil from Mantecorp.

Indicators: Retail sales took an unexpected dive in February, declining 0.4% from the previous month, as fresh consumer credit restrictions came into play, the Brazilian Census Bureau (IBGE) said last week. Sales fell after nine straight months of recovery. Year-on-year, however, **retail sales** maintained some luster, rising 8.2%.

Other News: Brazilian President Dilma Rousseff last week shifted **National Mining Department (DNPM)** Director Miguel Nery to a post in the Trade and Development Ministry. The change comes only weeks after Nery sparked controversy by accusing minerals giant Vale of underpaying mining royalties. Vale has denied the charge. Nery held the DNPM post for eight years.

Brazilian Calendar for Week of April 18:

- **Tuesday, April 19** - Brazilian Census Bureau (IBGE) release of unemployment figures, Rio de Janeiro
- **Wednesday, April 20** - Brazilian Central Bank Monetary Policy Committee (Copom) meeting, Brasília
- **Thursday, April 21** - Annual Business Forum meeting, Hotel Transamerica, Comandatuba, Bahia

- **Thursday, April 21** - Tiradentes national holiday
- **Friday, April 22** - Good Friday national holiday

R\$1.58 = \$1.00

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