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BRAZIL BULLETIN INTERVIEW: Luiz Carlos Bresser-Pereira, Former Brazilian Finance Minister: "For Brazilian exports to be competitive, the Real should be trading at about R$2.30 to the dollar." Always provocative, former Finance Minister Luiz Carlos Bresser-Pereira shared his views on growth, investment and the country's foreign exchange dilemma at a recent investor conference in São Paulo. The key, for Bresser-Pereira, is a boost in domestic savings and a sharp depreciation of the Brazilian Real. Bresser-Pereira was Finance Minister in the late 1980s. Currently, he is an economics professor at the Getulio Vargas Foundation in São Paulo. Excerpts follow:

- On growth and investment: "For Brazil to become the fifth largest economy in the world, there are some decisions we have to make. One of them is investment. We need to increase our investment rate from 19% of GDP, currently, to 25%. We need to do this without recourse to short-term foreign investment inflows. They contribute nothing and we don't want them. Investments should be based on domestic savings."
- On foreign exchange policy: "The Brazilian Real has appreciated considerably. For a while, that helped control inflation but there is no more room for currency appreciation. Therefore, that mechanism cannot be used anymore against rising prices. Furthermore, we have appreciated our currency at the cost of losing a portion of our overseas market. There are also other distortions. For example, to prevent further appreciation, the government buys dollars from the market, but that brings pressure on government accounts. The government's decision last year to raise the IOF (financial transactions tax) on short-term inflows was a courageous one, but we need more and bolder action."
- On the current account deficit: "Because of lost export markets and cheap imports we are running a huge current account deficit. In my view, for Brazilian exports to be competitive, the Real should be trading at about R$2.30 to the dollar. At that point, we would not only eliminate the current account deficit, we would generate a surplus!"
- On growth prospects for the economy: "We will probably reach 4.0% growth this year, but 2.5% of that is simply carryover from 2010. There is much less room for maneuver in the Dilma Rousseff administration than there was under President Lula. The economy is overheating but interest rates are already sky high. The appreciation of the Real has reached its limit. There is little room to cut spending in the face of infrastructure needs ahead of the World Soccer Cup and the Olympics."

Central Bank hikes Selic rate 25 points to 12.0% in bid to fight down inflation. The Brazilian Central Bank last week hiked its Selic base interest rate for the third time this year, this time by 25 basis points to a full 12.0%. The hike was widely expected, although many analysts had anticipated a bigger hike, possibly to 12.25%. The rate hikes are seen as necessary to combat inflation, which has risen from 5.9% in 2010 to 6.3% currently. Brazil's target for inflation this year is 4.5%, with two percentage points of leeway. Thus, 6.5% is the ceiling for 2011 inflation under the inflation-targeting program. The Central Bank has hinted that this month's rate hike may be the last in the current series. But many analysts say they do not expect much effect on inflation, meaning more rate hikes could come toward the end of the year.

Brazil heads for foreign tourist record in 2011, despite strong Real—Embratur. Brazil attracted 5.16 million foreign tourists in 2010, up 7.8% from the global recession year of 2009, according to a report by Embratur, the Brazilian Travel Authority. Embratur expects growth of 6% to 7% this year, which would be enough to break the standing record of 5.3 million foreign tourists set in 2005. Argentina continues to lead among origins, sending 1.4 million tourists to Brazil last year. Embratur noted that business travel has become a major component of Brazil's draw. Some 25% of the foreign travel business in Brazil is now business travel, much of it related to conventions and other events. Increased business travel helps explain why Brazil is able to keep attracting tourists despite a strong local currency. Embratur also pointed out that Brazil's overall global image has improved in recent years because of strides made by the economy.

Rousseff presents 2012 budget outline, featuring huge increase in minimum salary. The administration of President Dilma Rousseff last week presented its 2012 federal budget outline to Congress. The outline includes general parameters, but few specific figures, for the budget. A detailed budget will be submitted to Congress in a few months. The outline includes a whopping hike in the minimum salary to R$616 per month in 2012 from R$545 this year. The big hike fulfills 2010 campaign promises as well as existing legislation. The budget is based on expected economic growth in 2012 of 5.0%, with inflation on target at 4.5%. The budget will include enough revenue to ensure a primary surplus equal to 3.1% of gross domestic product. Budget planners expect the Brazilian Real to end 2012 at R$1.76 to the dollar, with the Selic base rate at 10.75%.

Consumer confidence dips a tad in April, but remains highly positive. The Getulio Vargas Foundation's Consumer Confidence Index (ICC) fell back very slightly in April but remained at a historically high level, the foundation reported last week. The index declined very slightly to 158.4 in April from 158.5 in March but was still higher than the 152.2 recorded for April a year ago. The index runs on a scale from 1 to 200, with 100 "neutral," meaning the ICC continues in highly positive territory. Consumers said they were confident about job opportunities and salaries for the next six months but expressed worries about inflation and high interest rates. Inflation is 6.3% while the Selic base interest rate is a towering 12.0%.

Investment News: French rubber giant **Michelin** last week announced a $1.2 billion investment plan for Brazil for the period 2012 through 2016. The company will use the money to build a third tire factory in Brazil and double its share of the Brazilian market to 20%.

Company News: U.S. auto industry giant **General Motors** last week named a new president for its prosperous Brazilian subsidiary. Beginning in June, General Motors do Brasil will be headed by veteran GM executive Grace Lieblein, currently president of the company's Mexico unit. Lieblein will replace Denise Johnson to become the second woman in a row to head the Brazilian GM subsidiary. Johnson left the company earlier this year for personal reasons. Lieblein holds both engineering and management degrees. She originally joined GM in 1978.

Indicators: First quarter **primary aluminum output** showed an unexpected 6% drop from 2010 to 354,700 metric tons, the Brazilian Aluminum Association (Abal) said last week. Output fell as Brazil's economy cooled from the torrid 7.5% growth rate of 2010 to a more sustainable 4.0% expected this year. *** Brazil's **unemployment rate** rose unexpectedly in March to 6.5% from 6.4% the previous month on signs the country's economy may be cooling, the Brazilian Census Bureau (IBGE) said last week. But unemployment was still far below the March, 2010 figure of 7.6%. Brazil's economy expanded by a spectacular 7.5% last year but is likely to grow only about 4.0% in 2011. *** Domestic **air traffic** continued its extraordinary advance in March, rising 25.5% from March a year ago, the Civil Aviation Authority (Anac) said last week. The occupancy rate rose from 65.1% a year ago to 70.4% this year, reflecting continued growth in the economy. TAM was once again the leader, with a market share of 41.8%. Gol was second with 38.8%. *** Federal **tax revenues** continued to grow, in line with the sustained growth of the economy, the Brazilian Tax Authority said last week. March revenues were R$70.9 billion, up 9.7% from March of 2010. First quarter revenues were R$228.1 billion, up 11.9% from last year. *** Brazilian **steel output** continued to outstrip year-ago figures despite deceleration of the country's economic recovery, according to data last week from the Brazilian Steel Institute (IABr). March raw steel production was 3.0 million metric tons, up 7.4% from the same month a year ago. First quarter output rose 6.2% to 8.5 million tons, the institute said. Heavy auto industry demand was one of the main drivers for steel makers in the past quarter.

Other News: Brazil's **information technology industry** ended 2010 with total revenues of R$39 billion, including $13 billion for software development and manufacturing, according to a study last week by the Brazilian Census Bureau (IBGE). It was the first study of its kind and did not allow for comparative data. The IBGE will continue tracking the industry on an annual basis from now on. Information technology is expected to post growth rates higher than annual GDP expansion for at least the next decade, the IBGE said.

Brazilian Calendar for Week of April 25:

- **Tuesday, April 26 -** Brazilian Central Bank release of current account data, Brasília
- **Wednesday, April 27 -** Brazilian Central Bank release of data on lending volume, Brasília
- **Friday, April 29 -** Brazilian Central Bank release of primary budget surplus figures, Brasília

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R$1.57 = $1.00