Brazil-U.S. Business Council
Brazil Bulletin

Interview: Finance Minister Guido Mantega

--"We will never allow an increase in unemployment in a key economic segment."—

Brazilian Finance Minister Guido Mantega is an incurable optimist. But even he admits that economic growth this year is unlikely to reach even the modest plateau of 3.0%. Better times will have to wait until later in the decade, when current public and private investments produce a sustainable economic expansion. Mantega met with financial reporters on the sidelines of a recent conference in São Paulo for a revealing review of current economic issues. Excerpts follow:

- **On economic growth:** "Growth this year will be somewhere between 2.3% and 2.5%. We don't have a precise forecast. (Growth in 2013 was 2.3%)."
- **On growth and bank credit:** "Consumer credit has never been more scarce. If we could lift some of the restrictions banks have placed on themselves, we would quickly reach 3.0% GDP growth. We have asked public banks to take up some of the slack left by the reluctance of private banks to extend more consumer credit. Personally, I would prefer to see more private than public credit."
- **On worries over inflation:** "The government has no intention of altering the rules on measuring inflation. We believe that inflationary pressures will recede in May and June as food prices come into line. The 12-month inflation rate will begin to decline. We will meet the target range this year and next. (Inflation is currently 6.15%, near the ceiling of the 2.5%-6.5% target range)."
- **On long-term growth prospects:** "Brazil's biggest companies are preparing for another round of robust growth. We expect investments to increase at a rate of 7% per year through 2022. The government's number one priority is to boost infrastructure investments. The number two priority is p roductivity and innovation."
- **On the Standard and Poor's downgrade of Brazil's sovereign credit rating:** "S&P tried to say that we will not meet this year's primary budget surplus target (1.9% of GDP). I guarantee we'll meet it! It's under my jurisdiction and I'm offering that guarantee. S&P's downgrade was, in my opinion, a mistake. The downgrade had no effect on our economy. But I will say that, unfortunately, there are more pessimists than optimists in Brazil today. It's because of the long crisis the world has been through over the past five years."
- **On auto industry problems:** "Whenever we see a key segment of the economy in trouble, we take steps to help that segment. The auto industry is no exception. We will never allow an increase in unemployment in a key economic segment."

Top News of the Week

Government announces ambitious program of highway concessions. President Dilma Rousseff last week announced an ambitious new program of highway concessions. The government will offer some 400 concessions for road, bridge and tunnel projects nationwide. The concessions involve some 6,400 kilometers of roadways and include a number of urban projects, such as beltways for Recife and Belo Horizonte. The concessions will be managed by the National Transportation Infrastructure Department (DNIT) and will involve investments estimated by the government at about R$8 billion. DNIT will immediately initiate a phase of pre-qualification for interested bidders. The government is likely to issue tenders for the concession auctions in July. Auctions could begin soon after and continue throughout the second half of 2014.

Mergers and acquisitions turn lively in the first four months of 2014. Mergers and acquisitions are picking up in a big way in Brazil, according to data last week developed by Capital IQ and released in Brazil by Greeenhill investment bank. Brazil saw 235 mergers or acquisitiions in the first four months of the year, up from 195 during the samer period a year ago. In financial terms, M&A activity more than doubled from R$16.6 billion during the first four months of 2013 to R$46.0 billion from January through April of this year. Mergers and acquisitions are growing even as public share offerings are in decline. According to financial market analysts, private equity funds and investment banks are taking the place of wary individual investors and pension funds. Analysts added that, for these professional investors, assets prices in Brazil currently look attractive while long-term economic prospects are seen as favorable.

Protests, crime are main worries ahead of soccer World Cup. With the soccer World Cup only a month away, street crime and possible anti-government protests have emerged as the main worries for organizers. Embassies including the U.S., the UK and Germany have posted travel warnings on web sites, telling would-be visitors to Brazil to be wary of street crime, vandalism and other risks. São Paulo police said they will distribute pamphlets to arriving tourists with tips on personal safety. International Soccer Federation (FIFA) Secretary-General Jerome Valcke underscored the point in an interview last week, telling fans, “Don’t expect to be in Germany when you arrive in Brazil…Visitors will face some challenges.” Some 600,000 foreign visitors are expected in the 12 Brazilian cities hosting the World Cup between June 12 and July 13. In fact, violent incidents last week seemed to presage more trouble ahead once the soccer games themselves get underway. More than 20,000 anti-Cup protestors gathered in seven cities last Thursday in demonstrations that ended in vandalism, looting and arrests in São Paulo, Brasília and Fortaleza. Some of the demonstrations featured the return of so-called Black Block protestors, who set fire to cars and buses using molotov cocktails. Protestors have castigated the administration of President Dilma Rousseff for the high cost of the World Cup and the fact that investments for the event have not included significant improvements in urban transport, as promised under the original plan. A series of short-lived but disruptive strikes last week also caused jitters for organizers. A police strike in Recife provoked a wave of looting in that Northeastern city while bus strikes in Rio de Janeiro and Brasília brought two days of chaos for residents. On the positive side, a federal court order handed down last week specifically forbids Federal Police from holding any job actions of any kind during the World Cup. The union representing the Federal Police had threatened a slowdown as part of a campaign for higher wages. Federal Police are responsible for passport checks at airports.

Business News

Investment News:

Brazil’s Finance Ministry last week announced a R$30 billion transfer of funds from the Federal Treasury to the **National Development Bank** (BNDES) for re-lending by the BNDES to business customers at subsidized interest rates. The transfer is part of a policy in place since 2009 to maintain business investments in the face of a global economic slowdown. The transfers have tended to taper off from one year to the next, however, and 2014 may prove to be the last under the policy. Transfers in 2013 totaled R$39 billion. With this year's figure included, total transfers have reached R$319 billion since 2009.

Virgin Mobile, part of the Virgin group controlled by billionaire Richard Branson, last week announced investments totaling $127.5 million in a Brazilian venture due to begin operations in 2015. Via its Virgin Mobile Latin America subsidiary, the group will operate a so-called "virtual" mobile telephone network in Brazil. Such networks operate without any of their own infrastructure, instead sharing infrastructure with existing mobile phone operators.

Company News:

Google last week announced the introduction in Brazil, by the end of May, of Chromecast, a piece of electronic gear the size of a pen drive that allows owners to transfer images and sound from personal computers to television screens. The item will sell for R$199, according to the company.

The Federal Auditing Court (TCU) last week ordered Brazil's National Mortgage Bank (CEF) to freeze a R$1.2 billion contract with technology supplier Branes, a joint venture between **CEF** and the Brazilian subsidiary of U.S. computer and data processing giant **IBM**. The court said CEF signed the contract without public bidding. CEF lawyers argued that Branes, owned 51% by IBM and 49% by CEF's investment arm CEFPar, was essentially a CEF subsidiary, making competitive bidding unnecessary. The TCU ordered the freeze until the merits of the case can be heard. No date has been set for a review of the case.

Brazilian Calendar

Monday, May 19, São Paulo Federation of Industries conference on Logistics, Energy, Telecommunications and Sanitation (LETS), Hotel Unique, São Paulo

Thursday, May 22, Brazilian Census Bureau (IBGE) release of monthly unemployment data, Rio de Janeiro

Friday, May 23, Brazilian Central Bank release of monthly current account data, Brasília

Indicators

Foreign exchange rate: **R$2.22 = $1.00**

Oil block auctions and development of the ultra-deep offshore region known as the pre-salt are beginning to bear fruit. Brazilian **crude oil output** in March reached 2.119 million barrels per day, up 1.4% from February and a spectacular 14.4% from March of 2013, said the National Petroleum Authority (ANP). The pre-salt region accounted for a record 483,400 barrels per day from 28 wells, up 2.4% from February.

Utilization of **industrial capacity** suffered a major decline in March, partly reflecting the long Carnival weekend but also Brazil's economic slowdown, according to figures from the National Confederation of Industries (CNI). Utilization of industrial capacity fell in March to 80.9%, down from 81.9% as of February and 82.6% in March of 2013. Billing by manufacturers was off 6.3% in March against February. Brazil's economy has stalled on a combination of rising consumer debt and high interest rates.

Retail sales figures for March, released last week by the Brazilian Census Bureau (IBGE), were a disappointment. Sales were off 0.5% against February and down 1.1% against March of 2013. According to economists, the decline is a reflection of Brazil's sluggish economy. Inflation at 6.28% and a Central Bank base interest rate of 11.0% are inhibiting business investment and consumer spending. Consumer cutbacks are beginning with big-ticket items. March saw steep declines in sales of motor vehicles and building materials. But home appliances still posted gains.