

Brazil

Brazil's economic recovery took firm hold in 2010, with annual growth at 7.7%, booming employment (more than 2.4 million jobs created between January and October) and a low unemployment rate averaging 6.3% between August and October. On average, wages rose by 6.5% in real terms. Personal loans were up 7.7%, also in real terms, supporting a steady expansion of family consumption. Inflation, at 5.2% for the 12 months to October, remained above the 4.5% target. In the external sector, imports rebounded and income from FDI and portfolio investment was up sharply. This macroeconomic performance is due mainly to rising domestic demand spurred above all by public policies aimed at increased spending and financing, especially for investment.

In 2010 the authorities retracted measures implemented to address the crisis in late 2008. Tax reductions targeting specific sectors (such as the automobile industry) were eliminated. Compulsory bank deposits with the central bank returned to pre-crisis levels, and special credit lines to support Brazilian companies with external debts were eliminated. Some investment supports were kept, though, such as tax breaks on inputs for civil construction and more readily available credit for sectors that produce capital goods. The Brazilian Development Bank (BNDES) received another capital injection to enhance its financing capacity. Project execution stepped up under public investment programmes, such as the Growth Acceleration Programme (PAC) and the *Minha casa, minha vida* ("My Home, My Life") housing programme.

Fiscal policy remained expansionary although some countercyclical measures were dropped. Non-recurrent revenue such as dividends from State-owned companies (0.6% of GDP), net revenue from the capitalization of the Petrobras group (1.1% of GDP) and rebounding tax revenue as activity picked up should make it possible to meet fiscal targets with a primary surplus of 3.1% of GDP for 2010. For the 12 months to September, this indicator stood at 2.9% of GDP. Tax revenue, including from payroll taxes, rose by 13% in real terms during the period from January to September 2010 compared with the same period during 2009. Federal government spending increased by 12% in real terms; among the major contributing factors

were social security benefits (up by 8.3%) to September and wages (6% increase), although they rose less than in 2009. Capital expenditure grew by more than 50% in real terms but still accounts for just 6.7% of total primary government outlays (compared with 5% in 2009).

Monetary policy in 2010 held the same expansionary course as in 2009. Although the central bank raised the Special System of Clearance and Custody (SELIC) interest



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

rate from 8.75% to 10.75% between April and July 2010, monetary aggregates and credit recorded significant increases. During the period from December 2009 to October 2010, base money grew by 20.3% and the means of payment rose by 18.6%. Both outpaced the percentage changes posted in 2009 (12.6% and 12%, respectively). Available credit was up substantially (19.6%) as of September compared with September 2009. To October 2010 credit for companies rose by 18% compared with year-end 2009; in 2009 credit expanded less than 6%. Public banks continued to perform well and became firmly established as the main sources of market financing, at 19.6% of total credit. Improved economic performance, revenue and employment kept past-due credit below the 2009 level, at some 3.4% of total credit. Credit reached 46.7% of GDP in October 2010 versus nearly 25% of GDP in 2003.

With an estimated 7.7% increase in GDP, output rose significantly in several sectors. Agriculture posted a gain of 11% over 2009 and 1.9% over the record set in 2008. Mine output again rose substantially, driven by iron mining (production at the largest company rose by 30.4% during the first three quarters of 2010 compared with the same period in 2009). Manufacturing gained 13% during the period, led by the rising production of capital goods (26.5%). Nevertheless, output is still below the levels recorded before the September 2008 crisis, particularly for capital goods and consumer durables. Industrial output during the third quarter of 2010 showed virtually no change over the second quarter of 2010, declining by 0.5%. This slowdown is associated with the impact of countercyclical policies, increased competition from imports and falling idle capacity in some sectors. As for the components of spending, family and government consumption rose considerably, as did investment. Investment during the first three quarters of 2010 increased by 25.6% over the same period in 2009, thanks to BNDES lending (which grew by 19.4% between year-end 2009 and September 2010) and to the rise in home loans. The latter increased by 36% to September 2010 and amounted to 118 billion reais—practically twice the December 2008 level. Several public measures, such as the recapitalization of BNDES and the federal government housing programme, were key to the performance of both sectors. The national indicator of civil construction compiled by the Brazilian Institute of Geography and Statistics (IBGE) rose by 6.3% between January and October 2010, outpacing the 4.9% increase during the same period in 2009. The investment rate for 2010 is expected to recover from the 16.7% of GDP posted in 2009 and return to the levels seen in 2008 when it reached 19.1% of GDP.

The upturn in production also led to a significant expansion of formal employment. The 2.4 million jobs

BRAZIL: MAIN ECONOMIC INDICATORS

| | 2008 | 2009 | 2010 ^a |
|---|---------|---------|--------------------|
| Annual percentage growth rates | | | |
| Gross domestic product | 5.2 | -0.6 | 7.7 |
| Per capita gross domestic product | 4.1 | -1.1 | 6.7 |
| Consumer prices | 5.9 | 4.3 | 5.6 ^b |
| Average real wage ^c | 2.1 | 1.3 | 2.4 ^d |
| Money (M1) | -3.5 | 12.0 | 18.6 ^e |
| Real effective exchange rate ^f | -3.3 | 1.7 | -15.2 ^g |
| Terms of trade | 3.6 | -2.4 | 15.0 |
| Annual average percentages | | | |
| Urban unemployment rate | 7.9 | 8.1 | 6.8 ^h |
| Central government operating balance / GDP | -1.2 | -3.6 | -2.1 |
| Nominal deposit rate | 7.9 | 6.9 | 6.8 ⁱ |
| Nominal lending rate | 38.8 | 40.4 | 38.6 ⁱ |
| Millions of dollars | | | |
| Exports of goods and services | 228 393 | 180 723 | 230 567 |
| Imports of goods and services | 220 247 | 174 678 | 242 445 |
| Current account | -28 192 | -24 302 | -45 296 |
| Capital and financial account ^j | 31 161 | 70 952 | 91 296 |
| Overall balance | 2 969 | 46 650 | 46 000 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2010.

^c Workers covered by social and labour legislation, private sector.

^d Estimate based on data from January to September.

^e Twelve-month variation to October 2010.

^f A negative rate indicates an appreciation of the currency in real terms.

^g Year-on-year variation, January to October average.

^h Estimate based on data from January to October.

ⁱ Average from January to October, annualized.

^j Includes errors and omissions.

created between January and October 2010 represent a 107% gain over the same period in 2009. Unemployment was 6.1% in October 2010; the national wage bill increased by 11.1% between December 2009 and September 2010. Among the sectors adding the most jobs during the period from January to October 2010 were construction (15.1%) and manufacturing (nearly 9%).

Strong domestic demand and rising commodity prices in the international market will affect inflation. Most of the variations in consumer prices have been due to fluctuating food prices, which rose 7.47% in the 12 months to October versus the 5.2% overall variation in the extended national consumer price index (IPCA) during the same period. Price variations in some other product groups were linked to an increase in available income; notable examples are clothing (6.2%), personal expenses (7.02%) and education (6.2%).

Growing domestic demand fuelled a recovery of productive domestic activities that was reflected in a marked expansion of goods imports (which in value terms rose by 43.8% between January and October 2010 compared with the same period in 2009) in an environment of currency appreciation. Although exports increased by 27%, the trade balance fell to US\$ 14.626 billion in October and was not enough to finance the higher balance of services

and income deficit that, at US\$ 55.750 billion, was 38% more than for the same period in 2009. The current account deficit worsened towards October 2010 and reached US\$ 38.763 billion or nearly 2.37% of GDP. Ample liquidity in the global economy enabled Brazil to finance this deficit mainly with US\$ 21.781 billion in net FDI income and US\$ 61.273 billion in portfolio investments. The foreign currency surplus was absorbed by a US\$ 43.306 billion increase in international reserves, which therefore rose to US\$ 284.900 billion as of the close of October 2010. This is more than Brazil's total external debt, which was US\$ 254.100 billion as of the same date.

These purchases of reserves have not been enough to prevent 6.7% real appreciation against the dollar between year-end 2009 and October 2010. Real effective appreciation, including changes in other currencies, was less marked (5.9%). To check the inflow of short-term capital and lessen its impact on exchange rate movements, in October 2010 the capital inflow tax was reintroduced at a rate of 6%, and the required margins for transactions in the exchange-rate derivatives market were increased.

On the export side, commodity sales rose by 38.7% and those of semi-manufactured goods by 37% on an accumulated basis between January and October 2010 compared with 2009. Exports of manufactured goods increased by 19.3% during the same period. With exports recovering at different paces, commodities accounted for the largest share of Brazil's exports (something that had not happened since the 1970s). They amounted to 44.7% of total exports during the first ten months, versus 39.5% for theretofore first-ranked manufactured goods. Of Brazil's top ten exports between January and October 2010, nine were related to mineral and agricultural products. The number one export is iron ore; at US\$ 22.000 billion, or 13.9% of

total exports, it surpasses second-ranked crude oil by 89% and is proving to be one of the country's main sources of foreign exchange. The only manufactured products among the top ten exports are passenger automobiles, at US\$ 3.612 billion. A significant portion of export growth was due to rising prices during the period from January to October 2010 compared with 2009 (31.6% for semi-manufactured goods, 27.6% for commodities and 9.1% for manufactured goods). Virtually the opposite happened in terms of volume: manufactured goods were up by 9.2%, commodities rose by 8.4% and semi-manufactured goods saw a 4.2% gain. Among export destinations, China—with a 15.85% share—has become the principal buying country. Brazilian sales to Latin America were the fastest growing, expanding by 40.6% (to nearly 21% of total exports) between January and October.

Imports expanded for all product groups and accounted for an accumulated US\$ 148.683 billion for the year to October. Almost half of Brazil's imports were inputs and intermediate goods; these grew by 41.2% during the period from January to October compared with the same period in 2009. Imports of capital goods rose by 37% (22% of the total). Consumer goods imports were up 49% (17% of the total)—particularly automobiles, which rose by 60% and now amount to 4.5% of the total. Higher volume explains the 40.9% increase in import value on an accumulated basis to October 2010. The volume gains were 43.4% for intermediate goods, 42.1% for capital goods and 51.9% for consumer durables. The prices of products imported by Brazil have gone down; the intermediate goods price index fell by 1.5%, and the capital goods price index declined by 4.5%. The consumer goods price index rose by 1.3% for durable goods and 4.3% for non-durables. The only significant price increase (30.9%) was for fuels.