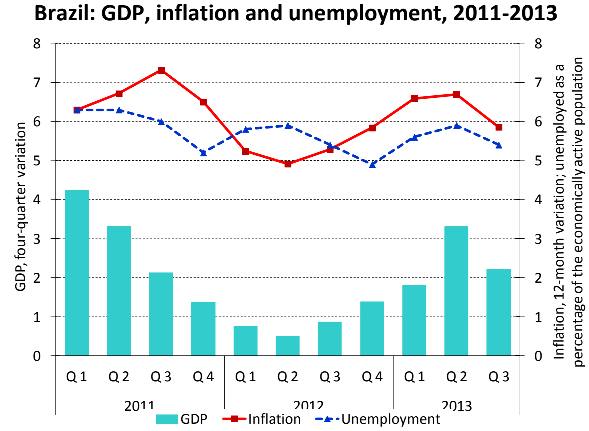
Brazil

Brazil's GDP is expected to grow by about 2.4% in 2013, up from 1.0% in 2012. This performance reflects the difficulties arising from an external scenario still dominated by the international crisis, and from the heightened volatility of the country's macroeconomic variables, including the exchange and interest rates. Activity levels fluctuated throughout the year, with quarter-on-quarter GDP variation of zero in the first quarter, 1.8% in the second and -0.5% in the third. This fluctuation is heavily associated with industrial production, which saw variations in output levels owing to stock adjustments caused by changes in monetary and fiscal policy and tighter access to consumer credit. On the demand side, investment was also quite variable, having recovered strongly in the first half of 2013 only to fall by 2.2% in the third quarter (compared with the previous quarter) yet still posting 6.5% cumulative growth over the first nine months. Consumption continued to expand, at a pace of 2.4% over the three quarters. Employment and real wages rose more slowly, while unemployment stayed low. Twelve-month inflation was about 5.8%, within the target range.

The outlook for the Brazilian economy in 2014 remains contingent on changes in United States monetary policy, particularly how and when such changes occur, and their impacts on capital flows. Brazil's prospects will also depend on the domestic fiscal and credit policy space available to respond to these changes. The policies launched in 2013 are expected to deliver positive effects, including lower inflation and greater execution of investment in infrastructure and energy projects. However, uncertainty over these scenarios, and the resultant volatility, mean that the growth estimate for 2014 is similar to the 2013 figure.

Economic policy in 2013 was directed towards accelerating growth and keeping inflation in check, under conditions of high external volatility, especially given the expected changes in United States monetary policy. The first change in Brazil's macroeconomic variables occurred as the central bank raised the Special System of Clearance and Custody (SELIC) basic interest rate from April 2013 onwards. Accordingly, the rate climbed from 7.25% to 10.0% between September 2012 and December 2013. This measure was designed to contain annual inflation and bring it below the 6.5% ceiling of its target range, and to achieve convergence towards the centre of the range at 4.5%. The cumulative inflation rate was 5.8% in the 12 months to October, and 4.38% in the first ten months of 2013.

Brazil: GDP, inflation and unemployment, 2011-2013



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

The new interest-rate trend of gradual increases, in both nominal and real terms, coincided with uncertainty over a possible end to the United States' expansionary fiscal stance and the ensuing repatriation of capital. In June, with capital expected to be less plentiful, the government slashed its financial transactions tax on overseas investments in Brazilian bonds to 0%, thus dismantling its main capital control mechanism. This decision was taken as the nominal exchange rate, stable at around 2.00 reais to the dollar in the first few months of 2013, began to rise, reaching 2.25 reais at the end of June, 2.30 in July and 2.45 in August. The speculative effects caused by the weakening currency pressured the central bank into defending the real on the futures markets, with the consequent impact on exchange rates. In late August, the central bank began to hold daily currency swap auctions for up to US$ 500 million (in reais) and weekly auctions of US$ 1.0 billion in credit lines, to complement the external financing needs of Brazilian banks and enterprises. The central bank committed to continuing this auction policy until the end of 2013. In late October, the sum of the swap transactions, paid in local currency, was equivalent to US$ 63.0 billion, while dollar credit transactions amounted to US$ 12.4 billion.

Brazil: main economic indicators, 2011-2013

	2011	2012	2013 [a]
	Annual growth rate		
Gross domestic product	2.7	1.0	2.4
Per capita gross domestic product	1.9	0.2	1.7
Consumer prices	6.5	5.8	5.8 [b]
Real average wage [c]	2.5	3.7	2.2
Money (M1)	6.1	5.9	11.8 [d]
Real effective exchange rate [e]	-4.4	11.9	5.1 [b]
Terms of trade	7.9	-5.8	-0.7
	Annual average percentage		
Open urban unemployment rate	6.0	5.5	5.5
Central government			
Overall balance / GDP	-2.6	-2.0	-2.0
Monetary policy rate	11.8	8.6	8.0 [b]
Nominal lending rate [f]	44.9	39.9	38.6 [b]
	Millions of dollars		
Exports of goods and services	294 250	282 444	282 162
Imports of goods and services	302 388	304 072	323 886
Current account balance	-52 474	-54 230	-77 624
Capital and financial balance [g]	111 111	73 130	73 024
Overall balance	58 637	18 900	-4 600

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Figures as of October.
[c] Private-sector workers covered by social and labour legislation.
[d] Figures as of September.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Interest rate on total consumer credit.
[g] Includes errors and omissions.

By mid-October, the exchange rate had in fact strengthened to 2.17 reais to the dollar, but a further depreciation of the local currency brought the rate to 2.33 in November, amid fresh uncertainties over United States policy. The volatility of the exchange rate also reflects the deterioration of Brazil's external accounts in 2013. The goods trade deficit stood at US$ 84 million for January-November 2013, compared with a US$17.2 billion surplus in the same period in 2012. Services and income payments between January and October 2013 were up by more than US$ 9.2 billion against the year-earlier period, swelling the current account deficit to US$ 67.5 billion (as against US$ 39.6 billion in the first 10 months of 2012). The cumulative deficit widened from 2.61% of GDP between January and October 2012 to 3.63% in the same period in 2013.

Capital and financial account inflows amounted to US$ 66.5 billion in 2013, up by about 10% on the US$ 60.6 billion recorded in 2012. However, the composition of these flows shifted somewhat. Net direct investment slipped from US$ 56.9 billion in January-October 2012 to US$ 52.0 billion in the same period in 2013, while portfolio investment, especially in securities, expanded from US$ 5.7 billion to US$ 28.6 billion. External assets held by Brazilian banks rose by US$ 30.7 billion in 2013 (compared with a US$ 16.7 billion increase in 2012), in response to exchange-rate volatility. Changes in the current account and in capital flows, in addition to local market pressures, caused international reserves to fall by US$ 2.2 billion between January and October 2013, with liquid reserves standing at US$ 376.9 billion.

One of the main changes observed in the fiscal accounts was that the primary surplus narrowed. Between January and October 2013, the public sector accumulated a primary surplus of 1.3% of GDP, down from 3.1% in the year-earlier period. The federal government surplus fell from 1.8% to 0.8% of GDP, while that of subnational governments edged down from 0.6% to 0.5%. The nominal deficit widened from 2.6% of GDP in 2012 to 3.7% in 2013, as a result of spending increasing faster than public revenues. Federal government expenditure in the first 10 months of 2013 was up 14.0%, while income rose by 8.2%. In addition to the effects of declining activity on the collection of taxes and social security contributions, 2013 also saw higher tax expenditure as a result of policies offering reductions and exemptions on taxes and employers' contributions, which amounted to 64.40 billion reais (7.1% of total receipts) between January and October 2013. Net public debt remained in the vicinity of 35.1% of GDP and gross public debt stood at 59.0% of GDP.

Investment performed strongly, with lending by the Brazilian Development Bank (BNDES) up by more than 50% to July, and capital goods production between January and September up by more than 14% in year-on-year terms. Civil construction activity expanded by 1.7% in the same period, on the strength of continued public investment programmes such as the Growth Acceleration Programme (PAC), affordable housing schemes, and the launch of public infrastructure and natural resource concessions. An auction was held in October for the Libra exploration block in the pre-salt oilfields. Highway concessions, and the rights to operate Rio de Janeiro and Belo Horizonte airports, were also auctioned.

Stubborn inflation, with a cumulative 12-month rate that exceeded the ceiling of the target range (6.5%) between March and July, was behind the uptrend in the base interest rate. Monetary aggregates continued their modest expansion until October 2013, with the monetary base growing by just 3.1% and the money supply by 8.9% compared with October 2012. Credit growth continued to slow, from an annual rate of 16.4% in 2012 to 9.7% in September 2013. This slowdown was heaviest in the free lending component, which is not targeted in accordance with the regulations of the Brazilian financial system, which slipped back from 13.5% growth in 2012 to 4.7% in September 2013. Total credit growth was largely spurred by targeted operations, including mortgage lending, which increased by 16.9% in the first nine months of the year. These operations were carried out mostly by public banks, which accounted for 50.4% of total lending, and whose total credit operations expanded by 16.0%.

Employment levels continued to rise, albeit more slowly, with formal employment up by 2.6% over the 12 months to October 2013. The unemployment rate was just 5.2% in October 2013, stoking expectations that the average annual rate will again be below 6%. Upward pressure on wages continued and real average income was 2.5% up year-on-year in September, while the wage bill rose by 4.1% in the same period. Slower growth in employment and in labour income coincided with tighter access to consumer credit. The automobile loan market stagnated, with zero year-on-year variation in the first 10 months of 2013, while credit-card financing posted slacker growth of 5.3% over the first 10 months of 2013 (as against 11.0% in the year-earlier period). However, confidence in employment stability underpinned a boom in mortgage lending, as the number of individuals taking out home loans increased by 34.5% over the 12 months to October 2013.