

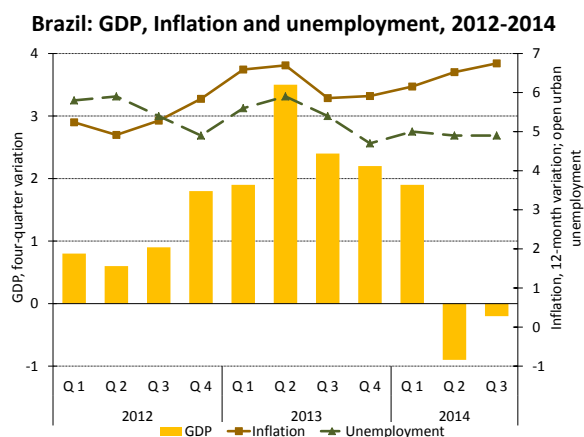
Brazil

The Brazilian economy grew slowly in 2014. GDP is projected to end the year 0.2% higher against a background of difficulties connected with the international crisis and reduced scope for implementing countercyclical policies. Annual inflation remained stubbornly close to 6.5%. In the external sector, the value of exports to October was down by 4.2% on the same period in 2013 and the current account deficit to the same month rose to 3.7% of GDP, or US\$ 70.7 billion. In the fiscal accounts, furthermore, the public-sector primary balance to October was in deficit by 0.27% of GDP, mainly because federal government revenues grew by less than spending. However, the unemployment rate continued to drop, and its average level of 4.9% in October was the lowest since the current series began in 2002.

The poor performance of the economy resulted in some uncertainty about the direction for economic policy. Where fiscal policy is concerned, it was observed that federal government revenues to October 2014 were up by 7.0% in nominal terms over the same period in 2013, which was less than the rise in spending (12.6%), and this affected the cumulative primary balance of the public sector, including subnational governments and State firms, resulting in a deficit of 0.27% of GDP. These developments made it impossible to achieve the planned primary surplus of 1.9% of GDP, leading the government, with the approval of Congress, to adjust the calculation so that it excluded investment spending and some tax expenditure, given a drop in employers' contributions to the social security system. The adjustment added up to virtually 1.8% of GDP. In view of this trend, it was clear that fresh fiscal planning would have to be carried out to adjust spending and revenue so that a significant primary surplus could be restored.

The fall-off in activity affected federal government revenues, particularly receipts from taxes and contributions on corporate profits and sales. Receipts from the contribution for the financing of social security (COFINS) to October 2014 were down by 3.1% in real terms on the same period in 2013, while those from the additional tax on profits (corporate income tax (IRPJ) and the social contribution on net profits (CSLL)) were down by 3.2% in real terms. Meanwhile, tax expenditure in the form of exemptions and rate adjustments totalled 84.4 billion reais (R\$) to October 2014, a real-term increase of 34.3%, and was equivalent to almost 8.9% of total revenues, as against 6.6% in the same period of 2013. Federal government expenditure maintained its countercyclical stance, with expanded social spending and public investment. Spending on health, education and social development, including income transfer programmes such as Bolsa Família, increased by over 11% in real terms to October 2014. Meanwhile, disbursements under the Growth Acceleration Programme (PAC) increased by about 34% in real terms to R\$ 51.5 billion to October 2014. In this way, net public-sector debt rose from 33.6% of GDP in December 2013 to 36.1% of GDP in October 2014.

Monetary policy was designed to control inflation, as this was close to the 6.5% upper limit of the target band during 2014 (the target is an annual rate of 4.5%, with a margin of 2 percentage points either way). The central bank continued to increase the SELIC base interest rate over the year, so that from 10% in January it rose to 11% in April and then to 11.75% in October after the presidential elections. Credit interest rates rose and the average



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

lending rate increased to over 21% a year from 18% in late 2012. Bank lending expanded by 7.8% in the first 10 months of 2014, a smaller increase than the 10.7% seen over the same period of 2013. Public-sector banks played a leading role in maintaining credit growth, as they increased their lending by 12.4% to October 2014, while local and foreign private-sector banks expanded their operations by just 2.9% in nominal terms. With this, the public-sector bank share of total credit rose from 51.2% in late 2013 to 53.4% in October 2014.

The central bank maintained the exchange-rate policy it had initiated in August 2013 of making swap contracts available in futures markets to provide some hedge against exchange-rate volatility. By late October, outstanding contracts were worth US\$ 102.9 billion. It should be stressed that these contracts are payable in local currency, so that no immediate disbursement of foreign currency is required. However, the exchange rate remained somewhat volatile, strengthening from 2.34 reals to the dollar at the start of 2014 to 2.20 in June, before moving back to almost 2.60 to the dollar in November.

The external sector developed much as in 2013. Foreign trade stagnated, with both exports and imports experiencing negative growth of the same magnitude, 4.2%, up to October, so that the trade balance to that month was in deficit by US\$ 1.9 billion. The services and income balances were in deficit by much the same amounts as in the same period of 2013, some US\$ 40 billion and US\$ 30 billion, respectively, yielding a cumulative current account deficit of US\$ 70.7 billion to October.

Of all the main product groups, only commodity exports rose in the period from January to October 2014 relative to the same period in 2013; the amount exported was up by 0.5% and accounted for 49.5% of the export total. This result was due to a rise in exports of oil (40.8%), coffee (25.6%) and beef (11.0%), which offset a drop in sales of iron ore (-41.3%) and soybeans (-55.6%). Among industrialized products, sales of manufactures fell by 10.1% and those of semi-manufactures by 3.8%. Foreign sales of automobiles dropped by 40.9%, those of automobile parts by 24.3% and those of aircraft by 8.8%. Among semi-manufactures, while exports of iron and steel products rose by about 15.1%, sales of aluminium and soya oil dropped by 22.7% and 17.8%, respectively.

Brazilian purchases abroad dropped in all the main categories between January and October 2014: those of capital goods were down by 6.4%, those of raw materials by 2.1%, those of consumption goods by 4.1% and those of fuels by 3.7%. In the case of automobiles, imports in the first 10 months of 2014 were 15.5% down on the same period in 2013.

As regards export markets and source countries for imports, there was a substantial drop in the flow of Brazilian trade within MERCOSUR, with exports declining by 13.7% and imports by 10.9%; in particular, the flow of trade with Argentina was 21.8% smaller between January and October 2014 than in

Brazil: main economic indicators, 2012-2014

	2012	2013	2014 ^a
Annual growth rate			
Gross domestic product	1.0	2.5	0.2
Per capita gross domestic product	0.2	1.7	-0.6
Consumer prices	5.8	5.9	6.6 ^b
Real average wage ^c	3.7	1.1	1.6 ^b
Money (M1)	5.9	10.7	5.0 ^b
Real effective exchange rate ^d	11.2	6.2	2.5 ^b
Terms of trade	-5.8	-2.3	-2.8
Annual average percentage			
Open urban unemployment rate	5.5	5.4	4.8 ^b
Central government			
Overall balance / GDP	-2.0	-2.9	-4.4
Nominal deposit rate	6.5	6.4	7.1 ^b
Nominal lending rate ^e	39.9	39.1	44.8 ^b
Millions of dollars			
Exports of goods and services	282,442	281,161	275,244
Imports of goods and services	304,089	325,858	323,032
Current account balance	-54,249	-81,108	-83,404
Capital and financial balance ^f	73,148	75,182	97,580
Overall balance	18,900	-5,926	14,177

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

e/ Interest rate on total consumer credit.

f/ Includes errors and omissions.

the same period of 2013. Brazil's sales to China, its main export destination, fell by 6.8%, while imports stagnated, rising by just 0.5%. Among the countries that Brazil sold more to were the United States (8.3%) and Chile (15.2%), owing to increased shipments of oil and other fuels.

Capital flows rose by about US\$ 38.5 billion to October to finance the country's current account deficit of 3.7% of GDP. The increased inflow was due to loans and bonds, since direct investment remained at the same levels as in 2013, about US\$ 52 billion. In the period between January and October 2014, international reserves increased by US\$ 20.5 billion to US\$ 375.8 billion.

The level of activity was volatile in 2014. Growth rates were negative in the first two quarters of the year, at -0.15% and -0.59%, while in the third the rate was positive but very low at 0.1%, so that cumulative growth to September 2014 compared to the same period in 2013 was just 0.2%. On the demand side, investment dropped substantially, presenting a cumulative change of -7.9% to the third quarter of 2014. Meanwhile, household consumption, hitherto one of the main drivers of growth in the economy, rose by 1.2% in the first three quarters of 2014 over the same period in 2013, when growth was 2.6%. Government consumption continued to expand, rising by 2.0% in the first three quarters. On the supply side, industrial activity contracted significantly, dropping for four straight quarters until the second quarter of 2014 before growing by 1.7% in the third quarter, to give a cumulative decline of 1.4% in the year to September. Output to September 2014 was down in manufacturing industry (3.3%) and construction (5.1%) in particular. The exceptions were mining and oil prospecting, where activity rose by 7.3%, and agriculture, which managed growth of 0.9% despite the impact of drought in a number of regions of the country.

Inflation as measured by the consumer price index remained stubborn, with 12-month price increases close to or in excess of 6.5%, the upper limit of the target band. In October 2014, the 12-month rate was 6.6%. This persistence was due to similar inflation rates in all the main price groups, with a figure of 6.3% in the 12 months to October for tradable goods and one of 7.5% for non-tradable goods. In addition, prices set or monitored by the government, such as those for energy and fuels, were already up 5.12% by October 2014 after rising by just 1.5% in 2013. This increase is mainly due to rises of over 15% in electricity prices in a number of states because of growing use of power from thermoelectric plants as a result of the drought in a number of Brazilian regions. However, higher consumer prices are also due to increased profit margins, as the general wholesale price index and the indices for industrial products and agricultural products rose by just 1.3% in the 12 months to October.

The unemployment rate carried on declining despite sluggish growth. In October it averaged 4.9%, the lowest figure since the current series began in 2002. Some 912,000 new jobs were created from January to October 2014, while the incomes of those in work were 3.0% higher in real terms in the period from January to December than in the same period of 2013, although the rate of increase tailed off progressively.