

ECONOMY

Retail sales rise in April

Retail sales rose 0.8% in April compared with March, according to government statistics agency IBGE. From January to April, retail sales increased by 9.2% compared with the same period in 2011. The cut in the industrial production tax spurred sales of durable goods, mainly electric appliances, but the sector also responded positively to employment stability and income growth. (June 14)

Consumer debt defaults grow

In May Brazilian household defaults grew 6% more than in April, the third consecutive monthly increase. From January to May, defaults increased by 20% compared to the same period in 2011. Defaults on consumer loans reached 8% of total loans, while delinquency on corporate loans remained at 4%. (June 26)

Jobless rate drops suddenly

Brazil's jobless rate fell to 5.8% in May from 6.0% in April—the lowest rate on record for May. Wages adjusted for inflation

fell 0.1% month-on-month to R\$1,725 (US\$850), but that was 4.9% higher than in May 2011. (June 21)

Consumer confidence in Brazil's economy sinking

Brazilian consumer confidence waned in June and analysts chopped forecasts for economic growth as indebted households and risk-wary investors stayed cautious despite government stimulus measures. The FGV consumer confidence index slumped 2.8% in June, with household expectations worsening over the next six months. (June 25)

Moody's downgrades eight Brazilian banks

Downgraded were subsidiaries of Santander, HSBC, and ING banks and local banks Bradesco, Banco do Brasil, Itaú-Unibanco, Banco Safra, Votorantim, and the exchange operator BM&F Bovespa. Moody's aligned their ratings with the rating on government bonds (investment grade Baa2) because the banks were at risk of a government debt

crisis given their high exposure to government debt. (June 28)

Industrial production falls

Industrial production fell 0.9% month-on-month in May, after dropping 0.4% in April. From January to May production declined 3.4% compared with a year earlier. (July 3)

Inflows of foreign exchange still subdued

Foreign exchange net inflows for June totaled US\$0.3 billion (with a net trade outflow of US\$1.0 billion and a financial inflow of US\$1.3 billion). Net inflows were US\$23 billion in the first half of the year, 41% less than for the same period in 2011. (July 4)

June inflation lowest in two years

Brazil's official IPCA consumer price index rose just 0.08% in June; 12-month inflation through June was 4.92 percent, the slowest pace since September 2010. Easing inflation has given the central bank room to slash its benchmark interest rate. (July 6)

LATIN AMERICA

Venezuela accepted into Mercosur

The presidents of Argentina, Brazil, and Uruguay agreed to make oil-rich Venezuela the fifth full member of the common market. However, the decision came after Paraguay was temporarily suspended, raising questions about its timing and legality. Mercosur rules require that such decisions be unanimous, and

Paraguay's senate has long objected to Venezuela's membership. Uruguay's Foreign Minister Luis Almagro said his country only agreed after intervention by Brazilian President Rousseff. Despite objections from Paraguay and Uruguay, the agreement is expected to be signed July 31 at Mercosur's next meeting in Rio de Janeiro. (June 30)

SOCIETY

Fewer Catholics in Brazil

The Catholic religion lost 1.7 million supporters between 2000 and 2010, bringing its members to 123.3 million — 65% of the population, down from 90% in 1970. Over the past 10 years evangelical religions have attracted 16.1 million faithful, for a total of 42.3 million (22% of the population). (June 30)

TRADE

Brazil and China agree on trade issues

Brazil and China have signed several trade agreements to boost mutual investment and trade flows in the next 10 years. China is Brazil's biggest export market, and Brazilian officials hailed the accord as critical to the country's growth. Relations between the nations will rise to the status of a "global strategic partnership," highlighting the growing influence of both in the global economy and a cooling of previous tensions. Since Rousseff took office in 2011, Brazilian officials have complained of Chinese barriers to Brazilian manufactures, and China has complained that Brazil raised taxes on Chinese-made cars to protect its car assembly industry, dominated by U.S., European, and Japanese automakers. (June 21)



Photo: Fabio Rodrigues Pozeborn/ABr.

Brazil's President Dilma Rousseff (left) and China's Prime Minister Wen Jiabao sign trade agreements.

Exports down to Mercosur, up to the U.S.

From January to May, Brazil sold 10% less to Argentina, Paraguay, and Uruguay than in the same period in 2011, even though the region is a leading importer of Brazilian manufactures. Meanwhile, Europe cut

purchases from Brazil by 5%. However, increased demand from China and the United States helped to compensate: Exports to the U.S. grew 27% in 2012, driven by a 70% increase in oil exports; there was also significant growth in exports of laminates, airplanes, cars, and transformers. (June 25)

ECONOMIC POLICY

US\$10 billion in new federal credit to states

To encourage states to invest and stimulate growth, the federal government has announced, among other measures, release of a credit line of US\$10 billion by the National Bank for Economic and Social Development. The states will pay subsidized rates on 20-year loans. (June 15)

Small and medium-sized banks in difficulties

Small and medium-sized banks (SMBs) are facing increased funding pressures, notably in external markets, which have been mostly closed to SMBs since the near-collapse of Panamericano Bank in 2010. The intervention of Cruzeiro do Sul Bank on June 4, has raised concerns about the reliability of financial statements

of SMBs, further undermining investor confidence. (June 20)

Brazil budget surplus down on lower revenues

The government primary surplus (budget balance excluding interest payments) was R\$2.6 billion in May, down from R\$7.5 in May 2011, the Central Bank announced. The main reason was a decline in tax revenues. For the year, the surplus amounted to R\$62.9 billion (3.55% of GDP); the 2012 primary surplus target is R\$139.8 billion. (June 27)

Another stimulus package announced

In another bid to revive a struggling economy, the Rousseff administration has pledged to boost government purchases by R\$6.6 billion (US\$3.3

billion) and lower subsidized lending rates for companies to 5.5% from 6%. The National Bank for Social and Economic Development (BNDES), which disbursed almost twice as much in loans last year than the World Bank, is the main source of credit for Brazilian companies of all sizes. All stimulus measures so far reflect Rousseff's proclivity for state-led economic growth (perhaps emulating the Chinese model). (June 27)

Government reduces 2012 growth projection

The Rousseff administration has revised downward its growth projection of only 2% this year, similar to the financial markets, but less than the Central Bank's 2.5%. Presidential advisers think recovery is taking longer than expected because industry is not competitive and household debt is high. (July 5)