POLITICS

Photo: Antonio Cruz/Agencia Brasil.

Photo: Fabio Rodrigues Pozzebom/ Agencia Brasil.

Minister of Defense Jobim leaves after indiscretions; former top diplomat Celso Amorim takes over.

Amorim replaces Jobim at Defense

Minister of Defense Nelson Jobim has resigned over his indiscreet comments on the capacity of Intitutional Relations Minister Ideli Salvatti and Chief of Staff Gleisi Hoffmann. He was replaced by Celso Amorim, foreign minister in the Luiz Inácio Lula da Silva administration, once more showing Lula's continuing influence over the Rousseff administration. Jobim is the third minister to leave since the new administration took over in January. (August 5)

Minister of Agriculture resigns, accused of corruption

The fourth minister to leave since Rousseff took office is Agriculture's Wagner Rossi, who resigned after accusations of suspected payoffs, lobbyists manipulating public biddings, and outside influence on appointments. (August 18)

ECONOMY

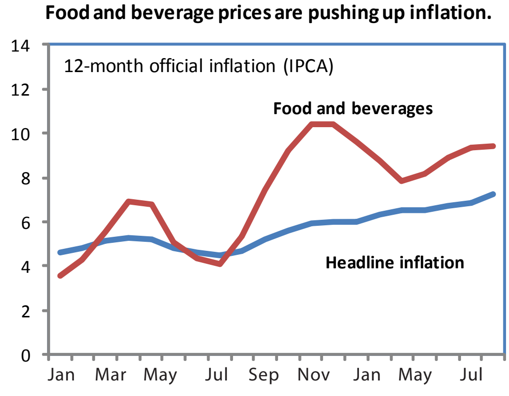
Inflation surge threatens government target

After just a two-month break, in August inflation again soared, pushed by renewed surges in food prices. According to the Institute of Geography and Statistics (IBGE), official inflation rose 0.37% in August, bringing the rate for the last 12 months to 7.23% — the highest year-on-year since June 2005. The government inflation target for 2011 is 6.5%. (September 7)

The economy cools, but not comsumption

Growth of the Brazilian economy slowed in the second quarter as industry was affected by the stronger real and higher interest rates. However, consumption — a major government worry because of its effects on inflation — has increased, driven by the surge in jobs and profits that bolstered the service sector. According to IBGE, GDP grew 0.8% in the second quarter compared with 1.2% in the first. Industry grew only 0.2% compared to the first quarter; it was held back by soaring imports and a lack of competitiveness due to exchange rate appreciation. (September 3)

Food and beverage prices are pushing up inflation.



Source: IBGE.

INFRASTRUCTURE

High-speed rail project gets riskier for the government

After contractors boycotted the high-speed rail auction, to attract bidders the government decided to take on more of the risks of high-speed operations. If the project generates losses, the government will bear them. Some critics point out that the risks are enormous; high-speed rail will take a huge share of the Ministry of Tranport budget, money that could be better spent on improving rail cargo operations. (August 3)

FOREIGN POLICY

Brazil to reduce Haiti peacekeeping mission

In 2012 the army will withdraw up to 250 (11.45%) of the 2,185 Brazilians currently serving in the UN Peacekeeping mission in Haiti, General Luiz Eduardo Ramos Pereira, head of the military mission, has announced. A study in July recommended that the UN reduce the mission by 18% (from 8,700 to 7,100 troops); the Security Council will decide in October whether to approve the general withdrawal. (September 6)

ECONOMIC POLICY

New industrial policy announced

Photo: Wilson Dias/Agencia Brasil

President Rousseff gives a press conference on the Greater Brazil Plan.

The government has announced the Greater Brazil Plan to encourage industry. The package reduces the taxes manufacturers of textiles, footwear, furniture, and software collect on their payroll and creates a tax credit to encourage export of manufactured products. The new policy offers relief for industries with high labor costs, especially those suffering from appreciation of the real against the dollar and from competition with goods imported from China. The total value of tax benefits for 2011 and 2012 is estimated at US$16 billion. (August 2) (For economist opinions of the plan, see p. 12)

Photo: Elza Fiuza/Agencia Brasil.

Finance Minister Mantega explains why the primary budget surplus will increase . . .

Primary surplus to rise

Finance Minister Guido Mantega said the primary surplus (budget balance less interest payments) will rise this year by US$6 billion, from US$51 billion to US$57 billion. The intent is to increase resources to maintain investments and social programs and stimulate economic growth and job creation against the risk of low to no growth in the U.S. and Europe, major markets for Brazil. Controlling public spending, Mantega added, will help the central bank to cut interest rates over the medium term. (August 29)

Photo: Wilson Dias/Agencia Brasil.

. . . and Central Bank Governor Tombini explains a softer stance on inflation.

Unexpected cut in the benchmark interest rate

Surprising the government as well as the financial markets, the central bank has dropped the benchmark interest rate from 12.5% to 12% a year. Since the international crisis, especially with indications of a slowdown in domestic activity, the bank has been under pressure to cut rates. "The balance of risks for inflation has become more favorable," Central Bank Governor Tombini explained, adding that the "revision to the scenario for fiscal policy" should improve the outlook for inflation. (September 1)