ECONOMY

Moody's lowers the outlook for Brazil

Moody's kept Brazil's rating at Baa2 but dropped its outlook to negative, warning that "weak growth rates could further erode Brazil's fiscal position and materially undermine its credit profile." The decision follows the Standard & Poor's downgrade of the country's credit rating to one notch above junk in March. On the positive side, Moody's stated that Brazil has high foreign exchange reserves, limited government foreign debt, and a solid banking system. (September 9)

Industry investing less

The slowing economy led more companies to reduce investment in the last 12 months and the number of companies planning to invest more in the next 12 months has stagnated at a low level, according to the third quarter Investment Survey of the Getulio Vargas Foundation. In July-August, the number of companies that invested less (30%) exceeded the number that invested more (29%). In the next 12 months, 30% of companies answered they will invest more and 23% said they will invest less. (September 11)

Retail sales plunge in July

In July retail sales posted their biggest monthly decline in nearly six years. Sales dropped a seasonally adjusted 1.1% from June, government statistics agency IBGE said, and were down 0.9% from the year earlier. (September 11)

Fewer jobs, new and old, in August

The labor market created 101,425 jobs in August, down 20% compared to August 2013, according to the Ministry of Labor, but there was a net loss of 4,111 jobs. In January-August, 751,456 new jobs were created, 32% less than in the first eight months of 2013. (September 11)

Meanwhile, employment in industry fell by 0.4% from July to August, seasonally adjusted, said government statistics agency IBGE. It was the fifth consecutive drop. For the year, jobs in industry declined 2.7% compared with the same period a year earlier. (October 10)

New high for business bankruptcies

Bankruptcies rose by 21.5% in September, compared to August, and 16% over September 2013, according to Serasa Experian; 181 companies filed for bankruptcy. Most were micro and small enterprises (91), followed by large firms (51) and medium (39). (October 6)

IMF cuts Brazil growth forecast

The International Monetary Fund has slashed its 2014 economic growth forecast for Brazil by a full percentage point to 0.3% because "Weak competitiveness, low business confidence, and tighter financial conditions have constrained investment." The IMF expects a moderate pickup to 1.4% for 2015. (October 7)

FAO: Fewer Brazilians hungry

Brazil has reduced the proportion of citizens who are hungry to 1.7%, 3.4 million citizens, concluded *The State of Food Insecurity in the World* 2014 report, released by the Food and Agriculture Organization (FAO). The FAO considers countries where less than 5% of the population is hungry to have beaten extreme poverty. (September 16)

ECONOMIC POLICY

Mantega defends economic policy

According to departing Finance Minister Guido Mantega, a new finance minister does not mean a new economic policy if President Rousseff is re-elected. In an interview with Broadcast of the Agência Estado, Mantega defended current economic policy; he commented on Brazil's responses in response to the international financial crisis in 2008, "Of course we have to make adjustments because the countercyclical policy is ending. We need to raise tax revenues to increase fiscal effort and thus make room for easing monetary policy, which is very, very tight." (September 18)

Massive deficit as government spending rises

The central government posted its fourth straight primary budget deficit in August, making it nearly impossible for the Rousseff administration to reach a key fiscal

target as election-related spending continues. The primary deficit was R$10.4 billion (US$4.2 billion) in August, the Treasury Department said, far above the July deficit of R$2.2 billion. Stagnant tax revenue due to a sluggish economy has forced the government to tap R$3.5 billion from a sovereign wealth fund and seek R$1.5 billion in dividends from state-owned companies to try to meet its 2014 primary surplus target. Brazil's finances are a hot topic in the run-off campaigns. (September 30)

Fraga charges economic melt-down

Former central bank governor Arminio Fraga, economic adviser to presidential candidate Aécio Neves (PSDB), was pessimistic about the health of the Brazilian economy at a video seminar in Washington on October 10. Fraga said that with growth close to zero Brazil's economy is "almost melting." Fraga suggested a "soft" fiscal policy adjustment over two to three years. He said there is "a lot of fat," such as sectoral subsidies granted by the Rousseff administration, which could be cut in order to maintain social programs. He criticized government interventions to control fuel prices and the exchange rate and advocated rapprochement with the United States and greater openness. Fraga attributed Brazil's difficulties in raising investment capital to excessive interventionism and the abandonment of the former President Fernando Henrique Cardoso economic management model. (October 10)

THE 2014 ELECTION

Rousseff and Neves tied in run-off polls

President Dilma Rousseff (Workers' Party, PT) won a plurality in the first round of the presidential election and will face Aécio Neves (Brazilian Social Democratic Party, PSDB), generally considered the pro-business candidate, in the election run-off on October 26. The advancement of Neves to the second round represents a dramatic turnaround from his distant third place in opinion polls as recently as two weeks before the election. Rousseff won 41.59% of the votes, Neves 33.55%, and Marina Silva (PSB) 21.32%. (October 6)

Datafolha and Ibope polls show the two candidates virtually tied. Both polls showed Neves with 46% of the eventual vote and Rousseff (PT) with 44%. With an error margin of 2%, that is a statistical tie. So far, according to Ibope, Neves inherits 67% of voters for Silva in the first round and Rousseff only 18%. (October 9)



Photos: Wilson Dias and Valter Campanato/Agencia Brasil.

President Roussef and Senator Neves have opposite views on economic policies

PSB backs Neves

The Brazilian Socialist Party (PSB) announced on October 8 its support for candidate Aécio Neves (PSDB) in the run-off. On October 11, Neves was endorsed by Renata Campos, widow of former governor of Pernambuco state and presidential candidate Eduardo Campos (PSB). "It has a very great symbolism," said Neves. Neves hopes to attract more votes in Pernambuco state in the northeast, which is a Rousseff stronghold. (October 8 and 11)