ECONOMY

Retail sales rise for third month in October

Brazilian retail sales rose for the third consecutive month in October, at a seasonally adjusted rate of 1.0% from September, and rose 1.8% from October 2013, the government statistics agency IBGE said Friday. However, as employment has been losing steam, retail sales performance is unlikely to continue positive. (December 12)

Job creation fell 80% in November

Job vacancies totaled 8,381 in November, and new jobs dropped by 82% compared to November 2013, according to the Ministry of Labor and Employment. Layoffs in construction, followed by manufacturing and agriculture, more than offset new jobs in commerce and services. (December 18)

2014 vehicle sales worst in 12 years

Although elimination of industrial products tax (IPI) exemptions on vehicles as of January 2015 caused a rush to buy vehicles in December, which become the third best month in the history of the automobile industry, with 370,000 vehicles registered, the year ended with 3.5 million units sold, a decline of 7.1% for the year—the biggest drop recorded by the automotive industry in 12 years. The auto industry starts 2015 with high inventories and under pressure for losing IPI tax exemptions. (January 2)

First trade deficit in 14 years

Brazil registered its first annual trade deficit since 2000. The deficit hit US$3.9 billion, the Ministry of Trade said. As recently as 2011, Brazil had a trade surplus of US$30 billion. Exports were US$225 billion in 2014, down 7% from 2013. Imports were down US$229 billion, 4.4%, from 2013. Stalled trade negotiations, lower car exports to Argentina, slower world growth particularly in China, and lower commodities prices globally worsened the trade balance. The deteriorating trade balance weakened the Brazilian real as fewer U.S. dollars entered the economy. (January 5)

2014 inflation hits 6.41%

Inflation for 2014 was an estimated 6.41%, up from 5.91% in 2013 and barely within the government target range (2.5–6.5%), government statistics agency IBGE reported. The benchmark consumer price index accelerated to 0.78% in December from 0.51% in November, the steepest jump in nine months. Transport saw the biggest price rises in December. (January 9)

ECONOMIC POLICY

Central Bank more accommodative

Brazil's central bank has signaled it may slow monetary tightening at its next monetary policy committee meeting because it expects the government to limit spending and inflation to begin to ease. In the minutes of the last meeting, which raised the benchmark interest rate by 50 basis points to 11.75% to curb inflation and regain investor confidence, the bank hinted it may reduce the size of future rate increases, stating that it "anticipates that inflation is likely to remain high in 2015, but next year it should enter a long period of decline." (December 11)

BNDES interest rate raised

For the first time in more than a decade the government has raised the annual interest rate on long-term National Development Bank loans to business. In the first quarter of 2015 the rate will go up from 5% to 5.5% in an attempt to reduce subsidies to borrowers and improve government fiscal performance. (December 22)



Photo: Wilson Dias/Agencia Brazil.

Finance Minister Joaquim Levy has a difficult task ahead.

Primary budget deficit widens

In November the government primary budget deficit (excluding interest payments) was 8.1 billion Brazilian reais (US$3 billion). For the 12 months through November, the deficit was 9.2

billion reais—the first deficit in more than a decade. The government's 2014 goal was for a surplus of 99 billion reais. In November, the surplus goal was dropped to just 10 billion reais.

The overall budget deficit, which includes debt payments, was 41.6 billion reais in November. For the 12 months through November, the deficit was 297 billion reais, or the equivalent of 5.82% of GDP—the biggest since September 2003. In just a year, Brazil's gross public debt rose nearly 7 percentage points, to 63% of GDP. (December 29)

Government unveils budget cuts

The government announced budget cuts expected to total US$8.4 billion a year as it starts another year with the economy in the doldrums. Congress, currently in recess, has yet to approve the 2015 budget. Access to unemployment insurance is among the areas to be tightened. To restore market confidence, the goal of new Finance Minister Joaquim Levy is a surplus before debt servicing of 66 billion reais, 1.2% of GDP. (January 8)

POLITICS

Petrobras in hot water

President Dilma Rousseff has no plans to replace the chief executive officer Maria das Graças Foster of state-run oil company Petrobras, saying there was no evidence that senior management was involved in an emerging graft scandal, which has overshadowed debate about how Rousseff will manage the economy in her new term. Brazilian law enforcement is investigating allegations that former senior executives, construction companies, and politicians of Rousseff`s Workers' Party-led ruling coalition creamed billions of dollars off Petrobras contracts. The corruption network allegedly existed throughout Rousseff's tenure as chairman of the Petrobras board (2003–10). More than two in three Brazilians polled by Datafolha in December believe Rousseff has some responsibility for the corruption scandal. (December 22)



Photo: Rodrigues Pozzebom/Agencia Brasil.

Second-term President Rousseff and her mentor former President Lula.

Mixed messages on economic management

President Dilma Rousseff plans to restart economic growth by tightening Brazil's budget and increasing investment and productivity but claimed during her second-term swearing-in ceremony that "We will prove that economic adjustments are possible without revoking acquired rights or betraying our social obligations."

Since Rousseff, 67, took over from mentor Luiz Inacio Lula da Silva four years ago, the budget deficit has more than doubled, to 5.8% of GDP; and after hitting 7.5% in 2010 economic growth has come to a standstill. Rousseff, who won an Oct. 26 runoff election by the narrowest margin of any president since at least 1945, has appointed a new economic team and announced spending cuts. However, a day after new Minister of Planning Nelson Barbosa announced that the government would propose another adjustment in the minimum wage, Rousseff forced Barbosa to retract the statement; in the subsequent press release Barbosa stated that "the government's proposed minimum wage adjustment will follow the current adjustment rule." (January 3)