# THE BRAZILIAN ECONOMY

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# 2012 outlook

## *Brazil's economic outlook:*

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The BRAZILIAN ECONOMY

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ERRATA
In the November 2011 issue, p. 22, second column, "My farmer was a farmer" should read "My father was a farmer."

# THE BRAZILIAN ECONOMY











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João Augusto de Castro Neves explores how growing uncertainties about how the global economic crisis will affect the Brazilian economy and upcoming municipal elections may significantly change Brazil s political landscape.

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Participants in the 2012 Brazilian Economic Outlook Seminar, held in November by the Brazilian Institute of Economics (IBRE), are betting that Brazil will sustain growth at least equal to that for 2011. Claudio Accioli reports contrasting government, market, and IBRE scenarios, but notes that the consensus among seminar participants was that there is a need to rebalance consumption and investment.

### Interview

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José Graziano da Silva takes over as director general of the United Nations Food and Agriculture Organization (FAO) in January. Graziano, who as Extraordinary Minister for Food Security helped former president Lula inaugurate the Zero Hunger program, which brought 28 million people above the national poverty line, talks with Solange Monteiro about what Brazil can do about helping increase food security around the world.

### International

**29** What's next for Argentina?

Argentina is registering the highest rate of economic growth in South America, 8%. Marcia Carmo reports from Buenos Aires that even as Cristina Kirchner was being elected in a landslide, her people were rushing to buy dollars and capital flight is surging. A lack of public confidence is also clear from the distrust of the government's inflation figures. Meanwhile, trade is overly dependent on Brazil. How will the president correct the problems in Argentina's economic model is now the basic question.

## ECONOMY

### Job growth is still slowing

Brazil recorded 126,143 new jobs in October compared with 209,078 new jobs in September, a decline of 40%. From January to October this year, 2.2 million new jobs were created compared to 2.7 million in the same period last year, a decline of 18%. (November 18)

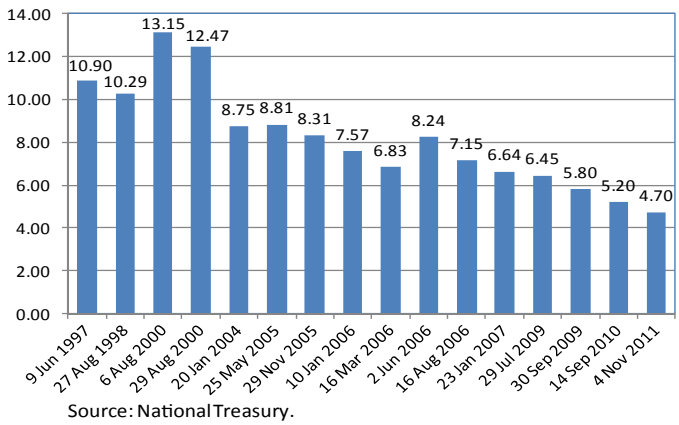
### S&P raises Brazil's credit rating

S& P lifted Brazil's foreign currency sovereign bond ratings from BBB– to BBB and long-term local currency ratings from BBB+ to A–, with a stable outlook. The main reasons were the government's commitment to meeting fiscal targets, which enlarges the scope for using monetary tools to influence the domestic economy. Moody's upgraded the country to the equivalent Baa2 in June and Fitch Ratings lifted it to BBB in April. The upgrade is likely to increase capital inflows and thus exert pressures on the currency to appreciate. (November 18)

### New bond issue has lowest yield in 14 years

The Brazilian National Treasury has issued a US$1.1 billion 30-year bond as part of its efforts to enlarge the investor base and to create a price reference for the issuance of bonds by Brazilian companies. Bond yields have declined to a historic low of 4.7%. Heavy demand for Brazilian

**30-year Brazilian Bonds – Yield at issuance (% a year)**




Source: National Treasury.

bonds demonstrates the good reputation Brazilian economic policy management has among international investors. (November 18)

### Industrial production fell in October

Seasonally adjusted industrial production fell 0.6% from September to October, according to the Brazilian Institute of Geography and Statistics (IBGE). This was the third consecutive monthly decline. For the three months ended in October production on average showed a loss of 0.9% over the preceding quarter. (December 2)

### The economy stagnated in the third quarter

Seasonally adjusted GDP stalled in the third quarter as the eurozone debt crisis hit, forcing the government to cut its growth projections for the full year. "With these results, it will be difficult to post 3.8% growth as we had forecast," Finance Minister Guido Mantega conceded. According to the IBGE. Industry suffered most, declining by 0.9%, followed by the service sector (down by 0.3%), but agriculture had healthy growth (3.2%). Household consumption fell 0.1% and gross fixed capital formation 0.2%. (December 12)

### Inflation surprises on the upside in November

The National Consumer Price Index (IPCA) accelerated with an increase of 0.52% in November, well above the rate of 0.43% in October the central bank forecast. Annual inflation slowed in Brazil in November but remained above the government ceiling, underscoring the challenges of taming price pressures. Inflation in the 12 months through November reached 6.64%, above the government's target range of 2.5%-6.5%. (December 12)

## POLITICS

### Rousseff signs Truth Commission law

President Rousseff signed two bills that promise to bring more transparency to past and current government action: Congress approved both the Law on Access to Public Information and the Law Establishing the Truth Commission in late October. The Truth Commission is intended to shed light on human rights violations that occurred between 1964 and 1985. The commission, however, does not constitute a repeal of the Amnesty Law and will not prosecute violators. Brazil was the last country in Latin America to deal with the abuses of its military government. The Law of Access to Public Information puts an end to perpetual secrecy for official documents and regulates access to government information. (November 18)

### Carlos Lupi is the seventh minister to leave

Labor Minister Carlos Lupi left the federal government after allegations of irregularities in agreements signed with nongovernmental organizations. The minister's aides were accused of accepting bribes from the NGOs. Lupi's situation became untenable after the *Folha* newspaper revealed that he had held two public jobs for nearly five years before joining the federal executive branch. Although popular support for President Rousseff has grown with the continuing corruption cleanup, frequent changes of ministers have caused paralysis in some parts of the administration. (December 4)

## ECONOMIC POLICY

### Restrictions on consumer credit loosened

The central bank has loosened macro-prudential restrictions on consumer lending to stimulate credit growth. It relaxed most of the restrictions imposed last December on car, personal, and payroll loans. Because growth grew strongly in September, some analysts expressed concerns that the central bank actions could jeopardize the inflation target next year. (November 16)

### Central bank cuts rates again

For the third consecutive time, the Monetary Policy Committee decided unanimously on November 30 to reduce the central bank benchmark interest rate by 0.5 percentage point, to 11% a year, the lowest since the end of 2010, when it was 10.75%. The committee believes that timely and moderate adjustment in the benchmark rate will mitigate the negative effects of the global slow down on Brazil's economy and is consistent with bringing inflation to the target mid-point of 4.5% in 2012. The central bank is targeting an inflation rate between 2.5% and 6.5% this and next year. (November 30)

### Government announces stimulus measures

To stimulate growth of the Brazilian economy, Finance Minister Guido Mantega announced that the government has reduced the industrial products tax on durable consumer goods, increased maximum funding for low-income houses, and eliminated the tax on foreign investment in stocks. (December 1st)



Photo: Marcello Casal Jr./ABr.

Guido Mantega (left), Minister of Finance, and Fernando Pimentel, Minister of Development, Industry and Foreign Trade, announce measures to stimulate consumption and growth.

### IMF managing director visits Brazil

Christine Lagarde, managing director of the International Monetary Fund (IMF), met President Rousseff in her last stop of a trip that included Peru and Mexico. In a press release, Lagarde asserted that the resilience of the Brazilian economy is the product of a solid track record of competent macroeconomic management and a sound and well-capitalized banking sector. However, she pointed out that Brazil is not immune to the crisis manifesting itself elsewhere in a highly interconnected world. She believes that the challenge for Brazil is to find the right balance between curbing inflation, protecting social spending, and improving infrastructure. (December 1st)



Photo: Antonio Cruz/ ABr.

President Dilma Rousseff (left) greets IMF Managing Director Christine Lagarde during her first trip to Latin America.

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# Is Brazil prepared for 2012?

The experts quoted in our cover story seem quite optimistic about prospects for the Brazilian economy next year. But we at *The Brazilian Economy* find it impossible to think about the economy separate from the administration and politics, and we see numerous alarming possibilities in both.

President Rousseff is determined to rein in corruption, as she should be. Taking action against corruption should be done forcefully, to make sure the message gets across that corruption is illegal, unethical, and unacceptable — if only because of the high cost to the economy, and that means to every Brazilian. What makes that difficult, as has been clear in the somewhat clumsy and disruptive way seven ministers have already departed, is that the president has been severely constrained by the demands of government coalition parties for ministerial positions. In response, numerous, and only marginally if at all necessary, ministries had to be created so that more parties could be accommodated. This means that the president is often unable to appoint the best person to a given ministerial position because the best person does not belong to the party controlling it.

The budget outlook for 2012 seems increasingly murky. The administration will have to make tough policy choices to avoid the consequences of a stagnant economy.

As our political columnist explains, in making political appointments the president has to show more resolute leadership and insist on higher moral standards. The persons being appointed to replace the fired ministers have yet to prove their worth — and demonstrate their moral standards — but while we wait, the work of the ministries affected has been delayed by management gaps and inefficiencies. That clearly has implications for Brazil's economy in 2012 and beyond.

Unfortunately, there are already too many negative implications for the economy facing us. All the scenarios discussed in our cover story, even the more pessimistic ones, depend heavily on the fact that so far Brazil has not been sucked into the chaos in the euro zone, which after all is a significant trade partner. How are our monetary and fiscal authorities preparing for the possibility that the situation might change for the worse?

So far the government seems to be trying to replicate its success in riding out the 2008-09 global crisis with tax exemptions and more credit to the private sector to promote domestic demand. But three years later, the fiscal position is weaker, households are more indebted, monetary policy has loosened, and as can be seen in News Briefs this issue, the economy seems to have put its brakes on. That means that in 2012, tax revenues will be down, which will make it very painful to accommodate the scheduled 14% rise in the minimum wage, not to mention the commitments for vital infrastructure investments. The budget outlook for 2012 seems increasingly murky. The administration will have to make tough policy choices to avoid the consequences of a stagnant economy.

True, commodities exports and Brazil's general creditworthiness should help to keep the external balance stable. But let us not forget that to a large extent our exports rely on countries beyond the euro zone, from China to Argentina. If contamination from the mess in the euro zone spreads across Asia and Latin America, how stable will our exports be? For that matter, the Chinese economy is having some problems of its own that could suppress demand for soybeans and iron ore. How would that affect our economy? And how could we cushion such blows?

What is happening in Brasilia is not reassuring. Given the pressure from the other parties in the governing coalition, the president will find it exceedingly difficult to reshuffle her cabinet effectively. At the same time, the administration must navigate international economic waters that are both deep and turbulent.

# The Rousseff administration: Year 2

*President Rousseff has remained distant from Congress but has kept expectations about economic growth positive. Her popular support and Brazil's economic performance have controlled dissatisfaction within the governing coalition. However, if these trends turn sour next year, the president will be hard pressed to change her strategy for keeping her coalition together.*

**João Augusto de Castro Neves,** *Washington D.C.*

President Dilma Rousseff's second year in office will begin much like her first, with a cabinet full with fresh faces and an administration that is highly popular. But the similarities will most likely end there. Growing uncertainties about how the global economic crisis will affect the Brazilian economy and upcoming municipal elections are two factors that may significantly change Brazil's political landscape.

## Cabinet reshuffle

Considering that municipal elections are scheduled for next October, President Rousseff's cabinet reshuffling could be interpreted as natural. The law requires that ministers planning to run for office must step down from political appointments six months before an election. But the fact that the president is willing to rearrange the top echelons of her administration a few months early suggests a less obvious reason for the move. The cabinet reshuffle will also be a byproduct of the "corruption clean- up" operation that has seen a number of ministers sacked in the past six months.

Despite its positive spin, the cleanup premise points to underlying problems that have troubled the administration. First, Rousseff's handling of the scandals has been quite disruptive and unpredictable for a supposedly intentional process. To avoid this next year, the president would either have to show more resolute leadership or insist on higher moral standards for political appointees. Second, as recent press reports show, government officials are beginning to recognize that frequent cabinet reshuffles have a negative effect on both managerial efficiency and public investment. Considering President Rousseff's commitment to increase public spending to maintain economic growth, this comes as a major surprise. Third, the idea of downsizing the number of cabinet positions may make administrative sense but considering the broad and heterogeneous governing coalition, it could increase the political costs of dealing in Congress with allied parties.

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On the plus side, though, the restructuring may free the president from political commitments made by the previous administration, paving the way for a "let Rousseff be Rousseff" governing strategy.

**A limited legislative agenda**

Beyond cleaning up corruption, it is difficult to ascertain what the Rousseff government's long-term strategy really is. In Congress her decision seems to be to avoid any more problems with her coalition. In other words, the administration seems to have abandoned any impetus for major reforms and legislation overhaul, at least before the next round of municipal elections in late 2012. Even on simple matters that require less legislative support, the dynamic has been to move much more slowly than usual.

Yet to remain distant from Congress while keeping expectations on economic growth positive is a risky path for President Rousseff. She is using Brazil's relatively favorable position during the global financial crisis to lower interest rates. So far, it is working. But it is a different and more uncertain strategy than previous administrations have followed when faced with international crises and inflationary pressures.

Two factors have shielded President Rousseff from more critical problems: her popularity and Brazil's economic performance. With popular support and the numbers on her side, she has more leverage to control dissatisfaction within the governing coalition. However, if these trends turn sour, next year Rousseff will be pressed to change her strategy in order to keep the coalition together. Moreover, the political cost of managing the coalition is likely to rise as the 2012 municipal elections near.

**Another round of elections**

Despite the chronological coincidence, municipal elections have a different political significance in Brazil than midterm elections have in the United States. Instead of providing a reliable popular assessment of the party in power, in Brazil municipal elections are more about the federal administration's ability to navigate the turbulent waters of a coalition government. The most noticeable impact is on the legislative calendar, since congressional output in electoral years tends to diminish

> Government officials are beginning to recognize that frequent cabinet reshuffles have a negative effect on both managerial efficiency and public investment.

considerably. Therefore, if President Rousseff plans to push forward any legislation, the first half of next year will be crucial.

More importantly, the election will put to the test the political balance between the two main parties in the governing coalition, the PT and the PMDB. In São Paulo, Brazil's largest city, both parties are determined to launch their own candidates. Beyond the likely nuisance effects on the national coalition, if there is no explicit agreement taking the city from the opposition's stranglehold will be much more difficult. As for the opposition, next year's elections will be chiefly about defensive tactics to avoid losing more political ground.

The municipal elections will put to the test the political balance between the two main parties in the governing coalition, the PT and the PMDB.

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2012 outlook

# The Brazilian economy in an adverse international environment

**Claudio Accioli,** Rio de Janeiro

Not as bad as 2009, not as good as 2010, a lot like 2011 — most analysts expect no major surprises for the Brazilian economy in 2012. The forecast baseline scenario assumes slowing global growth and international trade. The major risk to the baseline is the unfolding crisi in Europe. The pessimistic forecast is for a severe global recession, especially in Europe. In general, however, participants in the 2012 Brazilian Economic Outlook Seminar, held in November by the Brazilian Institute of Economics (IBRE), are betting that Brazil will sustain growth at least equal to that for 2011.

## IBRE BASELINE SCENARIO

The baseline scenario for 2012 presented by IBRE researchers assumes a moderate global recession resulting mainly from the uncertainties and dilemmas of the crisis unfolding in Europe, Silvia Matos told the seminar (see box, p. 21 for full titles of all participants).

The deterioration of the international outlook has intensified the slowdown of the Brazilian economy that began with the central bank's monetary tightening early in 2011 to contain rising inflation. IBRE's Indicator of Economic Activity — a proxy for GDP —

*The deterioration of the international outlook has intensified the slowdown of the Brazilian economy.*

did not grow in September and October compared with an average growth of 0.7% in the first half of the year. Matos estimates GDP growth about 2.9 for 2011.

The slowdown was caused mainly by a reduction in fixed investments. IBRE's monthly investment indicator — a proxy for gross fixed capital formation — fell 0.3% in the third quarter. Apparently, businesses have become more cautious given the difficulties in Europe and the threat of a contraction in the supply of credit.

The consensus at the seminar was that there is a need to rebalance consumption and investment. "It is essential to increase investment in fixed capital and infrastructure," said José Márcio Camargo. "We need a production structure that can ensure good-quality employment to 150 million Brazilians in 2030," Delfim Netto commented, adding that the agro-mineral export model helped turn Brazil into a creditor instead of a debtor, but now it is necessary to develop industry and services. João Carlos Ferraz agreed and called for strategic vision, asking entrepreneurs "to identify opportunities for productivity gains, quality, and efficiency in order to add value to local content."

IBRE projections for 2012 assume growth in GDP will be 3.0% for the world (3.8% is estimated for 2011), 1.4% for the U.S., and 8.2% for China, but will fall by 0.5% for the euro zone. Matos commented that "Lower growth will affect world trade. Prices of commodities, particularly metals, should decline much more than prices of food." She expected appreciation of the Brazilian exchange rate to R$1.80 per U.S. dollar, and a drop in export prices by 2.0%. The central bank benchmark

## IBRE baseline scenario for the Brazilian economy

| VARIABLES | 2009 | 2010 | Proj. 2011 | Proj. 2012 |
|---|---|---|---|---|
| Real GDP (% change) | -0.3 | 7.5 | 2.9 | 3.0 |
| Consumer prices (IPCA) (% change) | 4.3 | 5.9 | 6.5 | 5.1 |
| Central bank benchmark interest rate (end-period, %) | 8.8 | 10.8 | 11.0 | 9.5 |
| Average exchange rate (Reais per U.S. dollar) | 2.0 | 1.8 | 1.7 | 1.8 |
| Primary budget surplus (% of GDP) | 2.1 | 1.9 | 3.2 | 2.5 |
| Trade balance ($US billions) | 25.4 | 20.2 | 29.4 | 17.4 |
| External current account (% of GDP) | -1.5 | -2.3 | -2.1 | -2.8 |

Sources: Central Bank of Brazil, Brazilian Institute of Geography and Statistics, National Treasury, and Ministry of Development, Industry and Trade; IBRE staff projections.

interest rate is expected to again decline, to 9.5% by year-end 2012, but whether it does so, she said, will depend critically on inflation developments in the first quarter of next year and the outlook for fiscal policy as the central bank tries "to strike a balance of risks between inflation and the international outlook."

If current interest rate and credit policies continue and the global scenario brightens, growth in Brazilian GDP could be 3.0% in 2012 and 4.0% in 2013. IBRE is predicting that in 2011 inflation will be close to the official target ceiling of 6.5% and will fall to about 5.1% in 2012. Matos points out that services inflation is high; it may come down, "but we do not believe in a sharp fall, because the labor market is still tight and we have the minimum wage increase," although economic activity will be slowing.

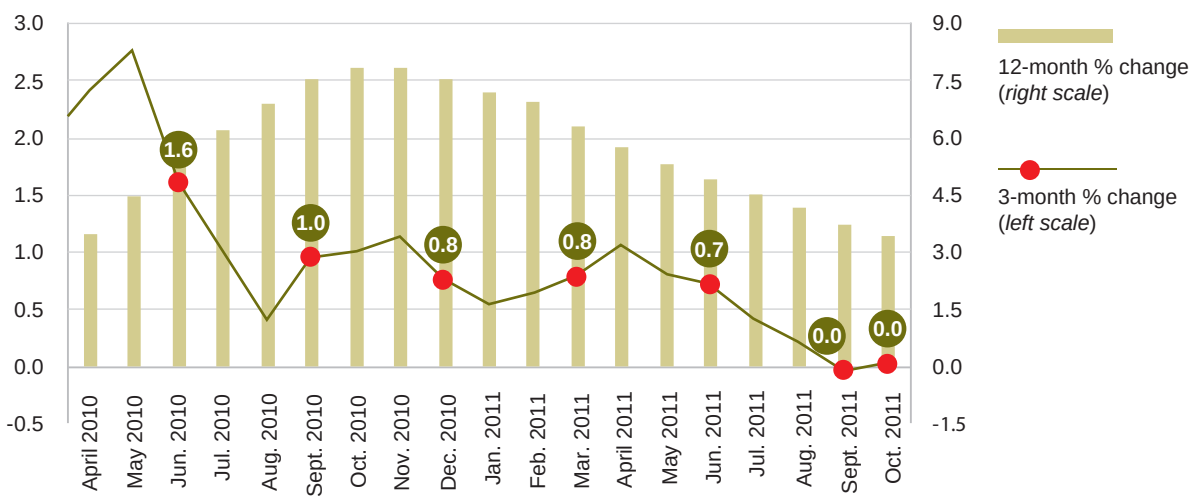
*Apparently, businesses have become more cautious in light of the difficulties in Europe and the threat of a contraction in the supply of credit.*

## THE PUBLIC BUDGET

In 2011 the government was able to reach its planned primary surplus by curtailing spending and relying on extraordinary revenues, but IBRE foresees budget

## Brazil's economic activity has declined sharply since last June.

(Seasonally adjusted 3-month and 12-month moving % change of the IBGE economic activity indicator, April 2010 - October 2011




Sources: Institute of Geography and Statistics (IBGE) and Brazilian Institute of Economics (IBRE); IBRE staff estimates.

*If current interest rate and credit policies continue and the global scenario brightens, growth in Brazilian GDP could be 3.0% in 2012 and 4.0% in 2013.*

difficulties in 2012. With a more adverse economic scenario, net revenues adjusted by inflation are expected to grow just 5.7% in 2012 compared with 10% in 2011, while total expenditure is projected to increase by 9.5% in 2012 compared with 4.7% in 2011. With revenues falling and spending rising, the public sector primary surplus will fall from 3.2% of GDP in 2011 to 2.5% in 2012.

The trade surplus is expected to fall from US$29 billion in 2011 to US$17 billion next year. As a result, the current account deficit would increase to 2.8% of GDP, compared to 2.1% in 2011. However, IBRE believes it can be fully financed even in an adverse international climate.

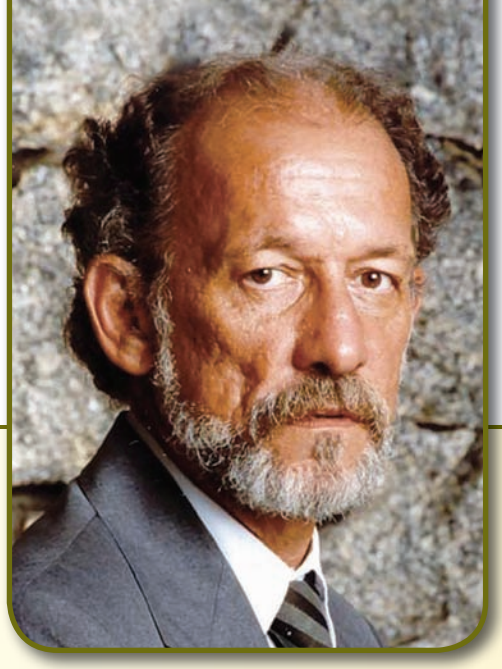
## THE WORST-CASE SCENARIO

The most pessimistic scenario presented assumes a deeper downturn of 3.5% in the euro zone, a fall of 0.5% in U.S. GDP, and more moderate growth of 7% in China. Trade volumes and commodity prices would fall more. Brazil would thus grow only 0.5% in 2012, and inflation would decline to 4.2%. The central bank benchmark interest rate would likely be 8% to mitigate the economic slowdown, and the exchange rate would depreciate to R$2.10.

Both baseline and worst-case scenarios incorporate fiscal risks estimated at R$44 billion (1% of GDP), including the loss of revenues from the Kandir Law,[1] wage adjustments, and statutory minimum health spending. Matos concluded that "Controlling public spending will be challenging, but if the government can achieve a bigger budget surplus, it may lower interest rates, favoring somewhat higher growth next year."

In the following pages, see what experts have to say about the 2012 outlook.

[1] The Kandir Law of September 13, 1996, exempts products and services for export from states' VAT.



# Flirting with inflation

***José Márcio Camargo***
**Professor of Economics of the Catholic University, Rio de Janeiro, and economist, Opus Gestão de Recursos**

2011 was a difficult year for the Brazilian economy and the world. In the first half of the year, the United States recorded annual growth below 1%, though that is improving. Europe started the year better but is on its way to deepening recession …. With excess liquidity in the U.S. economy, the Brazilian real appreciated, there was a significant increase in commodity prices, and the supply of credit expanded too much, forcing central banks around the world to tighten monetary and credit policies, which affected Brazil's growth very significantly — it fell from 7.5% in 2010 to 3.2% in 2011. As the real appreciated and there was substantial idle capacity in industry worldwide, our imports increased. However, in sectors like commerce and services, there is no possibility of importing and productivity gains are small, which adds inflationary pressure. So the Brazilian economy grows slowly, but inflation is high.

Our expectation is that inflation will end 2011 close to the target ceiling of 6.5%. For 2012, we estimate inflation of 5.7%, unless there is a very serious world recession, which cannot be ruled out. The central bank is likely to make at least two or three interest rate cuts of half a percentage point. We estimate GDP growth of 3% for 2012. Overall, the Brazilian economy can be considered as in relatively good shape compared to developed economies but relatively poor shape compared to emerging countries. In the last 10 years, Brazil economic policy has favored consumption at the expense of investment in physical and human capital. Growing the economy based on consumption and an income transfer programs has the advantage of reducing inequality faster but the disadvantage of reducing the rate of sustainable economic growth. With the job market still overheated and the loosening of monetary and credit policies, there is the risk of higher than expected inflation.

# Growing without inflation



***Mailson da Nóbrega***
**Former finance minister and partner of Tendências Consultoria Integrada**

In 2011, on the domestic front, the government adopted monetary and fiscal measures to deal with inflationary pressures arising from excessive growth in 2010. Abroad, there are the uncertainties arising from the worsening global crisis, particularly in Europe. A positive point was that President Rousseff acknowledged the need for a bigger fiscal effort, without the accounting gimmicks of 2009 and 2010, which disguised excessive public spending. The Rousseff administration has many shortcomings, but I would highlight the return to the 1970s interventionist views of the world. The administration resumed controlling gasoline prices and postponed tax increases and the readjustment of telecommunications service prices. Arguably the manipulation was aimed at staying within the inflation target. The government raised old and outdated ideas of import substitution. There have also been worrisome signs of political interference in the Central Bank and an excessive role of the Ministry of Finance.

My scenario [for 2012] assumes that the euro zone leaders confirm their intent to prevent the default of the most indebted countries and the risk of a panic that spreads uncontrollably, thus preserving the currency. The European Central Bank will act as lender of last resort, providing unlimited liquidity to the public bonds of those countries. In this scenario, the Brazilian economy can grow up to 3.7% — enough to maintain or reduce the unemployment rate. The Central Bank will not be able to curb inflation unless there is a serious worsening of the external environment. In that case, in the second half of the year it would resume a tightening cycle. I expect consumer price inflation of 5.6%, a central bank benchmark interest rate of 11.5%, and an external trade balance surplus of US$28 billion. Domestically, the biggest risk is that the administration will try to make the economy grow more than it should by credit expansion, unwarranted reduction in interest rates, and expansion of public spending. Countercyclical measures would be in the wrong direction.



# Construction in the driver's seat

***João Carlos Ferraz***
**Vice-President and Director of Planning of the National Bank for Economic and Social Development (BNDES)**

In 2011 came the cooling off, planned and unplanned, of the Brazilian economy. The central bank took action to reduce the high growth rate of 7.5% inherited from 2010, but then the global crisis slowed Brazil's economic activity even more. Earlier this year, … when the government announced a more robust fiscal stance, it was viewed with suspicion. The same happened with monetary policy, when the central bank first raised and then lowered interest rates. But when the inflation results came in, the markets were reassured. The economy has been slowing more than expected because individuals and businesses are more cautious, particularly given the European crisis. On the positive side, I would highlight our resilience to this crazy world, and the fact that markets continue to have a favorable perception of the Brazilian economy.

For 2012, the best scenario is zero growth in Europe, and minimal growth in Japan and the U.S. Anything between zero and 2% would be great. We must also be aware of political developments, such as the elections of presidents in the U.S. and China (whose economy should cool off to about 8%). In the euro zone, there are two possible scenarios: the European central bank resolves the crisis without major damage, or there is a stress situation, with the recession reaching Germany. I do not believe it would be as serious as when Lehman Brothers broke but it might affect the European banking sector.

For Brazil, our baseline scenario is growth between 4% and 5%, with the exchange rate between R$1.50 and R$1.80. With inflation falling and wages holding steady, income and consumption will increase …. Investment as a whole is expected to grow at about twice the rate of GDP. The driver for the next year will be the construction sector.

The more Brazil can grow through investment, decreasing the relative importance of consumption, the more resilient it will be to an unfavorable external environment. Domestic interest rates are likely to continue falling, encouraging the financial industry to create longer-term instruments and enhance its synergy with institutional investors. Our policy instruments are strong enough to protect the economy and keep it on a sustainable path. The BNDES will continue to focus on infrastructure, with the same level of disbursement — no reason to change this policy now.

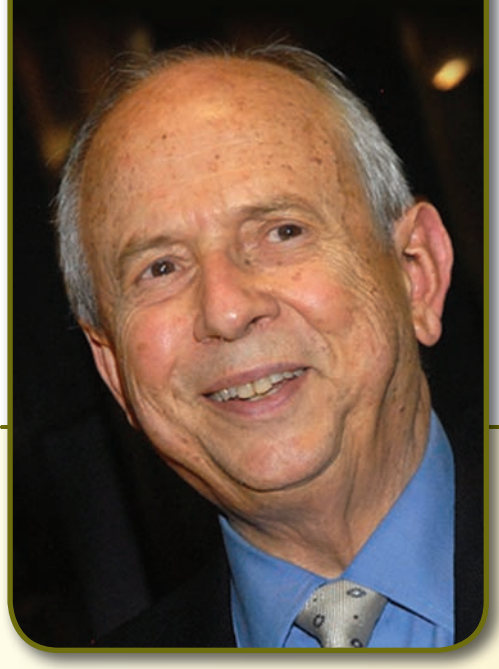
# Brazil is better off than the world



***Delfin Netto***
**Former Minister of Finance, Planning and Agriculture**

2011 was a reasonable year for the Brazilian economy. It was very clear that the president's view on monetary policy was correct, and the central bank governor was more attuned to the reality of the world and new mechanisms of monetary control than most of his critics. On fiscal policy, my impression is that there was a clear understanding by the president and the minister of finance that it is essential to improve the public budget balance. The government has shown willingness to address chronic problems, such as social security and civil servants.

It is important that the government continue to cut interest rates. In my opinion, the country will grow between 3% and 3.5% next year — not bad, given the global scenario — and inflation will converge to the mid-point of the target, 4.5%. But the world will get worse. In the United States, it is an election year, which means heightened political confrontation. U.S. fiscal policy has been a disaster. Nevertheless, the U.S. still has the conditions to overcome the crisis, because it has innovation and credit. In Europe, the central bank cannot carry out its basic function of lender of last resort, there is no fiscal responsibility law, and countries are not willing to give up their autonomy to form a sovereign federal government, so there is not likely to be a resolution of the crisis. This instability reduces world growth and affects Brazil's foreign trade. Today we have large international reserves, the monetary policy stance is sensible, and we are moving toward a more solid fiscal balance. Brazil's real problem is to equalize domestic and international real interest rates. This will require a huge government effort, [but] President Rousseff has a good chance to succeed: 80% of public domestic debt is maturing during her mandate, which will allow for a gradual restructuring at lower interest rates and longer terms…. Brazil is in a relatively better position than the world.



# Industry concerns

***Marcílio Marques Moreira***
**Former finance minister and chairman of the Advisory Board of the Brazilian Institute for Ethical Competition**

The economy followed the expected course in 2011. As growth was negative in 2009, the 7.5% recorded in 2010 represented a catch-up. Not surprisingly, that growth exceeded the level that would be considered normal, and efforts to raise the level of activity would produce negative effects, such as inflationary pressure, exacerbated by external factors, including rising commodity prices. In 2011, concerns about the previous year … affected business expectations, as the FGV confidence indexes show. But overall, the performance of the Brazilian economy, if not brilliant, can be considered satisfactory. … There have been negative aspects, such as a return to a protectionist mentality in terms of foreign trade instead of improving quality and productivity to become more competitive.

For 2012, I see a picture not much different from 2011, with growth at about 3.5%. There is a risk of a worsening global scenario, especially if one or more European countries goes into a tailspin, but this is not very likely. Brazil has chosen an economic model that assumes very moderate growth with low domestic savings and factors that discourage business. I think domestic interest rates will continue to decline. This policy slightly increases the risk of inflationary pressures in 2012. Interest rates in Brazil are very high, but the solution is to reduce the tax burden, substantially improve the quality of fiscal policy, and reduce inefficiency, especially the "Brazil cost" as it affects infrastructure. I see the situation of industry with great concern, because the diagnosis of its problems is not correct. The problem is not the exchange rate but the lack of productivity, competitiveness and innovation, and a direction more open to research and development programs. It is up to the government, industry, and society together to change that.

# Less consumption, more investment



***Arminio Fraga***
**Former central bank governor, and founding partner, Gavea Investments**

Externally, 2011 was a year of growing tension. The epicenter of the crisis now is Europe. In this complex and not yet resolved situation of reducing [financial institutions'] leverage and world debt, economic activity has been greatly impacted. … In this respect, 2011 and 2012 are very connected, and it cannot yet be predicted what will change, for better or for worse. Brazil … began 2011 with an overheated economy and higher inflation, prompting the central bank to tighten, but by midyear it had changed direction as economic indicators showed the economy was no longer overheated and there were signs of slowing.

It seems reasonable to work with conservative scenarios for 2012. In Brazil, the task of bringing inflation back to target is not complete. The credit markets may become less exuberant, not only because of central bank adjustments but also because credit is cyclical, going through phases of expansion followed by adjustment when bank financing capacity reaches its limits.

There are, however, factors that can make up for growth below normal. … Next year we may see some increase in investment in infrastructure. Other areas that have been growing a lot and may continue to do so in 2012 are the oil and gas sectors and sectors related to preparations for both the World Cup and the Olympic games. [Thus] next year may mark the beginning of a very welcome change in the composition of domestic demand toward less consumption and more investment.

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# 2012 outlook: Market versus government*

Despite a currently very uncertain international environment, the projections of economic analysts for 2012 are much more convergent than they were for 2011, when the outlook was less uncertain. So said Ilan Goldfajn in his presentation at the Seminar on the Brazilian Economic Outlook for 2012, noting, "There's something strange about that. What are we missing?"

Nélson Barbosa of the Ministry of Finance may have a clue. The government scenario was one of the more optimistic. Though optimism may be a duty of his office, it is worth remembering that the shift to more accommodating monetary and credit policies in the second half of 2011 to counter the slowdown was successful, surprising analysts.

Barbosa made a point of contrasting the government and market projections, especially with regard to growth and inflation. The government is forecasting GDP growth of 3.8% for 2011 (the market average is about 3.0%), and 4%–5% for 2012, when it expects a slowing world economy but no banking crisis or collapse of the euro. "If this situation does not worsen, I think the market estimate of 3.5% in 2012 is too pessimistic, given that certain economic policy measures to which the government is committed should promote a substantial increase in income for 2011," he said, citing the minimum wage increase, tax cuts, and increased public investment. He also noted that private investment is expected to grow in the second half of 2012.

For inflation the government is projecting 6.4% for 2011 and the market 6.5%. On the seemingly insignificant 0.1 percentage point difference depends whether the inflation target ceiling is met or breached. For 2012 inflation, the projected difference is even greater: government, 4.7%, and the market, 5.6%. Government optimism, Barbosa said, is based on stable or declining commodity prices, a more moderate increase in some utilities prices, a stable price for ethanol, the lagged impact of the current growth slowdown, and a neutral fiscal policy. The government projects a 2012 primary budget surplus of 3.1% of GDP and an external current account deficit of 2.5%–2.7% of GDP. Barbosa also reminded the seminar that over the last 10 years, the real interest rate fell from 22% to the current 8%. "There may be a new opportunity to cut interest rates," he said. "It depends on keeping fiscal policy sound and increasing investment. I think the government's reaction so far has been appropriate and will continue to be so."

From the market point of view Goldfajn's scenarios are very similar to those of IBRE. They assume the world economy slows down from 3.7% in 2011 to 3.0% in 2012, but no collapse of the euro zone; Brazilian GDP growth of 3.0% in 2011 and 3.5% in 2012; an exchange rate of R$1.80 in 2011 and R$1.75 in 2012; external current account deficits of 2.2% this year and 2.9% next; primary budget surpluses of 3.2% of GDP in 2011 and then 2.5%; and inflation of 6.5% this year, falling to 5.6% next year. "Above-target inflation … is a risk, but I see a good chance of recovery of the Brazilian economy in the second half of next year," Goldfajn said.

The good news is that the public- and private-sector scenarios converge in one of the most sensitive areas of the Brazilian economy: the benchmark interest rate. Both Goldfajn and former central bank governor Affonso Celso Pastore agreed that rates may again fall next year. Goldfajn projected a benchmark rate of 11% for 2011 and 9% for 2012 — which after estimated inflation of 5.6% corresponds to a real interest rate of about 3.4%. Pastore, more conservative, would not anticipate specific percentages: "Undoubtedly, interest rates will keep falling. What nobody knows yet is the level of the neutral interest rate, the one that balances supply and demand in the long term. I will not guess. The important thing is not to ask for perfect forecasts but for a continuation of the fiscal policy that has brought about this positive scenario."

Forecast made prior to the disclosure of zero GDP growth in the third quarter of 2011 by the Brazilian Institute of Geography and Statistics.



# "Hunger is a problem of access."




## *José Graziano da Silva*

FAO representative for Latin America and the Caribbean

**Solange Monteiro,** Rio de Janeiro

When he takes over as director general of the United Nations Food and Agriculture Organization (FAO) in January, José Graziano da Silva will build upon the strategies to eradicate hunger he has been defending since 2006 as the FAO representative for Latin America and the Caribbean. An agronomist educated at the University of São Paulo state and the University of Campinas, he will be the first Brazilian to lead the FAO. In 2003 and 2004 Graziano served in the Luiz Inácio Lula da Silva cabinet as Extraordinary Minister for Food Security, implementing the Zero Hunger program, which brought 28 million people above the national poverty line. But the FAO budget amounts to less than half of the initial budget for Zero Hunger, so "FAO needs to be very efficient in using its resources." In Graziano's opinion, "The world already produces enough food; with few exceptions, hunger is a problem of access: lack of money to buy food."

*The Brazilian Economy* — **Last October the UN report on the world food crisis predicted that high and volatile food prices would persist. What measures should be agreed at the global level to mitigate the consequences for food security?**

**José Graziano da Silva** — High and volatile prices benefit neither producers nor consumers. High prices threaten the food security of poor households that spend most of their income on food purchases, and unpredictability discourages the investment needed to increase production, affecting farmers' families. The starting point must be a more efficient global governance framework with a stronger Committee of World Food Security. This is already happening with the inclusion of representatives from the private sector and civil society, greater market transparency, and information on inventories, for example, stocks of vaccines. The world produces enough food to meet the needs of all its population, yet about one billion

Photo: Roosewelt Pinheiro/ABr.

people do not eat properly. With few exceptions, hunger is a problem of access: lack of money to buy food. It is therefore important to strengthen social safety nets and food production in developing countries, where 70% of the malnourished population live in rural areas.

**FAO, the International Fund for Agricultural Development (IFAD), and the World Food Program (WFP), which issue the report, suggest that ever closer links between the agricultural and energy markets, with the growth of the biofuels market, aggravate the food crisis. Is Brazil wrong in developing green energy, especially ethanol?**

To quote former President Lula: like cholesterol, there are good and bad biofuels. The positive and negative impacts of production and use of biofuels vary according to the geography of each country and the types of inputs used. ... Brazil has shown that it is possible to increase the production of biofuels from sugar cane and food at the same time. And it can also benefit small farmers, as does biodiesel production. The situation is different when we produce biofuels from corn, vegetable oil, and other raw materials that are also used as food or in food products. In this case, although there is an increase in the aggregate supply, there may be an impact on food security. Also, the production of biofuels in the U.S. and Europe is economically viable only with subsidies to production. We argue that these countries should revise their policies. With respect to the contribution of biofuels to reducing greenhouse gases, ethanol from sugar cane produces about eight times the energy consumed in its production, while the ratio of corn to ethanol is practically one to one.

**Recently you mentioned that the current crisis will have less effect on the malnourished population than in 2008 (it is expected to generate 40 million, compared with 100 million in 2008) and on developing countries. The situation in Europe, however, is critical. How do you think that will be reflected in the southern hemisphere?**

In general, countries are better prepared to face current high food prices than they were in 2008 because that crisis came at the end of a long period of declining food prices, more or less from the early 1970s, which depressed investment in agriculture and saw the dismantling of institutional rural support in developing countries. When prices soared, many countries had nowhere to run. This time, several countries have established or strengthened social safety nets and increased support for local food production, especially for family farming, ... so initial World Bank projections indicate a smaller impact. Undoubtedly, the financial crisis in developed countries adds an

*Brazil has shown that it is possible to increase the production of biofuels and food at the same time.*

element of uncertainty and places additional pressure on poor and developing countries. It is difficult to predict the impact; that will depend on the duration and depth of the crisis and how countries will react. Brazil, for example, is in better condition than many other countries because it relied on maintaining domestic demand through countercyclical policies and such programs as the real increase in the minimum wage and the Family Grant (Bolsa Família). This shows how social policy can have a positive impact on the economy.

*The elimination of developed country subsidies for agriculture is important if agriculture in developing countries is to be profitable.*

**Pascal Lamy, World Trade Organization (WTO) director general, has said that because of the current financial crisis, developed countries will be more protectionist at the December WTO meeting. Faced with more restrictions on international trade, what alternatives do you see for emerging economies?**

I am cautiously optimistic. I believe there are conditions to reach a minimum acceptable agreement for developed and emerging countries, which would essentially be to eliminate export subsidies that distort international food prices. ... First, food prices are at record levels and the trend is that they will remain so. Second, because developed countries have to cut public spending to address the crisis, it is difficult for governments to maintain agriculture subsidies. The elimination of subsidies is important if agriculture in developing countries is to be profitable.

**Brazil is considered an agricultural powerhouse thanks to its abundance of water, good climate, and investments in research and technology. How can we contribute to global food security?**

Brazil has two important contributions to make here. The first has to do with the unquestionable weight that Brazil and the Mercosur countries have in the global food market. We are among the leading exporters of grain and meat. That in itself is a contribution to world food security because it increases availability. Second, Brazil has a wide range of experience and technologies that it can share with other countries. For instance, take the Brazilian Agricultural Research Corporation (Embrapa). All its experience with tropical agriculture — adaptation techniques, effective tools and agricultural inputs, new varieties of drought-resistant seeds for semi-arid regions — can be very useful for African countries with geographical and climatic characteristics similar to ours. Other developing countries can make other contributions. For example, about 90% of cereal production in Argentina uses a no-till technique, which helps preserve soil and water and

can be adapted to Africa. South-South cooperation and triangular cooperation are central lines of work that I will carry out in the FAO.

**One of the regions most affected by hunger is Africa. Could China's purchase of land in Africa result in a sustainable agriculture for supplying the local population?**

The main problem in Africa is not the purchase of land by foreigners, it is the combination of prolonged drought, lack of investment in agriculture, lack of institutions to support rural activities, and in some cases political instability. To reverse this situation, you must invest, ensure quality inputs to farmers and access to technologies adapted to the climatic and geographic conditions where they live, offer training, work to promote adaptation to climate change and soil erosion, and improve rural infrastructure. The purchase of land by foreigners responds to the legitimate concern in some countries to ensure food security for their citizens. The question is whether it generates economic and social benefits to the local community. FAO is promoting an extensive international consultation to create voluntary guidelines on responsible governance of land, fisheries, and forests. This document will support governments setting out to regulate issues relating to access to these resources with a focus on protecting vulnerable communities and ensuring minimum rights for the population.

*Brazil has a wide range of experiences and technologies that it can share with other countries.*

**Could agricultural commodity prices decline? Do you think it is risky that Brazil's exports are concentrated in these commodities?**

FAO and OECD expect that agricultural commodity prices will remain high and volatile for years to come. We should pay special attention to volatility to prevent a sudden price fall that affects farmers. Two other issues are also very important: First, ensure that economic growth contributes to social inclusion of the poorest. Second, move to more sustainable models of production, with less intensive use of agricultural inputs and natural resources like land and water. I call this a doubly green revolution that increases productivity at a lower environmental impact.

**What factors favored your candidacy for FAO director general?**

My victory is a victory of hope. Many countries are inspired by the way Brazil succeeded in reducing hunger and poverty rapidly in a short period. For instance, child malnutrition alone declined 61% from 2003 to 2010. This is the result of the commitment of former President Lula and President Rousseff to fight hunger and poverty. Symbolically, this was the great attraction of

my campaign. Equally important was the cohesion of the countries of Latin America and the Caribbean. Virtually the entire region supported my candidacy. I had also strong support from the community of Portuguese-speaking countries. But as I said immediately after the election, I will be a director-general of all countries. The challenge is to build together a world without hunger. We believe that is possible.

*The financial and economic crisis affects not only countries but also international organizations whose budgets depend on national resources.*

**At the time of your election, newspapers highlighted the low FAO budget. How will you reverse this situation?**

The financial and economic crisis affects not only countries but also international organizations whose budgets depend on national resources. This year, for example, the UN Secretary-General called for a 3% cut in the UN budget. A small increase has been approved for FAO, which receives about US$500 million a year for work around the world — less than half the Zero Hunger budget in the first year of the Lula government. The FAO must therefore be very efficient in using resources to carry out its mission of eradicating world hunger. The perception of several member countries is that FAO is slow, bureaucratic, and inefficient. We are in a long process of internal reform that I hope to conclude in 2012. Completing it on good terms is very important for the organization to accomplish its mission.

*About 90% of cereal production in Argentina uses a no-till technique, which helps preserve soil and water and can be adapted to Africa.*

**You said you will introduce a new era in FAO. What does this mean?**

My campaign program was based on five pillars: eradicate hunger; promote sustainable production and consumption of food; set a fair and effective governance framework for world food security; complete reform of the FAO; and expand partnerships and South-South cooperation. The central focus is the eradication of hunger. The other pillars help to achieve this goal. And while the FAO budget is small, I am convinced we can use our resources much better. We cannot simply transplant Zero Hunger or any other program to other countries. For many years, for example, we tried to impose on developing countries technologies and inputs that were not adapted to their specific conditions or were not accessible to small producers. ... However, there is no doubt that various policies of Brazil and other developing countries can inspire or be adapted to third parties. This is already happening with some Brazilian policies, such as buying products from family farming for school meals.



President Cristina Kirchner of Argentina was re-elected with nearly 54%

# What's next for ARGENTINA?

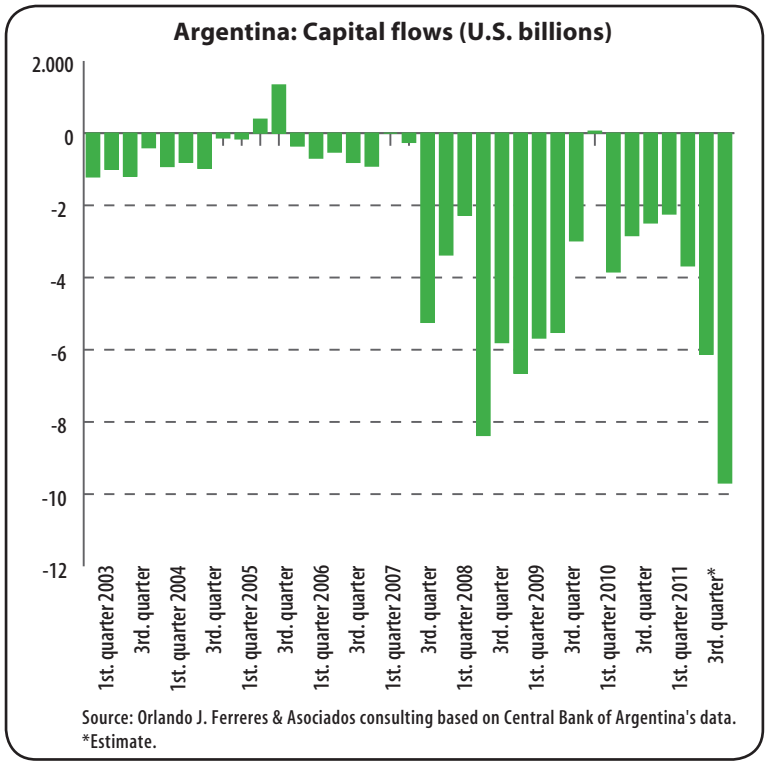
**Marcia Carmo,** Buenos Aires

Ten years after the political, economic, and social crisis of December 2001, the Economic Commission for Latin America and the Caribbean (ECLAC) says that Argentina is registering the highest rate of economic growth in South America, 8%.

According to official figures Argentina has averaged annual growth of 7.5% for almost eight consecutive years. The expansion began in 2003, when Nestor Kirchner became president (2003-2007). After a fall in 2009, the economy resumed growth in the last two years. For 2012 the government expects 5% growth. "We will continue growing at Chinese rates," said President Cristina Kirchner, who was re-elected in October with 54% of the vote. But at the same time many Argentinians were

Photo: Télam / ABr.

**Kirchner knocked out the opposition at the polls but has a new enemy: distrust.**




rushing to buy dollars — something that tends to happen when questions arise about the government's ability to solve problems. Kirchner knocked out the opposition at the polls but has a new enemy: distrust.

## Escape

Capital flight intensified in January: Between January and June, purchases of foreign exchange totaled US$9.8 billion, almost as much as in all of 2010 (US$11.4 billion). From August to October, the capital outflow was an estimated US$10 billion, according to economist Fausto Sportono of Ferreres e Associados consulting, so for the whole year, capital flight would be US$25 billion — similar to 2008, the year when the international crisis broke out and farmers launched large protests against the Argentine government. However, Sportono says, "Today is still a situation that the government can manage. Argentina has problems, but it's not in a crisis."

After the election the president enforced tighter control of foreign currency sales to contain the rush for the dollar and replenish reserves. Central bank figures show that international reserves declined from US$52 billion in December 2010 to US$46 billion in November 2011. *Perfil*, a newspaper critical of government, wrote "The government is studying pesification as a last resort against capital flight"— that is, turning bank deposits denominated in U.S. dollars into the local currency (pesos).

For those who watched the 2001 crisis closely, the situation is becoming alarming, although Argentina's fundamentals today are infinitely more solid. Today's trade surplus

is 30% higher than in 2001, and central bank reserves are at least three times higher. But in the first week of November, just after the rush for dollars, deposits in U.S. dollars fell by US$652 million (about 4% of total deposits) to US$14.1 billion.

Tranquility — 'false calm', they say here — came in the third week of November, after the government allowed the resumption of operations in dollars for the purchase of property. But it continued to prevent multinationals from transferring dollars to overseas operations. By late November the dollar was gone from the headlines, though not from the heads of Argentinians. Economist Marina dal Poggetto, Estúdio Bein e Associados consultancy, commented, "We should learn from you Brazilians: have clear rules to generate confidence. But there have been so many scares throughout our history that we learn from childhood to save and think in dollars."

## Distrust

Suspicion, dal Poggetto noted, was what made the Argentinians close



Argentinean savers protest against freezing of bank deposits late in 2001 outside Galicia bank headquarters.

**After the election President Kirchner enforced tighter control of foreign currency sales to contain the rush for the dollar and replenish reserves.**

U.S. dollar accounts and banking applications to seek protection elsewhere. Their savings are in bank vaults, foreign banks, or hidden away in corners. According to the U.S. Federal Reserve, in 2006 Argentinians held US$50 billion in cash outside the financial system. The economist Juan Llach wrote: "Since World War II, the economy has been in constant instability with inflation and successive devaluations, which has undermined confidence in the Argentine peso and consolidated the love of Argentinians for the green back (dollar)."

Clearly one of Kirchner's main challenges in her new term is to bring back public confidence. That will only happen, said former central bank governor and member of the opposition Alfonso Prat-Gay, "when the government acknowledges that inflation is high and that the figures have been manipulated. Economic growth alone will not be enough."

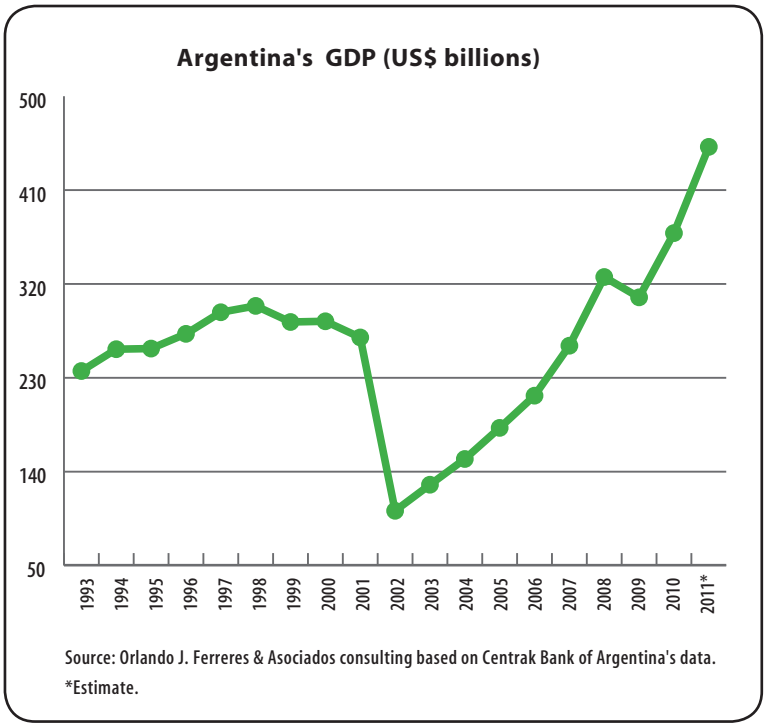
**Central Bank of Argentina's international reserves**

| (US$ billions) | |
|---|---|
| Nov. 2003 | 13.4 |
| Nov. 2004 | 18.8 |
| Nov. 2005 | 26.5 |
| Nov. 2006 | 30.3 |
| Nov. 2007 | 44.8 |
| Nov. 2008 | 46.0 |
| Nov. 2009 | 47.7 |
| Nov. 2010 | 51.8 |
| Nov. 2011 | 46.5 |

Source: Central Bank of Argentina.

Photo: Barcex / Wikipedia.

**By late November, the dollar was gone from the headlines, though not from the heads of Argentinians**




Source: Orlando J. Ferreres & Asociados consulting based on Centrak Bank of Argentina's data.
*Estimate.

Since 2007, Argentina has not known precisely what actual inflation is. In calculating inflation the National Institute of Statistics and Prices defers to government. This fall it announced that 12-month inflation (October 2010 to September 2011) was 9.7%. For the same period private consultancies reported inflation of 23.1%. Unlike the national figures, the consultants take into account inflation as measured by provincial governments. Opposition lawmakers disseminated those figures on television while the government fined the consultants who performed the calculations. Since then, the task has fallen to the legislators, who cannot be fined.

Argentina's growth is linked to sales of commodities (especially soybeans to the Chinese market), consumption, and the health of the economies of Brazil and China, Argentina's main trading partners. Economist Jorge Vasconcelos of the Institute for the Study of Argentina's and Latin America's Reality said that "almost 50% of total Argentine exports are summarized in two words: Brazil and soybeans." Brazil is the destination for more than 40% of Argentine industrial exports — vehicles lead the list.

Economist Marcelo Elizondo, Desenvolvimento de Negócios Internacionais consulting, said that in recent times Argentina has had "a growing dependence on Brazil." In 2005, Argentina exported 47% of its vehicle production to Mercosur, 20% to NAFTA, and 8.5% to the European Union (EU) and other markets. In 2010, 80% went to Mercosur (mainly Brazil), 5.8% to NAFTA, and

4.9% to the EU. Elizondo commented, "Argentina now has infinitely better fundamentals than in 2001, but this dependence on Brazil is worrisome. Argentina needs to ... expand and diversify its exports, for example, by trying to increase exports to Mexico."

## Dependency

Brazil-Argentina trade grew over 200% between 2003 and 2011, according to the Brazilian Ministry of Development, Industry and Trade (MDIC). Total exports and imports between the two countries were US$9.2 billion in 2003 and US$32.9 billion in 2010;in the first 10 months of 2011, compared to the same period in 2010, trade increased 24%, to US$32.4 billion.

The problem for Argentina is a continuing trade deficit with Brazil, recorded almost every year since 2004. To try to put a brake on it, Argentina has turned to unpredictability. According to officials in the Brazilian Embassy in Buenos Aires, Brazilian businesspeople complain about "non-automatic licensing." And Brazil exported sandals to Argentina in the summer, but they did not arrive until winter.

In public President Kirchner often points up the fundamental importance of Argentina's relationship with Brazil, the "giant of South America." However, late in November, as Argentinians renewed their fervor for the dollar, she signaled that she wants to address flaws in the government's current economic model. In a speech to businesspeople, for the first time in months she mentioned inflation: "Do not ask for more devaluation of the peso [to boost exports] because you know what can happen to the dollar and inflation." Kirchner said that it is time to resolve key issues: investment, inflation, and subsidies.

## Change

It was during Nestor Kirchner's administration that inflation figures began to be questioned and subsidies to privatized utilities expanded. For nearly eight years subsidies have frozen the prices of water, electricity, gas, and even subway and bus tickets. But even before the second inauguration on December 10, the president had begun to disarm this public spending time bomb. Residents of well-off suburbs of Buenos Aires no longer receive utility discounts. A debate has started whether by increasing utility rates the end of subsidies will fuel inflation.

**Since 2007 Argentina has not known precisely what actual inflation is.**

Increasing inflation prevents a decline in poverty indicators, according to the Social Debt Observatory of the Catholic University of Argentina. The drop in the poverty indicator since 2001 was one reason Kirchner was re-elected, said sociologist Ernesto Krtiz, Sel Consultants: "Despite inflation, Argentine's lives have improved in the past eight years. We went from a poverty rate of 54% during the 2001 crisis to 25% in 2010. Unemployment fell from 25% to 7%. And three and

**Late in November, when Argentinians renewed their fervor for the dollar, the president signaled that she wants to address flaws in the government's current economic model.**



Buenos Aires city's slum.

**Population below the poverty line and extreme poverty (% of total)**

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Poor | 32.2 | 25.9 | 28.2 | 29.0 | 25.6 |
| Indigent | 12.1 | 7.4 | 9.7 | 10.2 | 9.3 |

Source: National Institute of Statistics and Prices.

a half million jobs were created in the formal market. The problem is that the poverty rate of 20% of the population does not yield."

Argentinians expectations are also now higher than in the past. The question is how the government will manage the problems arising from the economic boom, such as the race between prices and wages in a country where unions are strong.

Another question: When will the government pay its US$7 billion debt to the Paris Club and leave the 2002 default behind? The president already has "a landslide re-election," said a senior government source. Now she has to manage the failures of Argentina's economic model without rekindling its people's passion for the U.S. dollar.

Photo: Aleposta / Wikipedia.