

BY RICARDO JACOMASSI,
CHIEF ECONOMIST AT HEGEMONY
PROJEÇÕES ECONÔMICAS
✉: RICARDO.JACOMASSI@HEGEMONY.COM.BR



SÉRGIO BRITO

A LOOK BACK AT 2012 AND EXPECTATIONS FOR 2013

2012 was of particular importance for Brazil, due to the important elements in the political, economic and institutional spheres.

Despite a high level of corruption, the country was able to impose limits and establish a turning point in impunity: the before and after the Federal Supreme Court handed down its decision regarding Penal Action #470 (also known as the *Mensalão*). The sentence fined key personalities from former President Luís Inácio Lula da Silva's administration. A milestone for Brazil's society.

The economic measures applied by the Ministries of Finance and Industry and Commerce also denote an important change. Following demands from various economic sectors, the government accepted to focus on reducing interest rates (this being one of the items from the campaign that elected the current President), the effect of which will be felt in the economy with greater vigor in the next six months.

In the tax arena, the main measures implemented were tax exemption and reduction, and the accelerated depreciation of capital goods (investments).

Respecting the period of return for the economic measures, 2012 will end the year with results well below Brazil's potential. Gross Domestic Product (GDP), which was expected to grow 4%, will end the year at around 1.5%. Inflation, a key thermometer of prices, represented by the IPCA index, shall end the year at around 5.5%. In turn, the interest rate measured by the Selic index will be 7.25%. Lastly, the country's exchange rate is expected to close 2012 at around R\$2.03 per US dollar.

What to expect in 2013?

It seems that the government is more sympathetic to Brazil's industrial sectors which are suffering from a lack of competitiveness in the economy, since more important actions in the tax, monetary and exchange rate areas are expected to be introduced next year.

It is wise to listen and be proactive, since with the structural changes ongoing in the United States, Mexico, Europe and Japan, their economies will be more competitive in upcoming years, thanks to strategic actions aimed at:

- reducing labor costs;
- providing selective professional training;
- reducing electricity expenses;

- less interest rates;
 - modernizing infrastructure;
 - expanding telecom services (telephony and Internet network); and
 - Extended incentives to research, development and innovation.
- These components are paramount for lending dynamism to the economy and making it competitive. Doing justice to some of the factors described, the Brazilian government intervened and, as example, we have the reduction in electricity costs, which will take effect in the first month of 2013.

But the situation requires further effort to accelerate, for example, infrastructure works that are essential to make the economy more dynamic in the short and long-term. With a more competitive environment, it is expected that GDP will grow 4% and inflation, as measured by the IPCA index, will be inferior to that of 2012, ranging between 4.7% and 5.5%.

Signs from the foreign exchange market suggest that the average exchange rate is expected to vary between R\$2.03 and R\$2.07 per US dollar. It is noticeable for those in Brazil's foreign exchange market the undeclared concern on the part of the government for the exchange rate not to fall below R\$2.00 per US dollar, because, in the government's perception, this is the primary cause for deindustrialization. A good sign.

In 2013, there are particularities that deserve being mentioned. In the second semester, discussions about the 2014 presidential election will clearly be part of the agenda. On one hand, we will have a stronger government in pursuit of reelection, and on the other hand, a weakened opposition seeking direction.

It is quite improbable that the political and economic configuration will elect the opposition. Enough to consider that from an economic perspective it will be in the second semester of 2013 that the government will harvest the benefits of measures implemented throughout 2012.

Nonetheless, whether the opposition or situation wins, the building of a solid and sustainable economy in the long term will depend on the answers to a simple question: What kind of country do we want to have: Competitive? Efficient? Transparent? Sustainable? Educated? We can only hope that society be sufficiently wise in its reflections on what kind of Brazil it wants in 2013. ■