The blessings of stability

Lower inflation has done wonders for finance and industry

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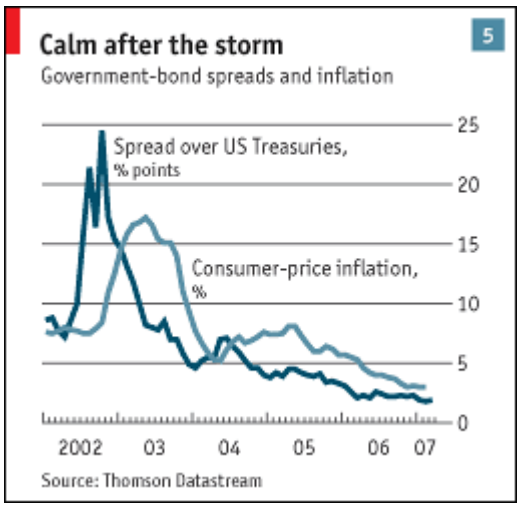
A property boom on the horizon

BRAZIL is the country of the future and always will be, goes a sour old joke. In fact, the opposite is true. Brazil has never put much stock in the future, and that has held it back. Brazil's three founding cultures lived for the present, argues Eduardo Giannetti, a philosopher and economist at IBMEC, a private university. Indigenous Brazilians had no need to plan; the Portuguese came for quick enrichment; and slaves, who did not even own their own bodies, had no reason to invest in anything. After a dozen years of economic stability, “Brazil is beginning to take a longer perspective,” says Mr Giannetti.

The effect has been subtle but far-reaching. Corner shops are gaining market share at the expense of supermarkets, against the global trend, because housewives no longer spend money as quickly as they get it to beat inflation, says Fábio Prado of Unilever, a consumer-goods giant. There is no longer a need for court-clogging lawsuits to challenge the way that savings and pensions are adjusted for inflation. Investment in innovation seems more worthwhile. Enterprises are planning for the long term and investors are beginning to back them.

Brazil's receding riskiness and a global abundance of liquidity have narrowed the difference in yields between Brazilian and American bonds to less than two percentage points, down from 24 points just before Lula was elected (see chart 5). The drop in domestic interest rates is pushing investors to look for alternatives to short-term government bonds. The economy may be trotting, but credit, property and the stockmarket are off at a gallop.



In the hyperinflationary 1980s, 70% of Unibanco's profits came from “float revenue”, placing free deposits in high-yield government paper. That financial child's play now accounts for only 1% of its income. As late as 2002, eight years into the real era, bank credit to the private sector amounted to less than a quarter of GDP. That has now leapt to 34%. Only in the past few years have banks launched themselves into large-scale lending, starting with credit cards and hire-purchase finance for consumers (still at absurdly high interest rates). More recently lower-rate loans secured on the borrower's pay cheque or pension have taken off. Big companies can raise money on the capital markets, but banks are still wary of lending to small business.

Enterprises raised a record 70 billion reais through debentures last year, 60% more than in 2005 and five times the level in 2002. The stockmarket last year set a 20-year record for the number of new listings. It used to be dominated by state-owned companies and enterprises that issue mainly non-voting shares, which enables cliques of shareholders to control them with relatively small financial stakes. The newcomers are a different breed. Almost all list on the Novo Mercado (new market), which mandates full voting rights for all shares and high standards of corporate governance. They leaven the stockmarket's menu of infrastructure companies and heavy industry with retailers, technology firms and airlines. Their managers are willing to risk control for growth.

Some are poised to change their industries. TOTVS, a supplier of management software, used nearly half of the 460m reais it raised to buy a rival. DASA, a chain of medical laboratories, is absorbing competitors as it expands from its home market in São Paulo to the rest of Brazil and eventually to Latin America. COSAN plans to consolidate the ultra-fashionable sugar and ethanol industries. Last year set a record for mergers and acquisitions, fuelled in part by the capital raised through initial public offerings, says Cláudio de Leoni Ramos of KPMG, a consultancy. Many of the debutantes were ushered to the market by private-equity investors, who after a long delay can now take their profit and chase new opportunities.

Safe as houses

One of the biggest pay-offs from financial normality will come in property and construction. Property finance, throttled by inflation, low incomes and a legal system that failed to protect lenders, amounts to a negligible 3-4% of GDP. This leaves Brazil with a shortage of 8m houses and huge pent-up demand, especially from the poor, who tend to build their own dwellings one room at a time. Mexico has 60% of Brazil's population but builds four times the number of houses, says Sérgio Rossi of Rossi Residencial, a builder. Now builders lick their lips at the prospect of “Mexicanisation”, thanks to stability and better loan guarantees. Property and construction companies are prominent among those heading for the Novo Mercado.

Property lending doubled in 2006, partly because of lower interest rates and partly because arcane rule changes made it safer. Foreclosure can take up to 12 years with a traditional mortgage, but a newish type of loan, which withholds full control of the property until it is paid off, cuts the time of repossession to 12-18 months. This is part of a broader credit reform which is coaxing banks to take more risk. Under a law passed in 2005, lenders with collateral

have moved ahead of the government in the creditors' queue for debtors' assets. The new law “has given confidence to lenders to approach companies which they would not have done under previous regulations”, says Unibanco's Mr Moreira Salles.

Normalisation has further to go. Deposits are still too short-term to allow banks to finance many property loans of 15 years or more, and finance is still too expensive for the mass of poor Brazilians who need it most. Builders are beginning to move down the economic pyramid, but slowly. Gafisa, a publicly quoted construction company, is starting a separate enterprise to build houses at prices up to 150,000 reais, but that is still out of most people's reach. The main benefit to the poor of a construction boom, at least at first, is likely to be the jobs it will create.

Another mouthwatering prospect is that of private investors underwriting the ports, power plants, roads, sewage and other infrastructure projects that Brazil so patently needs. There is plenty of money around. “Today, financing is not a serious problem,” says Martus Tavares of BRVias, a new infrastructure-investment firm. What is a problem is the state's obstructionism (see article). In January the government suspended a long-awaited concession of 2,600 km of federal roads on the ground that returns to investors of nearly 13%, the ceiling set by the government's audit court, would be too generous. At that rate, says Mr Tavares, more than 30 enterprises would have bid, possibly driving the yield lower. Below 12% there is “not much interest”.

The government is convinced that Brazil is on the verge of an investment-grade credit rating and economic growth of 5%. That is why investors are crowding around Brazilian infrastructure projects like thirsty sheep. If it comes to pass, any concession paying 13% (or more) will deliver a windfall. The government has shrewdly gauged investors' greed but overlooked their fear: that the projects will be mired in expensive delays, that the government will change the rules, or that an investment-grade rating will remain beyond reach.

But it would take a disaster to bring back the days when the only sensible thing to do with one's money was to spend it immediately, or else invest it in government paper. As Álvaro Gonçalves of Stratus, a private-equity firm, puts it, “the Brazilian economy is now turning toward the real sector.”

Fonte: The Economist, v. 383, n. 8524, a special report on Brazil, p. 7-8, 14 April 2007.