Ready to roll again

Among the last to fall into recession, Brazil may be among the first to grow out of it.

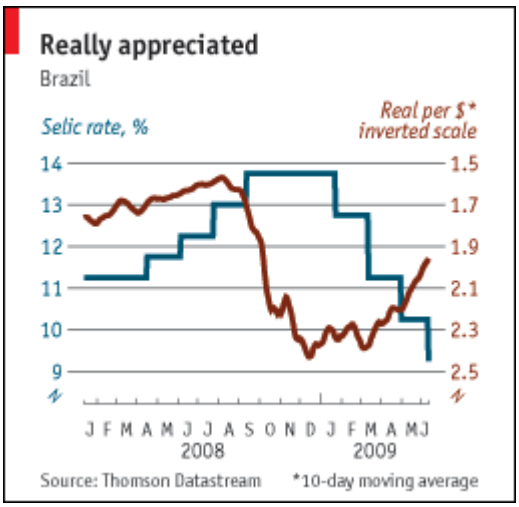
AFP

"Never before in the country's history" is the catchphrase of President Luiz Inácio Lula da Silva that most annoys his opponents. The president, in his selective amnesia, would have voters believe that everything good about Brazil dates from his election in 2002. Even more infuriating for the previous government, which provided the precursors for progress but got no credit for it, he is often right. Take interest rates: on June 10th the central bank cut its benchmark SELIC rate to 9.25%, the first time the figure has been in single digits since the 1960s.

A host of measures, from the value of the stockmarket to the creation of credit, are now nearly back to their level before the collapse of Lehman Brothers in September last year. The economy performed less badly than expected in the first quarter: GDP shrank by only 0.8% compared with the last three months of 2008. Many analysts believe that Brazil is now starting to grow again, and will return to annual growth of 3.5% to 4% next year. If so, that would mean that the country has escaped with only a brief recession.

There are several reasons for this. One is that the normal business cycle is at work, as Arminio Fraga, a fund manager and former Central Bank president, points out. Brazil was overheating in the early part of last year, and the Central Bank raised interest rates. Now looser monetary and fiscal policy is speeding recovery. The financial system is sound, and domestic demand has remained robust. Brazil's changing trade patterns have also helped to shield it. This year, for the first time, China overhauled the United States to become Brazil's single biggest trading partner.

But familiar problems are also coming back into view. First among these, some think, is the real's recent appreciation against the dollar (see chart). For exporters the currency is once again painfully strong, as it was before September. To ease the pressure, the powerful industrialists' association in São Paulo wants to see some form of tax or restriction on short-term financial inflows. At the moment this looks unlikely. Left-wing economists in the governing Workers' Party have been asking for the same thing for some time, but Lula has ignored them, preferring the Central Bank's argument that the strong real is helping to curb inflation.



Industrialists might mind a bit less about the currency if borrowing were cheaper still. One obstacle to further cuts in interest rates, which remain high in real terms, is the existence of a popular savings account (called caderneta de poupança), which offers an 8-9% guaranteed interest rate. As the Central Bank's headline rate approaches this level, the government frets about a flood of money into these accounts from investors, draining liquidity from the market for government bonds. It is mulling over whether to limit the number and size of poupança accounts, but tampering with this familiar product is politically difficult. Some opposition parties are stoking fears by unfairly reminding voters about a notorious bank raid by a previous president, Fernando Collor, in 1990 when the nation awoke to find much of its savings frozen.

A further bar to lower interest rates is that half of the goods that make up the main inflation measure, the IPCA, are at least partly indexed to the previous year's inflation, says Sergio Vale of MB Associados, a consultancy. This tends to dampen movement in the IPCA, and encourages the Central Bank to be cautious.

Even so, Brazil's never-before situation is leading to an uncharacteristic outbreak of long-termism. Bradesco, a large bank, has started to offer 30-year mortgages, something that would have been unthinkable a short time ago. Maílson da Nóbrega, a former finance minister, expects lower interest rates to bring a rapid expansion of mortgage finance, which at present amounts to just one percent of GDP.

Good things of this kind could still be delayed by a fresh outbreak of gloom abroad. But the debate is really about when they happen, rather than if—a testament to hard-won progress.

READY to roll again. **The Economist**, New York, June 11, 2009. Disponível em: <www.economist.com>. Acesso em: 18 jun. 2009.