“[Investment growth] is a key variable that is very worrisome, because it puts at risk the country’s growth potential not only in 2013 but also beyond.”

Silvia Matos

12.2% in January-September 2011 to 1.5% in January-September 2012, and public spending, which for the same period rose from 3% in 2011 to 6.2%.

Revenues shrank not only because of the economic downturn but also because of the tax exemptions the government granted to revive the economy. The increase in spending, according to Matos, was mostly due to the rise in the minimum wage. “The main thing is the quality of the surplus,” she noted. “This year, the federal government contributed 1.5% of GDP to the total primary budget surplus, and regional governments, because of the elections, contributed less. Next year, we expect regional governments will contribute 1% and the federal government 1.6%. Once again, it is unlikely that the government will meet its primary surplus target. However, if the 2.6% is achieved in a context of increased investment, it will not be so bad.”

EXTERNAL SECTOR


For economist José Júlio Senna, managing partner of MCM Consultants and a member of the FGV board, the main consequence of this crisis scenario for Brazil is the absence of external demand to stimulate growth next year: “It’s amazing the degree of synchronization of the downturn in the economies of many countries. Because countries did not buy from each other, global exports collapsed; they recorded negative 12-month growth for the first time since the acute phase of the global crisis . . . . At the moment, nobody is helping anybody.”

China is different. Senna says that the slowdown there is caused by overinvestment, with gross fixed capital surpassing 40% of GDP for the last 10 years, and there is a decline in consumption, which is responsible for about 35%
billion recorded in 2011. The value of exports contracted slightly, from US$256 billion in 2011 to US$245 billion in 2012, while imports held steady at US$226 billion—which may indicate a retraction of investments.

"Imports depend on the exchange rate and the strength of the economy, for which investment is vital," Matos explained. An appreciated exchange rate encourages imports of machinery and equipment, which would be beneficial for the Brazilian economy. However, the current depreciated exchange rate does not encourage imports of machinery and equipment, although it does help to improve industry’s export competitiveness. IBRE researchers estimate that the current account deficit for 2012 will be 2.2% of GDP, almost the same as in 2011, and in 2013 will go up slightly to 2.6%.

What is expected in agriculture, industry, trade, construction, and energy sectors of the Brazilian economy is forecast separately in the articles that follow.

The current depreciated exchange rate does not encourage imports of machinery and equipment, although it does help to improve industry’s export competitiveness.

The positions of the U.S. and the Eurozone, Senna adds, are also complicated. In the U.S., the concerns are about inhibition of private investment, with consumers still reducing their debts, and fiscal issues, particularly with regard to the timing of the fiscal adjustment that is necessary. “The damage that fiscal policy will cause to U.S. economic growth in 2013 will be higher than this year,” he says. With regard to the Eurozone countries, Senna expects the situation to worsen before it gets better: “Employment takes time to recover, bank loans are frozen, and there are signs that the crisis is spilling over to central European countries. In Germany, exports to the region have stagnated, and the business confidence index is not positive.”