INDUSTRY
A year to forget

Solange Monteiro

DESPITE THE EXPANSIONARY FISCAL policy of the Rousseff administration and the improved macroeconomic environment for industry, 2012 is a year that industry would prefer to forget. The National Confederation of Industries (CNI) estimates that manufacturing GDP will close the year with a contraction of 0.6%.

There were positive changes in the economy that may help industry in the medium term. Between August 2011 and October 2012, the central bank cut its policy interest rate by 5.25 percentage points, to 7.25%. The exchange rate devaluation registered after July 2012 was also favorable to industry, yet there was no significant increase in Brazilian manufacturing exports, due mainly to depressed demand in Europe and protectionist measures imposed by the Argentine government.

“Brazil’s export volumes to Argentina fell by about 20%, and there is no guarantee that the situation will improve next year,” says Paulo Francini, director of the Department of Studies and Economic Research of the Federation of Industries of the State of São Paulo (Depecon-Fiesp). On the other hand, until October imports of consumer goods kept pace with 2011 because domestic demand was still strong.

The government also granted exemptions from payroll taxes for some industrial sectors and reduced electricity rates. “All these good deeds will carry over into 2013,” Francini said. “They will take time to bear fruit.” The reduction in the cost of energy, for instance, does not go into effect until February.

If industry is to recover in 2013, however, Robson Braga, president of CNI, believes other measures are needed to address the main problem: stagnant productivity and high production costs: “The renewal of the Reintegra program [which enables exporters to recover some tax costs incurred in producing for export], and the National Bank for Economic Development’s Program for Supporting Investment are very important, but we also need to see the end of the fiscal war between the states—the competitive reduction of state VAT to attract investments—and reduced state VATs to reduce the cost of investing.”

To improve the contribution of the private sector, industry executives point out that it is not enough to have a thriving consumer market. Today, Brazilian public investment is about 1%, in China it is 4%. Higher investment results in better infrastructure and a better quality of basic education, which are vital for attracting investment, Braga explains. CNI projects that, if in 2013 the measures to stimulate competitiveness take effect, GDP grows 4%, and investment grows 7%, industrial GDP can expand by 4.1%. In a less optimistic scenario, if the economy grows 3% and investment 4%, industry would grow only a modest 2.3%. 

December 2012 • The Brazilian Economy