THE INDEPENDENT

Brazil's revival is still a tough nut to crack

Corruption and problems with its infrastructure are undermining the economy of Latin America's largest country

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Thursday, 6 December 2012

Copacabana beach seems like a million miles away when you're stuck in traffic in Rio de Janeiro. A logjam of cars is being serenaded by horns. Vehicles crawl in and out of poorly marked lanes. Taxi drivers shout and wave their fists at each other and the temperature keeps getting hotter and hotter.

To the outside world Brazil appears to be thriving yet the reality is that the world's sixth-largest economy is far from the economic miracle some believe it is.

Poor infrastructure, concerns over state intervention in the economy and weak GDP data are just some of the headwinds threatening Latin America's largest country. With the 2014 World Cup and 2016 Olympic Games looming, Brazil has its work cut out if it's to achieve its full potential.

Most Brazilians would agree that the past few years have been kind to them, with the economy growing almost continuously for over a decade.

Brazil is now the fifth-largest car manufacturer in the world and ranks fourth among aircraft manufacturers. It is also the largest exporter of ethanol, coffee, orange juice, beef, chicken and sugar.

The country has attracted steady flows of foreign investment and has built close ties with fellow BRIC China (the others members of fast-growing group being Russia and India).

Alexandre Tombini, president of Brazil's central bank, admits the country has felt the impact of Europe's sovereign debt crisis over the past few months with GDP growth expected to be about 1.5 per cent this year, compared with 2.7 per cent last year and 7.5 per cent in 2010.

However, with interest rates at historic lows and inflation falling towards the bank's 4.5 per cent target, he says the country has been able to enjoy a "job-rich slowdown" compared with other countries across the world.

"Confidence has been affected everywhere, including here, but we have the chance of sustainable recovery taking hold in Brazil," he adds at the central bank's headquarters in Brasilia, the purpose-built capital about 500 miles from Rio.

"Brazil is still generating over 1 million jobs a year and unemployment is 5.4 per cent-5.3 per cent, which is a record low for Brazil.

"Over the past ten years, we have been able to add about 40 million people into the middle class. This is a major social move that has happened in Brazil, which was made through macroeconomic stability," he says.

Last Friday, the challenge facing Brazil's economy was laid bare with third-quarter GDP coming in at 0.6 per cent, about half of that predicted two days earlier by the country's Italian-born and somewhat optimistic finance minister Guido Mantega.

Mr Mantega, a key part of president Dilma Rousseff's government, dismisses any suggestion that Brazil is facing difficulties. He insists the country is on course to build on the progress made during Luiz Inácio Lula da Silva's reign as president between 2003-2010.

"This country is in transformation and will come out as a more competitive and dynamic place to do business. We depend less on the EU and rely more on China, which is a big importer of Brazilian products."

Brazil's government has committed to improving the infrastructure. The state-owned Brazilian Development Bank (BNDES) has channelled billions of dollars into projects, although experts still believe poor infrastructure is holding the country back.

One executive at a UK construction group told The Independent that he was astonished at how far behind the country is in its preparation for the World Cup, with stadiums, roads and airports still far from ready.

"It's a basket case," he said, with others warning it has taken on too much in a World Cup and Olympic Games while trying to boost its economy.

Mr Mantega admits general infrastructure needs to be improved and says the government is doing its best.

"We have been increasing our investment in infrastructure after decades of low investment. We now have a situation that is more tranquil. However, we still need more railways and highways and will continue to invest more."

Another problem is corruption. Last month, police raided government offices in Brasilia and Sao Paulo and arrested six people for allegedly selling government permits to businesses in return for bribes. The scandal led to Ms Rousseff sacking a number of senior officials. "You have corruption in all countries but where there is corruption it will be eliminated," Mr Mantega answers.

He is equally defensive about state intervention, an issue that has led to overseas investors withdrawing funds from Brazil, says Eduardo Refinetti Guardia, finance director at BM&F Bovespa, the stock exchange.

One of the concerns investors have is the government's drive to cut power tariffs. Companies operating in Brazil can either accept new contracts and charge lower rates or continue to charge higher rates and potentially lose leases when they come up for renewal.

The move has rocked the share price of Brazil's largest energy generator Electrobas, which is listed but state controlled. Some investors have likened the left-leaning government to its counterpart in Argentina.

Again, Mr Mantega toes the government line, although the share prices of Electrobas and Petrobas (another state-owned energy company) are on show in the finance ministry's boardroom. "We have an energy industry that needs reforming," he says. "Brazil cannot wait for lower power rates."

Perhaps Brazil's greatest triumph lies closer to the country's poorer areas in the north and those regions around Rio and Sao Paulo.

A recent report by Boston Consulting Group praised Brazil for translating GDP growth into "well-being" for its 193.9 million people. It said although the country's GDP had average growth of 5.1 per cent over the past five years, "generated gains in living standards" reflected those of an economy expanding by an average of more than 13 per cent a year.

"Brazil has narrowed the income gap between rich and poor considerably over the past decade, reducing extreme poverty by half. The share of Brazilian children attending school, meanwhile, has risen from 90 per cent to 97 per cent since the 1990s," the report adds.

"Programmes such as Bolsa Familia, or family allowance, illustrate the government's commitment to raising the income of the poor. Launched in 2001, the programme distributes a stipend of around $12 per month to 13 million impoverished families for each child in the household, so long as he or she continues to attend school."

For all the challenges it faces, Brazil is in one of the most exciting periods of its history. For countries like the UK, the opportunities are also vast with the value of exports to Brazil reaching £2.3bn last year, a 9 per cent year-on-year increase. The top three UK exports to Brazil in 2011 were road vehicles, medicinal and pharmaceutical products and chemical materials and products.

Marcelo Cortes Neri, president of the Brazilian Institute of Economic Applied Research, says Brazil still has a long way to go, but can be proud of the progress it has made over the past decade.

"For many years Brazil was doing well but the people weren't. Now it appears to be more the other way around. Brazil is a country full of problems but groups that were once left behind such as black and illiterate people and areas like the north-east are better off than ever.

"We are catching up socially as China is doing economically. We are becoming a normal country."

Tomorrow's interview: The powerful woman who heads Brazil's energy giant Petrobas