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INVESTMENT RATE TO UNDERGO STRUCTURAL CHANGES

Brazil's economy shall undergo structural changes in the future, with a primary focus on changing the economy's current basic interest rate level (Selic rate). According to the Monetary Policy Committee (COPOM) meeting held on August 29, 2012, the annual Selic rate is set at 7.5%. This, by the way, is the country's lowest interest rate since Selic was created.

Far from political-party positions, in order for Brazil to be able to reduce the economy's main interest rate, several audacious and legitimate decisions were necessary on the part of those conducting the country's economic policy. And it was done. By economic policy we refer to the set of actions related to fiscal policy, external policy, income policy and monetary policy.

Another important factor to mention – and should presently be considered a unique window of opportunity – was the international crisis. With the global economy on the skids, Brazil felt the effects in its markets and, to counter them, it bet on reducing interest rates to minimize damages. It was the perfect dose for the government to offer fairer interest rates for companies and Brazilian citizens.

However, interest rate reductions require a more rational than emotional vision. Since the Selic Rate is the main benchmark for remunerating capital in Brazil's economy, it immediately caused a reduction in other rates of return for financial and nonfinancial assets. Even savings accounts, the main investment of families for accumulating capital, had to adjust to this remuneration reality.

As example, we can mention the case of an investor who always operated in the fixed income securities market (NTNs, LTNs, CDBs, etc.). Accustomed to a Selic Rate higher than 10% p.a. for a long time in Brazil's economic history, which did not motivate him/her to invest in other assets, this new interest rate level will not stimulate him to center his/her investments in the securities market. Especially, when discounting inflation from the interest rate, since this causes the real interest rate to be less than 2% a year, just like international levels.

This also scared away large international speculators from borrowing money in countries with negative or close to zero interest rates to speculate with Brazilian interest rates, an operation known as *carry trade*[1].

The result of this adjustment in Brazil's basic interest rate to the local and international reality will reflect on the economy's investment rate, represented by Gross Fixed Capital Formation over Gross Domestic Product (GFCF/GDP). *(See table below).* In layman's terms, it would be like understanding how much investment is made over the entire economy.

Brazil's investment rate, on average, has always remained below 20%. The table of GDP demand components depicts this ratio. For comparison purposes, in China the rate is greater than 30%.

With expectations of reduced and unattractive financial returns in the fixed income securities market, investors shall seek other more profitable applications. And it is precisely in this process of decisions that investments will focus on infrastructure, industry and agribusiness.

Therefore, we see realistic signs that the investment rate in Brazil's economy will undergo structural changes. With all rearrangements, one can expect that the investment rate will reach the coveted 25% of GDP. But for this to actually occur, besides economic arguments, it is necessary that Brazilians accept to save more and be more rational in their consumption decisions. ■

GDP demand components - 2000 / 2011

Specification	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Consumption of families	64.3	63.5	61.7	61.9	59.8	60.3	60.3	59.9	58.9	61.1	59.6	60.3
Public administration consumption	19.2	19.8	20.6	19.4	19.2	19.9	20.0	20.3	20.2	21.2	21.1	20.7
GFCF	18.3	18.0	16.2	15.8	17.1	16.2	16.8	18.3	20.7	17.8	20.2	19.7
Goods and Services Exports	10.0	12.2	14.1	15.0	16.4	15.1	14.4	13.4	13.7	11.0	10.9	11.9
Goods and Services Imports	-11.7	-13.5	-12.6	-12.1	-12.5	-11.5	-11.5	-11.8	-13.5	-11.1	-11.9	-12.6
GDP at Market Prices	100.0	100.0	100.0	100,0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: IBGE, Research Department, National Accounts Coordination

[1] Carry trade is a strategy in which an investor sells a certain currency with a relatively low interest rate and uses the funds to purchase a different currency yielding a higher interest rate.