

SÉRGIO BRITO



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“The sensibility that businesses have lost confidence is triggered by disastrous actions by the federal government”

“THE PROBLEM IS SUPPLY, NOT DEMAND”

One of the most important documents divulged by the Central Bank’s Monetary Policy Committee (COPOM), provides a clear answer to the market: “*The problem is supply, not demand, Finance Ministry!*” The content of COPOM’s report, which I had the opportunity to read its 78 paragraphs in the 172nd Meeting Minutes, is important in order to visualize perspectives about the performance of the country’s economy.

It is nothing new that Brazil’s economy is going through a structural change interval. So, the flurry caused by the increased consumption of Brazilians was satiated by the purchase of imported products, suppressing the share of consumer goods supplied by the local industry. Conclusion? Supply exceeded demand, which consequently triggered protectionist mechanisms by the government, rather than stimulate competitiveness.

This became the Ministry of Finance and Ministry of Industry, Development and Foreign Trade’s focus of attention throughout 2012, and more was heard: how are we going to protect, rather than how should we be more competitive. In other words, instead of working in favor of increasing productivity, actions focused on maintaining the *status quo*.

Detailed analysis

According to the Brazilian Institute of Geography and Statistics (IBGE), last year the industry registered a 2.7% drop in performance compared to 2011 results. Of the 27 industrial sectors analyzed, 14 suffered a drop in production. Brazil’s industry production has been dropping for the last five quarters.

This scenario shows that something strange is happening in Brazil’s economy. A series of factors,

which comprise the Brazil Cost, explains some causes of this context, but so far they have not been tackled by those responsible for economic policy.

The golden rule for businesses to invest—consumption expansion—should be boosting productive investments. However, what we observe is the absolute opposite. All investment indicators show that there lacks confidence in the economy. And confidence is the invisible pillar that sustains any economy.

The sensibility that businesses have lost confidence is triggered by disastrous actions by the federal government, such as determining profitability rates for infrastructure investments, leniency with inflation, exaggerated stimuli towards domestic consumption, arbitrary actions in the exchange rate market and the erratic speech by the Ministry of Finance regarding Gross Domestic Product (GDP) projections.

What to expect this year

2013 will be a year of adjustment after the monetary and fiscal measures from the last 18 months. So far, the trajectory of prices is uncertain since expectations were contaminated by the effect of fuel price increases and electricity tariff reductions.

In my opinion, it is unlikely that companies will reduce product prices on account of the reduction in electricity tariffs, since, after five quarters of suffering, maintaining prices would provide some relief to ensure some profit margin now.

Unfortunately, the decisions of businesses are currently pegged to government actions and natural laws that govern the market. Carrying all this economic horizon uncertainty is a huge burden. How to invest? To our readers the answer is: It’s not businessmen’s fault. ■