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GDP DROPPING AND INFLATION RISING

A Brazil that is Fifa standard! This was one of the main “chants” in the numerous protests that occurred throughout Brazil over the last four weeks. The voices that echoed in the streets were not unison in relation to the reason for manifesting. Analyses suggest, however, that the State’s inefficiency and impunity of the government’s top echelon were the perfect fuel for igniting the flame of change nationwide.

In the case of the State’s inefficiency, the problem involves a huge basket of items, but perhaps the huge tax revenues observed year after year in face of the terrible return in services offered to the population by the government is at the core of most claims.

The fact is that the images and occurrences witnessed on the streets directly reflected in the economy, as analysts already expected, in addition to casting doubt on the economic team’s result goals and result parameters of companies defined for 2013. Therefore, it is important to report a few indicators:

GDP

The growth rate should be around 2.0%, with a downwards trend due to the high likelihood that the third and fourth quarters of 2013 will post rates varying between -1.0% and 1.0%.

US Dollar

High volatility is seen in the currency, particularly due to the four components mentioned below, with the exchange rate expected to vary between R\$/US\$ 2.20 and 2.70:

- i) adjustment in China’s growth rate;
- ii) adjustment in United States’ monetary policy;
- iii) adjustment in Brazil’s external accounts, due to

the reduction in international prices for agricultural and mineral commodities; and
iv) political environment not very clear.

Inflation

Price corrections are expected to be made on account of transferring the exchange rate increase to industrial material prices and also to consumer product prices. On top of this scenario, we will have salary adjustments and seasonal influences on important foodstuff, such as beans. As such, calculations point to the following inflation rates:

IPCA: 6.2%

IGPM: 6.0%

Interest Rates

It seems that the Central Bank will have greater autonomy in applying the monetary policy, elevating the Selic rate to 9.5% due to an elastic credit environment and increase in industrial and consumer prices.

Employment

The factors addressed above will cool down job expansion, hindering the job market in the third and fourth quarters.

In view of these apparent expectations in the economic scenario, fundamental investments for growth will tend to become more and more distant. As such, it wouldn’t be naïve to say that there exists a high probability that the main rating agencies (Fitch, Moody’s and S&P) will reduce Brazil’s rating. What the economy will be tomorrow is the big question in the air at this moment of transformations. ■