

C O L U M N

Yes, Brazil can do it!



Andreas Renschler
 LADW Chairman and Member of
 the Group Board of Management of
 Volkswagen AG

Brazil's biggest recent economic crisis has been a source of great difficulty to everyone. Never before have the 1300-plus German companies based there had to evince so much perseverance. Uncertainty may not have completely subsided yet, but caution is increasingly giving way to confidence.

After almost two years of stagnation and recession, positive economic indicators are increasing and the economy is again gaining momentum. Recently, stock market records have even been broken once again. Reforms in such matters as labour law are being adopted or are about to be implemented. In recent months, Brazilian companies have been able to decouple themselves from the political turbulence; the order situation in industry is once again improving. This creates a more favourable climate for the revival of consumption, and this in turn is increasingly tangible for German companies in the country.

But Brazil has not only demonstrated resistance to crises during this time, it has also regained its power to change. A radical transformation of the country has begun and will make this domestic market, with its nearly 210 million people, much more attractive and competitive in the future. Public awareness of a better growth and prosperity model is stronger than ever, and is calling for new solutions to key issues such as education, mobility and urbanisation. The fact that this transformation is meant in earnest is demonstrated by the unwavering fight against corruption.

Greater political stability is still essential, but the waters are gradually growing calmer. There are more indications by the day that the country is on its way to recovery. We are confident: Brazil can do it! That's why we're counting on the country's recovery and looking forward to the upcoming German-Brazilian Economic Meeting in Porto Alegre in November 2017! ●

V O I C E

Mr Reuther, is the Brazilian economy enjoying an upswing?



Michael Reuther
 Member of Commerzbank's Board
 of Managing Directors

“ Yes, Brazil is on a good course. So say our colleagues from São Paulo, where for good reason we have been represented for sixty years and have had our own subsidiary for the last one. As we know from our many discussions with our German and Brazilian customers, the mood in companies has brightened visibly in the last twelve months. The numbers also confirm this: GDP grew by 1 percent in the first quarter of 2017, as compared to the once preceding it – the first increase in two years and the strongest in almost four. After a further slight increase in the second quarter, we expect an even more significant increase of around 2 percent in 2018.

Inflation has also been developing satisfactorily, having come in even below the central bank's target corridor of 3 to 6 percent by registering at just under 2.5 percent in August 2017. This means that the rate of inflation has halved compared to early 2017. Since October 2016, the central bank has been lowering the high key interest rate from an initial 14.25 percent to 8.25 percent at the beginning of September 2017 – the lowest level in over four years. Given the enormous potential involved, this too is boosting the business cycle in Latin America's largest economy. So Brazil is once again becoming more attractive for exporters and investors.

Whether the positive forecasts ultimately prove reliable depends largely on the presidential election in 2018, as any turbulence in politics and populace could quickly cause a downturn in the positive tendencies cited above. ” ●

NUMBERS FACTS & MORE

BRAZIL

AT A GLANCE

Head of state and head of government: MICHEL TEMER, accession to office on 31 August 2016 after impeachment of Dilma Rousseff | Party: PMDB, centre-oriented | Mandate until 2018

GDP (2016, US \$ bn)	1,799
Population (2016, million)	206
German companies	1,300
Employees German companies	250,000
Existing German direct investment (€ bn)	18.4
Investment Protection Agreement with Germany	✗
Double taxation agreement with Germany	✗
Imports from Germany (€ bn)	8.5
Exports to Germany (€ bn)	7.8

Sources: IMF, Federal Foreign Office, Destatis, German Bundesbank

BRAZIL IN THE GLOBAL COMPARISON

Producer of

1

coffee

orange juice

2

sugar

regional jets

3

iron ore

soy

electricity

busses

commercial aircraft

WHAT `S NEXT?

#Election year 2018

for
all
2/3 der
and all

Presidency
 27 Governors
 81 Senators
 513 Deputies

in October.

LINK

GERMAN-BRAZILIAN ECONOMIC MEETING
 IN PORTO ALEGRE
 12 – 14 November 2017
www.eeba2017.com

LEAD ARTICLE

ECONOMIC AND MONETARY POLICY CREATE CONFIDENCE



Alexander Busch

Correspondent for Handelsblatt, Wirtschaftswoche, Neue Zürcher Zeitung in Latin America

For twenty-five years, Alexander Busch has been reporting from Brazil on Latin America for Handelsblatt, Wirtschaftswoche and Neue Zürcher Zeitung. Born in 1963, he grew up in Venezuela before attending the Cologne School of Journalism and studying Economics and Politics in Cologne and Buenos Aires. He is the author of the book "Wirtschaftsmacht Brasilien – Der grüne Riese erwacht" (Economic power Brazil - The green giant awakens).

Brazil's economy is recovering – despite the uncertain political environment. Consumption, in particular, is powering the upswing.

It's amazing what a good finance and business team can accomplish even if the government itself is very unpopular. This is precisely what Brazil is currently undergoing. In the polls, President Temer's government is in a catastrophic state; only 3 percent of Brazilians still have a positive opinion of the government. Ninety-two percent of the population don't trust the president. The government's image is terrible after only eighteen months in office as it is endlessly involved in corruption scandals: several cabinet members and the President himself are being investigated on suspicion of corruption. It is immunity alone that protects these politicians from prosecution and conviction.

At the same time, the mood in the Brazilian economy is evidently brightening. Consumption, in particular, is picking up again after three years of recession. Car sales have been growing for four months. Sales in this key industry have increased by 8 percent over 2016. Confidence in the retail sector grew in September. For the first time in twenty-five months, both private and corporate customers are again requesting more credit. Sales in the food and beverages, pharmaceuticals and health care sectors are growing substantially.

Foreign companies are investing in Brazil, too: eighty-two billion dollars for purchases and mergers were transferred to Brazil in the twelve months ending with August. In late September, foreign companies paid four billion euros at auctions for oil and gas concessions and hydroelectric power plants.

Forecasts also indicate increasing confidence: the economy will grow by just under 1 percent this year, having shrunk by 7.4 percent in 2015/16. For 2018, investment banks expect an increase of just under 3 percent.

The reason for the optimistic upswing among consumers and investors, despite the severe political crisis, lies in the government's efficient and coherent monetary and economic policy. In one year, the Central Bank and the Ministry of Economics and Finance have succeeded in restoring confidence. Due to political interference, these institutions had lost the good reputation they had acquired in the fight against inflation in the mid-1990s.

Renewed confidence is above all reflected in monetary stability and the key interest rate. Inflation at 3 percent and an interest rate of 8 percent are lower than they have been in a long time. Brazil's real interest rate of 5 percent is still one of the world's highest among emerging markets. For Brazil, however, this is a positive trend.

This lower-than-expected inflation has led to Brazilians experiencing real income growth. A glance at supermarket shelves, with their slowly rising prices, shows how quickly the retail trade has reacted: it no longer automatically updates inflation through price increases as it once did. Poorer Brazilians in particular, who spend more money on basic consumer goods (and had earned less from the high interest rates on government bonds), are the beneficiaries. The growing demand for consumer goods has boosted capacity-utilisation in industry. Unemployment fell for the first time in August, although the informal sector has been the main source of new employment.

Low interest rates have lowered corporate debt payments. Corporate credit demand has grown for the first time in twenty-five months. Brazilian companies are increasingly raising capital again through bonds. Investment banks see credit growth as the most important driver in coming months. This is especially significant given the backlog: the ratio of credit to GDP has

now fallen to 47 percent, down from 54 percent two years ago.

So there is much to suggest that Brazilian consumption will drive the country out of recession. This is positive news: two-thirds of Brazil's economic performance depends on consumption. Despite the severe recession, the country is still the eighth largest single market in the world. Two years ago, Brazil was in sixth place among the world's sales markets.

A negative feature of consumer orientation is that it is not accompanied by growing investments. With its ratio of 16 percent to GDP, Brazil's investment rate is one of the lowest in the world. Consumption alone will not be able to sustainably increase growth. This requires investment or inflation will rise once more.

Reluctance among entrepreneurs in Brazil, however, will only change in the medium term: the unclear political scenario prior to the presidential elections in a year's time will ensure businesses proceed with caution. So companies should at first adjust to consumption growth in Brazil. ●