

Brazil Raises Gas Prices 6.6%, But Markets Say This is Not Enough

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Petrobras, the Brazilian state-controlled oil multinational said in a market filing that it would increase refinery prices for gasoline and diesel by 6.6% and 5.4%, respectively, starting on January 31. However the market's reaction was negative with the Bovespa stock exchange falling to a seven-week low.

Bovespa fell 1.8% to 59,336.70 at the close of trading in São Paulo, the lowest since December 13. Forty-six stocks sank on the measure while 22 advanced. The Real weakened 0.1% to 1.9887 per U.S. dollar. Petrobras said in a regulatory filing that it was seeking to eliminate the discount between domestic and international prices eventually.

"The increase isn't enough to eliminate the gap with international prices," Gustavo Mendonça, an economist at Oren Investimentos, said from Rio de Janeiro. "And it's unlikely that the government will allow it to raise domestic prices again anytime soon."

The higher fuel prices put "additional pressure on inflation, which is already running at a fast pace," Mendonça said.

Petrobras fell 4.8% to 18.20 reais, the biggest drop since June 25. The fuel price adjustment announced will reduce the price gap for gasoline to 11.8% and diesel to 12.2%, Banco Bradesco SA analysts wrote in a note distributed to clients.

Cheaper Power

The Federation of Industries of the State of São Paulo (Fiesp) and the Center of Industries of the State of São Paulo (Ciesp) have informed that an average of R\$ 31.5 billion (US\$ 15.4 billion) will be saved each year as a result of the power bill reduction. Over a 30-year span, the

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two organizations forecast that R\$ 945 billion (US\$ 462.5 billion) will be saved.

In a press release, the organizations stated that the power bill reduction is an important step for Brazil to become competitive again. In an official statement, president Dilma Rousseff announced new power bill reduction rates - 18% for households and up to 32% for industry, trade, agriculture and services - and guaranteed that the rates will actually be implemented.

The Fiesp/Ciesp president Paulo Skaf praised the new rates, and said that all of society will benefit, because production costs will go down as well. "The measure is advantageous to all sectors of society, and it has a direct impact on the pockets of each and every Brazilian."

"Dilma Rousseff has proven a sensitive person, and her concrete actions are proof that the government is concerned with the country's competitiveness. Everyone uses electric power, every product needs power in order to be made, every service entails power consumption. The lowered power bill benefits all," Skaf said, according to the press release.

MP/ABr