

## This Is Old GDP, Says Minister About Brazil's Just-Revealed Recession

Contributed by Kelly Oliveira  
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Brazil's Finance minister, Guido Mantega, when commenting on the Brazilian economy performance in the first quarter, which was reported this Tuesday, June 9m by the IBGE (Brazilian Institute of Geography and Statistics), told reporters that the just-released data represent an old GDP, since the numbers refer to the first three months of the year.

He stressed that the Brazilian economy at the end of the second quarter is already presenting different, more positive numbers. According to him, the Brazilian economy has been showing a healthy ability to recover.

"As the fall last year was a big one, you have a slow recovery. This recovery will happen little by little, there won't be a feverish growth, in the second quarter and in the third. We are talking about a gradual improvement," the minister said.

Mantega says that Brazil should grow between 3% and 4% in the last quarter of 2009 and the same percentage in 2010. For this year, the minister forecasts growth of 1%. According to him, the result of the Gross Domestic Product (GDP) in the first quarter of the year is negative, but this reflects a situation of the "past".

Attention should not be focussed in the "rear-view mirror", as the country is already living another reality, said Mantega, pointing out the "clear signs of growth of the economy".

He recognized, however, that, for the time being, the performance of productive activity is still weak and more focused on civil construction and on the sectors that received tax breaks, like, for example, the auto industry, through lower Industrialized Product Tax (IPI) on sales of new vehicles.

Mantega said that this incentive, scheduled to remain up to the end of the month, should not be renewed. Both this measure and the benefits granted to the so-called white line sector (cookers and fridges, for example) were "temporary resources to grant the economy time to recover. As the economy shows signs that it is moving on its own accord, we can remove this stimulus."

The minister made these statements after participating in the 5th Globo News Forum, which focussed on the crisis. At the meeting, Mantega said that interbank credit is coming back to normal and that the government hopes for a favourable reaction in the domestic market.

To him, starting in the second half, Brazil should have overcome the credit and foreign financing difficulties. He bets on a "recomposing of foreign markets, as some countries should be growing more and buying more Brazilian products."

Mantega also said that today, a provisory measure should be published with the regulations of the Credit Guarantee Fund for Small and Medium Companies. Through this fund, the government should make available around 1 billion Brazilian reais (US\$ 500 million) in lines to be obtained at the Brazilian Development Bank (BNDES) and another 4 billion reais (US\$ 2 billion) at the Bank of Brazil.

According to the minister, this means that loans may rise as high as eight times this value, or 32 billion reais (US\$ 16

billion), as the volume made available is there just to cover possible default. He observed that, in the case of the fund established for the naval industry aimed at supplying Petrobras offers, the funds reached 5 billion reais (US\$ 2.5 billion).

During a presentation at the meeting, the minister said that the great challenge to be faced should be the reduction of banking spread (the difference between the rate for collection by financial institutions and the rate charged on loans). Whereas a real interest rate of 5% is practiced, "people borrowing from banks are paying 28%, 30% and up to 40%." He recalled that the government plans to continue stimulating competition through public banks.

In an answer to economist José Roberto Mendonça de Barros, who criticised higher public spending, Mantega said that the government's greater spending was fundamental to alleviate the effects of the international financial crisis and mentioned, for example, the investment of 160 billion reais (US\$ 80 billion) by the BNDES.

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