
Now Investment Grade, Brazil Gets Ready for a Foreign Capital Flood

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Brazil's "investment grade" classification granted to the country by rating agency Standard & Poor's should provide further incentives to the entry of foreign direct investment (FDI) in Brazil, as with the promotion from BB+ to BBB-, announced on Wednesday, April 30, the country has started being considered low risk to investors.

This is the evaluation of the Brazilian Society of Transnational Corporations and Economic Globalization (Sobeet) based on what happened to other emerging countries that reached the same level.

"In other countries the FDI flow rose not just before 'investment grade' but also after it," said Sobeet's president, Luís Afonso Lima.

According to him, in the nations researched by the Sobeet, the average increase in FDI flow was 45% in the two years prior to the granting of "investment grade" and 174% in the following two years. "The entry of FDI this year should exceed that of 2007, which was already record (US\$ 34.6 billion), and in 2009 it should grow even further," pointed out Lima.

Apart from FDI, the increase in the Brazilian rating, in the evaluation of the Sobeet, should influence other variables, like the benchmark interest rate, exchange rates and the performance of capital markets. "I am betting my money on that," stated the president at the organization. The institution also identified these phenomena in other countries that posted improvement in their risk rating.

In the area of interest rates, according to him, the tendency is for there to be a reduction in real rates. That is because, with the entry of further funds into the country, the Brazilian real should appreciate more against the dollar, reducing inflation pressure due to cheaper imports.

In this respect, the Brazilian Central Bank should be able to reduce the benchmark interest rate in the medium term, as it is mainly used as a tool for inflation control. "This may even take place before imagined," said Lima.

With regard to the threat of inflation rising above the target established by the government, last week, the Monetary Policy Committee (Copom) increased, the Brazilian benchmark interest rate (Selic), from 11.25% a year, a level at which it had remained since September last year, to 11.75%.

Exports

The continued appreciation of the Brazilian real against the dollar should have a negative impact on exports, at least initially, as Brazilian products should become even more expensive in the US currency, which has been taking place since last year, causing exports to grow less than imports.

Although the dollar is losing strength against other currencies, especially the Euro, the United States is among the main markets for Brazil and country products tend to lose competitiveness on American soil.

In Lima's evaluation, this impact should be greater on sales of industrialized products, as in the agricultural area few countries have the same production capacity as Brazil, and there is currently a great foreign demand for foods. He believes, however, that the price of imports of commodities should exceed that of exports in the middle of this year, due to the appreciation of oil.

For 2009, Lima believes, as do other specialists, that Brazil may return to a trade deficit, after eight years running of surpluses. The domestic market, which was the main booster for growth of the country's economy last year, should compensate, at least in part, potential losses on the foreign market. According to him, exports currently represent 15% of the Gross Domestic Product (GDP) of Brazil, whereas the domestic market answers to 85%.

In the long term, however, direct investment should result in gain of production scale and in the absorbing of new technologies, which should result in the reduction of cost, making products gain competitiveness, not due to exchange rates, but to greater productivity. Apart from that, new investment should generate more jobs and income, granting greater sustainability to the domestic market.

And the US currency, in Lima's evaluation, should not depreciate indefinitely. He believes that in 2009, on the contrary, if there is really a trade balance deficit, the tendency is for the dollar to gain some more space as against the real, resulting in a slight gain in competitiveness based on exchange rates.

Stock Market

In capital markets, according to Lima, experiences in other countries show that there was an increase in foreign investment before "investment grade". Figures supplied by the São Paulo Stock Exchange (Bovespa) show that the participation of foreigners in initial public offerings rose from 64% in 2004 to 80% last year.

On the day of the Standard and Poor's announcement, the Ibovespa, the main Bovespa index, appreciated 6.33%, the best result since October 17th, 2002, and reached a record 67,868 points.

On Thursday, when the Bovespa was closed due to the May 1st holiday, shares of Brazilian companies were greatly sought on the New York Stock Exchange (NYSE). The Dow Jones Brazil 20 index, which includes the 20 main American Depositary Receipts (ADRs) of Brazilian companies, grew 2.37%, according to information published by the daily O Estado de S. Paulo.

The papers that posted the highest increases in New York, according to the newspaper, were those of airline Gol, with appreciation of 9.72%, followed by Bradesco Bank, 8.1%, Petrochemical company Braskem, with 7.7%, mobile telephony company Vivo, up 6.22%, and Itaú Bank, with 5.74%. On Friday, the Ibovespa rose 2.21% and ended the day at 69,366 points.

The new Brazilian rating influenced other markets. According to Agência Lusa, the Portuguese Stock Market closed with 1.68% growth on Friday, fueled by the shares of Portuguese companies with operations in Brazil, among them Portugal Telecom, the owner of Vivo, Espírito Santo Bank, which has Bradesco as a shareholder, and highway operator Brisa, which is one of the shareholders of CCR, a company that holds concessions of public services in Brazil.

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