
Brazil to Create US\$ 20 Bi Sovereign Wealth Fund to Help Investors

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Guido Mantega, Brazil's Finance minister, announced in Brazilian capital Brasília that the Brazilian government is working on creating a sovereign wealth fund of as much as US\$ 20 billion. The fund would help finance overseas investment and acquisitions by Brazilian companies.

However Mantega said that the government would not use the Central Bank's international reserves for the sovereign fund suggesting that "the money could come from fiscal sources, or we may even also purchase US dollars in the local market."

Current international turbulence in financial markets had seen billions of US dollars attracted to Brazil's orthodox economic policies and commodities exports oriented economy, plus excellent prospects for oil, all of which has seen the local currency appreciate enormously against the greenback.

When Brazilian President, Luiz Inácio Lula da Silva took office in January 2003 the American dollar reached 4 reais on fears of his union leader, Socialist oriented background. Having surprised most because of his strict adherence to open market policies, the dollar has dropped to 1.70 reais.

Signal of the strength and excellent performance of the Brazilian economy but also a growing challenge for non commodity exports that face significant increases in local costs.

Exporters have been demanding a more attractive (dearer) US dollar and President Lula has consulted a group of "wise economists" who from the background have given advice as to the course of the Brazilian economy in the world context. This is particularly Delfim Netto who was the architect of Brazil's industrial and agriculture development in the seventies and eighties known as the Brazilian miracle.

These economists favor a less appreciated real and had suggested several options, according to Delfim Netto, but none of them were made public. "It was a private conversation with the president."

Mantega said the "ideal" size for the fund would be equivalent to 5 to 10% of Brazil's international reserves. Reserves were US\$ 195 billion this week.

Tax revenue in Brazil jumped 13% last month as increasing household income, declining unemployment and a boom in real estate swelled government coffers.

The sovereign wealth fund idea had been anticipated by Mantega last October. Sovereign investment funds from countries such as China, Singapore and Arab countries have put money into stocks of foreign and domestic companies currently helping some of the main US banks short of cash.

Mantega in October said Brazil would focus on fixed-income securities rather than direct stakes in companies. Chile (copper) also has a similar sovereign wealth fund, based on the Norwegian concept of turning windfall earnings of commodities (oil) into funds sterilized from local economies.

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