How can Brazil speed up urban transit?

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Address
Rua Barão de Itambi, 60
Botafogo – CEP 22231-000
Rio de Janeiro – RJ – Brazil
Phone: 55(21)3799-6840
Email: ibre@fgv.br
Web site: http://portalibre.fgv.br/

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NEWS BRIEFS

4 Unemployment down, current account deficit up … Brazil no longer in recession … industrial production stalls … inflation up … Petrobras delays financial statements … Rousseff chief of staff calls for faster trade deals … tax break on cars ending … reduced role for BNDES … Levy the new Finance Minister … small primary surplus posted … Rousseff promises fiscal discipline.

COVER STORY

8 How can Brazil speed up urban transit?
Delays in public works and lack of planning interfere with urban mobility, at great cost to the main Brazilian cities. How can they break up their traffic jams? Solange Monteiro reports on a recent IBRE seminar analyzing mobility in the seven largest Brazilian cities. The costs of inefficient urban mobility are estimated by taking into account average commuting time, fuel consumption, air pollution, personal stress, and respiratory problems. In all cases, the losses far outweigh the amounts invested in public transport. But some cities, like Curitiba, have found ways to save money and make their systems work.

INTERVIEW

18 Focus on boosting investment
Most Latin American economies will close 2014 with a downturn from 2013. Alicia Bárcena, executive secretary of the Economic Commission for Latin America and the Caribbean, tells Solange Monteiro of ECLAC’s concerns about how a decline in productivity makes it more difficult to attract investment in the region. She also identifies the central theme for Brazil to be what kind of adjustment must be done and what it will cost society.

ENERGY

23 Gas future at risk
On both the supply and demand sides, the natural gas industry has plenty of room to expand, but each is waiting for a clear signal from the other. Solange Monteiro reports on statements made at the recent launch of FGV Energy’s Natural Gas Report that analyze the questions from both sides and also point out the industry’s competitors and where price pressures on the industry are coming from.

WATER MANAGEMENT

25 Dealing with dry spells
Lack of rainfall in 2014 in the basins of San Francisco, Paraíba do Sul, Rio Grande, and Cantareira—the main source of supply for the São Paulo city area, was the most severe recorded since 1930. Chico Santos interviews Brazilian experts to find out how water shortages affect industries as well as households, and what can be done to work around them.

INFLATION

30 Nowhere to go but up
Inflation stubbornly persists at close to 6.5%, and in 2015 price controls will continue to push inflation up, so that the inflation target is likely to be breached at the end of 2015. Thais Thimoteo explains why consumers will be particularly hard hit.
Unemployment stable in October
Unemployment dropped to 4.7% in six major metropolitan areas in October, according to government statistics agency IBGE —less than the 4.9% in September and the 5.2% for October 2013. Average real income for workers was R$2,122 (US$884) in October, up 2.3% from September and 4% from October 2013. (November 19)

Current account deficit up
US$8.1 billion
The external current account deficit grew in October by US$8.1 billion, the central bank said, for a 12-month deficit of US$84.4 billion, equal to 3.73% of GDP. Foreign direct investment grew to US$5 billion in October, up from US$4.2 billion in September but not enough to cover the current account deficit. (November 19)

Consumer confidence down, industry’s up
The November Getulio Vargas Foundation (FGV) Consumer Confidence Index fell by 6.1% to 95.3 in November compared to October, the lowest level since December 2008 (94.8). Consumers are concerned about inflation, the labor market, and rising interest rates. (November 24) However, the FGV Industry Confidence Index advanced by 3.6% to 85.6, the highest level since last June, mainly because of brighter perceptions of current business conditions. (November 26)

Brazil out of recession
After contracting by 0.2% in the first quarter and 0.6% in the second, growth of 0.1% in the third quarter brought the economy out of recession, IBGE said, as manufacturing and services began to expand. However, compared with 2013, GDP was still down 0.2% in the third quarter. (November 28)

Industrial production stalls
Brazil’s industrial output unexpectedly stagnated in October, raising concerns about growth prospects. After falling 0.2% in September, production was flat, IBGE said. Output was down 3.6% from the same period in 2013. (December 2)

Inflation up again
The official consumer price index (IPCA) rose 0.51% month-on-month in November, IBGE reported—faster than the 0.42% rise in October. Rolling 12-month inflation was up 6.56% through November, above the central bank’s 6.5% target ceiling for a fourth consecutive month. Driving up consumer prices were steep increases in prices for perishables like potatoes, carrots and meat. Housing prices also shot up. (December 5)

POLITICS

Petrobras accounting problems
Petrobras is delaying filing of its Q3 financial statements with the Brazilian Securities and Exchange Commission, following media reports that independent auditor PricewaterhouseCoopers refused to sign the financial statements until Sergio Machado was removed as head of the transport unit, Transpetro. Some Transpetro officers are being investigated for corruption. Release of the financial statements may be further delayed by a need to restate past earnings and set aside reserves for legal expenses related to the corruption allegations. Petrobras cannot issue debt in the US without audited financial results. (November 18)

Mercadante calls for faster trade deals
Brazil must move faster in negotiating international trade deals, Presidential Chief of Staff Aloizio Mercadante said recently in Brasilia. He noted that South American trade bloc Mercosur “is in negotiations with the European Union, and with some countries where there are conflicts, and we have to see how we can move forward.”

According to International Monetary Fund data, Brazil is the most closed major economy in the Americas, with trade accounting for only about a quarter of GDP. Mercadante may be signaling a more market-friendly turn as the economy teeters on the edge of recession. Many business leaders believe lower trade barriers would cut the cost of inputs and make local industry more globally competitive.

Brazil, a commodities powerhouse, is expected to end 2014 with its worst trade balance since 2000, according to the central bank, after a recent plunge in global prices for iron ore, soybeans, and oil. (November 19)
ECONOMIC POLICY

Tax on cars heading up
Meeting with Luiz Moan, president of the National Association of Motor Vehicle Manufacturers, departing Finance Minister Guido Mantega reiterated that the government will raise the industrial product tax on vehicles on January 1, 2015; the tax on small cars will rise from 3% to 7%, on medium-sized cars from 9% to 11%.
(November 20)

Joaquim Levy named finance minister
President Dilma Rousseff has appointed economist Joaquim Levy, 53, as finance minister and kept Alexandre Tombini as Central Bank governor. Levy is working with outgoing Finance Minister Guido Mantega until he takes over in January. Currently director of the Bradesco Bank investment fund management division, Levy was Treasury Secretary in the first administration of Luis Inacio Lula da Silva. He also previously held posts with the International Monetary Fund and the Inter-American Development Bank.

In his first public statement, Levy set a 2015 goal of a fiscal surplus equivalent to 1.2% of GDP, to be raised to 2% in 2016 and thereafter. This year, the Brazilian government will not meet its goal of a surplus of 1.9% of GDP and is now working to have a waiver for not meeting the target approved by Congress. (November 27)

Small primary surplus posted in October
The public sector posted a primary budget surplus of R$3.7 billion (US$1.5 billion) in October, the central bank said, after five straight monthly deficits. For the first 10 months of 2014 the primary balance was in deficit by R$11.6 billion. The government goal for the primary surplus (revenue over expenditures before interest payments) was R$99 billion (1.9% of GDP) for 2014 as a whole. Its new surplus target is just R$10 billion (0.2% of GDP). (November 28)

Rousseff promises fiscal discipline
In a letter to investors read at a JP Morgan conference, hinting at a turn to more market-friendly policies President Rousseff said that a high priority for her second term is to put Brazil’s fiscal accounts in order. She also gave clear backing to future finance minister Joaquim Levy, a noted fiscal conservative, stating that “Our new economic team will work to gradually but structurally raise our primary surplus so we can stabilize and reduce gross public debt in relation to GDP.” Promises of fiscal discipline are the latest signals that the administration is trying to reach out to investors, after four years of interventionist policies and lackluster economic growth. (December 3)

Central bank raise interest rates again
The monetary policy committee decided to raise the central bank’s policy interest rate by 50 basis points to 11.75%. The decision was unanimous. In its statement, the committee said that further increases in the policy rate should be “implemented parsimoniously.” (December 3)
Let’s move ... in new work directions

AS OUR COVER STORY demonstrates, getting around Brazil’s big cities is far from easy. What can be done? Beyond the obvious—spending huge amounts to expand transit systems—there is the possibility of using them more efficiently and with less environmental impact. Given the limited resources available, not to mention the unlikelihood of being able to raise taxes even more without major repercussions, improving transportation demand management (TDM) seems an attractive alternative.

A number of TDM strategies have been found to raise system efficiency by encouraging a shift from single-occupant vehicle (SOV) trips to other modes of transportation, or shifting car use out of peak periods. Correctly pricing the cost of traffic jams and pollution in the limited urban space is one strategy to reduce the use of cars. In 2003, London began charging SOVs to enter its city center during daytime hours. Since then, traffic speeds have improved by 37%, peak period delays have dropped by 30%, bus ridership has gone up by 14%, and air pollution has declined. The millions of dollars collected in toll revenues have been invested in improved transit services. As traffic jams decline, buses save money on fuel and transport more passengers in the same period, raising fare revenues and reducing the need for fare increases or government subsidies. Stuttgart and Singapore have adopted similar strategies with good results. Using the price mechanism has the added advantage of not being arbitrary (such as determining that on certain weekdays only cars with even tag numbers can travel, as in São Paulo city) and not raising taxes.

Another attractive TDM alternative is flexible scheduling. This strategy allows employees to reduce the number of their weekly commute trips and shift work trips to off-peak hours. Examples are teleworking (allowing employees to work from home or non-office locations); compressed workweeks (employees work more hours per day but fewer days per week); and flexible schedules (allowing employees to change work hours from the typical 9-to-5 to shift their commutes to off-peak hours).

Telework seems to be the most promising. The option to work remotely is increasing across the United States. A new survey of more than 1,000 employers by Mobile Work Exchange (http://www.mobileworkexchange.com/) found that 67% allow employees to work from home occasionally, up from just 50% six years ago; 38% permit regular telework, up from 23%.

This is good for employees, whose life is less stressful without the hassle of commuting. It is also good for employers, who can save money on office real estate and reduce energy consumption. Cutting down the time employees spend commuting also reduces emissions of both greenhouse gases and hazardous air pollution. Telework is good for both competitiveness and the environment.

As Brazil faces a tough economic adjustment and tight financing in 2015, both government and the private sector need to use their resources more resourcefully. Combining TDM with minimal investments in improving the transport infrastructure could reduce the need for expensive mega-transportation projects. The IT revolution and the creative economy hold promise for a more decentralized economy. The economy of the future will move more goods more efficiently, with less environmental impact—and without the need to move as many people as must move today. 📛
How can Brazil speed up urban transit?

Delays in public works and lack of planning interfere with urban mobility, at great cost to the main Brazilian cities. How can they break up their traffic jams?

Solange Monteiro

AS THE DEMONSTRATIONS IN 2013 made abundantly clear, Brazilians living in big cities are sick of too much traffic, poor public transport, and a general lack of planning. Although huge investments in urban transport were announced around the time of the 2014 World Cup, delays and inefficiency have meant that so far government initiatives have fallen short of expectations.

To identify the main factors hampering urban mobility, in November IBRE researcher Armando Castelan and Claudio Frischtak, president of InterB Consulting, brought together experts to analyze mobility in the seven largest Brazilian cities: São Paulo, Rio de Janeiro, Belo Horizonte, Curitiba, Salvador, Belém, and Brasília. The results will be published as a book in 2015.

The research corroborates the main complaints about urban mobility. In the largest Brazilian cities, on average in 2012 it...
took 41 minutes to commute from home to work, compared to 24 minutes in non-metropolitan urban areas. “In Rio de Janeiro, where the travel time is longest—47 minutes—27% of the people spend more than an hour getting to work; in São Paulo, it’s 24%. Only Shanghai has an average commuting time longer than these two cities,” Castelar says. Among the most affected are the new rising middle class, whose rising incomes in recent years brought them out of poverty but no closer to work, services, and leisure options. Marcio D’Agosto, coordinator of the Transportation Engineering Program at Coppe / UFRJ, has pointed out that “Transportation is closely linked to economic activity; a small increase in economic activity greatly increases demand for transport.” Castelar commented, “Unless there are changes, welfare gains arising from better integration of these people into the labor market will be eroded by time spent on commuting daily.”

The costs of inefficient urban mobility are estimated by taking into account average commuting time, fuel consumption, air pollution, personal stress, and respiratory problems. In all cases, the losses far outweigh the amounts invested in public transport. In São Paulo city alone, a study by economist Marcos Cintra of the São Paulo Business School of Getulio Vargas Foundation, found that in 2012 the cost of traffic jams totaled US$16 billion—more than double the US$7 million initial budget for the Program for Growth Acceleration (PAC). A study by the Federation of Industries of Rio de Janeiro (Firjan) found that in 2013 these costs amounted to

**Brazilians living in big cities are sick of too much traffic, poor public transport, and a general lack of planning.**

US$12 billion in the metro Rio de Janeiro and US$28 billion in São Paulo, consuming 2% of GDP.

Castelar, Julia Fontes of the National Treasury, and IBRE’s Luisa de Azevedo estimated the economic impact of traffic jams in 2012 by multiplying the average hourly wage by the difference between the longer metropolitan commuting time and shorter commuting time in small cities. They found that a

**Metropolitan Region of Brasilia city, Federal District**

**Municipalities 11**

**Population 3.5 million**

**Average commuting time from home to work 35.2 minutes**

**11%** of population take more than an hour to get to work

- Urban transport in the region is centralized, resulting in one of the country’s largest number of cars per inhabitants as well as the biggest difference between the commuting time of the poorest and richest among the metropolitan areas.
“Transportation is closely linked to economic activity; a small increase in GDP greatly increases demand for transport.”

Marcio D’Agosto

middle-income person in a large metropolitan area who could get to work as fast as a similar person in a smaller city would save US$1,000 a year. For all income groups together, the annual savings would reach US$25 billion.

Urban sprawl
Changing this appalling situation demands integrated planning that takes into account other aspects of urban mobility beyond infrastructure to improve the efficiency of transportation projects. One aspect is how urbanization has evolved in major metropolitan areas. Without proper planning, expansion stimulates excessive geographic sprawling rather than heightening population density in central areas, where services and employment are.

“Commuting from home to work is taking longer, which particularly penalizes people who live far from city centers, who are generally the poorest,” says Castelar. This problem may be repeated in other cities undergoing rapid urbanization. Frischtak points out that “From 1980 to 2010, the Brazilian urban population increased from 68% to 84% of total population. By 2050 it could reach 91%.”

Joaquim José Guilherme de Aragão of the Department of Civil and Environmental Engineering at the University of Brasilia (UNB) makes an example of Brasilia, the nation’s capital. “Starting in the 1990s, we had a disorganized occupation, with the explosion of satellite towns and distribution of land to meet political goals,” he says. “Today 75% of Brasilia’s population lives outside the central area, although 60% work there.” In his opinion, the region suffers from transportation planning based on legitimizing works already decided, with no strategic vision. “The result is one of the highest number of cars per inhabitants in the country, 45 cars per 100 habitants, and also the largest difference in Brazil between the commuting times of

Metropolitan Region of Belo Horizonte city, Minas Gerais State

Municipalities 34
Population 5.8 million
Average commuting time from home to work 36.8 minutes

15.8% of population take more than an hour to get to work

- Belo Horizonte’s rail, operating since 1986, transports 230,000 people a day. The metro rail project is important to meet the increased demand for transport.
the poorest and the richest.” de Aragão argues that, before making any large investments, the region needs to set priorities for management, regulation, and redesign of the transport network to balance demand and supply that benefit the more isolated and poorer neighborhoods of Brasilia, where 41% of the population is concentrated.

Pedro da Luz Moreira, president of the Institute of Architects of Brazil, notes that the tendency to urban sprawl also affects Rio de Janeiro, where people have migrated from areas in the northern neighborhood to Barra da Tijuca, in the western neighborhood, raising demand for new transport infrastructure. “It makes no sense to encourage investment in Barra da Tijuca. Most of the new properties are being built in areas that have no urban infrastructure. We have to reverse this situation and make real estate investments in areas of the city that are already urbanized,” he says.

Alan Grimard, director of the UN Human Settlements Program (UN-Habitat) in Latin America, says that big cities require both a population densification in the central region and a qualified decentralization. “We also need to stimulate economic development in other areas, creating poles that generate jobs and offer commerce and services, shortening travel distances.” In other words, he suggests, increase accessibility rather than mobility.

**Irrational “planning”**

Urban planning becomes even more complex when it is necessary to reconcile the interests of several municipalities and the state, as is necessary for intercity transportation operations. Moreira believes that creation of the Ministry of Cities in 2003 has not helped. “We continue to regard urban space as not essential to urban planning. Governments care more about macroeconomic questions, which have little relation to territory, and do not look into microeconomics and how to improve access to opportunities in Brazilian cities.”

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**A middle-income person in a large metropolitan area who could get to work as fast as a similar person in a smaller city would save US$1,000 a year.**

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**Metropolitan Region of Curitiba city, Paraná State**

**Municipalities 29**

**Population 3.6 million**

**Average commuting time from home to work 32.2 minutes**

**11.1% of population take more than an hour to get to work**

- Since the 1970s, Curitiba has expanded the policies restricting vehicle access to the city’s downtown, and promoting the use of non-vehicle transportation such as bike riding and walking.
The costs of inefficient urban mobility are estimated by taking into account average commuting time, fuel consumption, air pollution, personal stress, and respiratory problems. In all cases, the losses far outweigh the amounts invested in public transport.

Ronaldo Guimarães Gouvea, professor in the Transport Engineering and Geotechnical Department of the Federal University of Minas Gerais, believes that lack of coordination of Ministry of Cities initiatives has created distortions, noting that “In Santa Catarina state, which has 7 million inhabitants, the number of large metropolitan areas went up from three to eight, while São Paulo state, which has 44 million inhabitants.” Why? “The interest is in obtaining a credit line for sanitation projects, which the Ministry of Cities provides for metropolitan areas.” Metropolitan areas like São Paulo city, which has an intermunicipal Department of Transportation, and Curitiba, which coordinates metropolitan areas itself, can make progress faster. “With the integrated transport network in the region, which includes 250 bus lines from the capital and 106 from 13 municipalities, we have better bus tariffs,” says Cléver de Almeida, head of the Department of Administration and Social Security of the State of Paraná. To do this, however, consultation is necessary, which in some cases may be politically sensitive. “This year, a metropolitan authority in Salvador city was established, but the municipal government did not join because it did not participate in defining the rules,” said Sandro Cabral, professor at the School of Management of the Federal University of Bahia (UFBA). “This interferes with rational and technical planning of the transport system,” he says, noting that Salvador city accounts for over 70% of the metropolitan population in Bahia state. “Belo Horizonte city has also seen friendly fire within the state administration as the development agency working to integrate transport is at odds with the transport department,” Gouvea says.

Metropolitan area of Belém city, Pará State
Municipalities 7
Population 2.1 million
Average commuting time from home to work 33 minutes
10.5% of population take more than an hour to get to work

- Belém has only one large river vessel line. In 2015, river transport will be expanded: 10 new river ports will be built and connected to the bus rapid transit system.
Car hegemony
Another factor that has worsened traffic jams has been the tax break that has promoted car sales since 2008. Naturally, more people bought cars. Controlled prices for gasoline exacerbated the problem. “Government policy has gone in the opposite direction to the recommendations [for public transport],” says Castelar.

All indications are that promotion of car sales will continue. The Ministry of Mining and Energy projects a huge increase in the light vehicle fleet, from 36 million in 2013 to 130 million by 2050. The government believes this is a realistic goal because it would approach the developed country level of one car for every two inhabitants. What separates Brazil from developed countries, however, is the efficiency of public transport there, which allows the population to use public transport for commuting and use cars only for leisure activities. “Commuting time between home and work is a critical variable in the choice of transport. A policy that makes public transport faster and reliable is important. If it is faster, more people will opt for it,” says Castelar.

The metropolitan region of Curitiba city is an example of best practices for urban mobility in Brazil. “In Curitiba, 70% of the people have cars—the highest population-to-car ratio among large Brazilian cities. Yet it does not have traffic jams like São Paulo or Rio,” Almeida says. He notes that 45% of daily commuters use public transportation. “Only 27% of journeys are made by car or motorcycle, and the rest by non-motorized modes: 22% walk and 6% bicycle,” he says.

Metropolitan Region of Rio de Janeiro city, Rio de Janeiro State
Municipalities 19
Population 11.8 million
Average commuting time from home to work 47.4 minutes
27.1% of population take more than an hour to get to work

- In Rio de Janeiro, the use of public transport fell from 84% of the total in 1998 to 72% in 2012. One of the public transport challenges is to better integrate various legs of a trip with one fare. Today, both the metropolitan and municipal fares allow only one transfer and have time limits.
“A policy that makes public transport faster and reliable is important. If it is faster, more people will opt for it.”

Armando Castelar

In Curitiba, since the 1960s urban planning has focused on the city’s axes of expansion where most residents live and are served by Bus Rapid Transit (BRT). “Of the 2.5 million passengers who use buses every day, less than 30% go downtown,” Almeida says. Today, the focus of urban planning [in Curitiba] is the first metro rail line and encouragement of non-motorized transport. “Recently we increased parking restrictions in downtown, and we intend to extend the bike paths from 70 km to 400 km,” he says.

Bike paths are in the master plan of most metropolitan areas; in Belém, the goal is to allocate 100 km for biking. “We asked for federal government support to build bike paths, but there is financial support only for mass transit. So we included the BRT project in the package,” says Maisa Sales Tobias, director of the Belém Department of Urban Mobility. All BRT stations will have bike racks and connections to the bike path network. “Today about 2.2 million people commute by bike,” she says. “It is a tradition that is expanding.”

**Bus rapid transit**

In working to improve public transport capacity, one question is whether investments in BRTs will reduce the public transport deficit. As a faster and cheaper method of increasing supply, created in Curitiba in the 1970s, today the BRT runs the risk of having its capacity overrun by rising demand, for which metro rail transport would be more adequate. “The BRT is a medium capacity transit system. In Belo Horizonte, the two BRT corridors created clearly do not have adequate capacity to transport enough passengers,” Gouvea says.

The same seems true for Rio, where the BRT project took routes initially projected for metro rail. “The BRT project gained support because we needed to improve public transit for the Pan American Games, but nothing was done at the

**Metropolitan Region of São Paulo, São Paulo State**

Municipalities **39**

Population **20.2 million**

Average commuting time from home to work **46 minutes**

**23.5%** of population take more than an hour to get to work

- In the region, metro rail transport use is estimated to have saved about R$7 billion in 2012, as a result of reduced traveling times, and cut [fuel] consumption and emissions, among other items. In 2014, are estimated to be R$11 billion.
time,” says José Eugenio Leal, professor of industrial engineering at the Catholic University of Rio de Janeiro. “Then in the urban transport master plan of 2012, it was argued that for Rio to win the 2016 Olympics, BRT was a more credible public transit alternative than metro rail. Today, if you take the west express corridor, you see that it is good for connections, but there is nothing around it.”

Another point the experts highlight is the importance of the right technology for a BRT project. “We have seen a low level of sophistication. In fact, the project requires a properly-sized station platform, adequate signal time, and crosswalks,” Leal says. Aragão agrees: “In Brasilia, in the short term BRT did not help because it was not designed as a service but as public works. The construction industry benefits, but we still have a culture of local bus lines. If that continues, we will continue losing to the car.”

Urban rails
The most robust plan for metro rail transport is underway in São Paulo city, home to one in ten Brazilians. “We are confident that the way forward is investment in mass transit,” says Saulo Pereira Vieira, coordinator of Planning and Management of the State Metropolitan Transport Department. He estimates that savings from metro rail operation—in terms of reduced travel time, less fuel consumption, and fewer accidents—was US$3 billion in 2012 and is expected to hit US$4 billion this year. “By 2030, with all the planned expansions, metro rail will save US$11 billion a year,” he says.

Currently, São Paulo city has 335 km of metro rail that carry 7 million passengers daily and serves 22 municipalities. “Another 127 km of metro rail is being built by two public-private partnerships, which will transport another 4 million passengers, Vieira says, adding that the project is scheduled for completion in 2018. " The investment was made possible by raising the state debt limit.

The São Paulo metro rail system has parking lots at stations so people can leave their cars and take the train to the city, and bike racks have been added. Throughout, the Metropolitan Transport Department had the support of city hall, which approved the Strategic Master Plan in mid this
year, allowing higher population density along the transport axes. “That way,” Vieira says, “we will ensure better use of the transport infrastructure.”

Good governance
To move forward with longer-term projects and greater investment, experts point out the importance of better governance of the transport system. In São Paulo city, plans to expand mass transit have been threatened by allegations of fraud and price-fixing in metro rail bids. Progress in Salvador city has been deadlocked by a lack of consultation between state and municipal authorities that has delayed progress on metro rail operations. The first metro rail line in the city, just 6 km, took eight years to build and since completion in 2009 has not been operating. “The decision to make the municipality responsible for metro rail operation has cost years of delay,” Cabral says. Among the reasons for the delay are design errors, evidence of overpricing, lack of funding, political disputes, and limited municipal capacity to manage the system, which have made it economically not viable. According to Cabral, “to enable the operation of such a short stretch of metro rail, the fare would be more than US$10 per trip.”

Since the transfer of the metro rail operation to the state in 2013, progress has been faster with bidding carried out for expansion of line 1, creation of line 2, and better management of suburban trains. But Salvador’s metro rail system operated only during the World Cup; its full operation is still pending. Cabral believes that governance of urban mobility should have two pillars: technical staff qualified in traffic engineering, urban planning, public safety, economics, environment, and the applicable law; and political leaders who seek the public welfare and plan for the long term. Leaders should seek consensus on a long-term plan and demonstrate the tradeoffs between alternative plans. While governance and mass transit have not improved, inequalities in metropolitan regions have deepened. In Salvador’s metropolitan region, the fleet of cars rose 60% between 2005 and 2013 and there has been a 27% increase in commuting time since 1992. Yet most of the poor still have neither cars nor access to decent and reliable public transport—reflecting the reality of exclusion of the poor that still challenges Brazil.
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The Brazilian Economy—In ECLAC’s Overview of the Economies of Latin America and the Caribbean, just released, you estimate a recovery of GDP growth in 2015 of more than 1 percentage point for Brazil and Mexico and more than 2 percentage points for Peru. What factors are these estimates based on?

Alicia Bárcea—The reasons differ for each country. In South America in general, one factor important for recovery is positive growth in Europe. Mexico’s projected 3.2% growth in 2015 will be related to...
the recovery in the United States and the performance of exports to it. Also, higher public spending in the region will contribute to growth—although not for Brazil.

For Brazil, where we forecast GDP growth at 1.3%, the expectation is centered on lower public spending, a better response to the international scenario, and completion of public investment projects that can raise confidence, attract private investment, and thus generate growth. Brazil is also reviewing its subsidies policy and contributions to the Brazilian Development Bank [BNDES] and seeking to increase tax revenues. The need for the economy to adjust, however, should not affect inclusive development, employment, and the income of the poorest. The government is now assessing what kind of adjustment can be done and what it will cost society. This is the central theme in Brazil.

Mexico also needs to boost its domestic consumption a little. This will be complicated. In Mexico incomes are low compared to Brazil, where the minimum wage policy allows poor people to participate in the domestic market. In the fiscal area, Mexico expects to begin reaping the benefits of tax reform and expanding non-oil revenue with higher value-added tax (VAT) in the border regions and this year’s introduction of the special tax on production services, which is an indirect tax levied on a variety of products ranging from gasoline to sweets. Peru has dealt with a major slowdown in recent years; its projected GDP growth of 4.5% will depend on higher ore production, fishing, and private investment.

Several South American countries, including Brazil and Chile, saw fixed investment drop significantly this year. What caused this, and what should Brazil do to attract private investment?

Brazil’s investment declined from 19.3% of GDP in 2013 to 18% in 2014. The global slowdown has depressed the appetite for investment in general, but also in Brazil in recent years investment was mainly driven by the public sector, with support from the BNDES. Private sector investment attraction was not energized. I believe [low private investment] also reflected high interest rates—or rather volatility in interest rates and the foreign exchange rate. This slowed both consumption and investment. The boost in public investment did not have the expected response.

In Chile, investment related to copper slowed, which is not new—commodity-exporting economies have been slowing since 2012, when prices began to fall and Latin America’s exports plunged from 23% a year to 2.3%. This year, the region’s exports will grow just 0.8%. This was reflected in a steep decline in investment because companies have become more cautious about buying equipment and starting construction. Chile’s investment fell from 23% of GDP to 21%. This has been happening in

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all commodity-exporting economies in the region. The difference is that Brazil has a more diverse and powerful economy; it is likely to come out of the downturn faster.

This year we had four presidential elections in South America, with presidents re-elected in Bolivia, Colombia, and Brazil and in Uruguay continuation in power of the Broad Front with the victory of Tabaré Vázquez. What can we read from these results?

In Bolivia, the performance of the economy has been interesting. This year it will grow about 5.2%; the government has been more prudent in macroeconomic policy, and more distributive regarding income. This created a space for an economic policy directed to supporting the social sector: wages went up and income distribution is fairer. … Colombia, too, was interesting. The country will grow 4.8% this year, with domestic demand still rising, strengthened by private investment and consumption. Unemployment went down. Public investment is expected to continue to grow. President Juan Manuel Santos announced an ambitious six-year plan for public investment of over US$25 billion in infrastructure. The government also announced a development plan, “All for a New Country: Peace, Equality and Education.” It follows five strategies: infrastructure and competitiveness, social mobility, agriculture transformation and green growth, consolidation of law, and good governance.

Uruguay also will have solid growth of 3.2% this year. It has an economic proposal for increasing competitiveness, especially in agro-industry, its main growth engine. It also has a clear inclusion policy in terms of rising wages and an important Financial Inclusion Act that seeks to encourage the use of credit cards. The labor market is dynamic, with low unemployment. Government’s central concern is inflation and curbing the deficit.

In Brazil, the proposal to adjust the economy without sacrificing social goals won the elections. President Rousseff’s economic policy is expected to maintain the gains in wages and income redistribution to reduce poverty. This is extremely important.

Rousseff, however, had a narrow victory. Some analysts argue that her employment protection policy is incompatible with growth because it hinders productivity. Do you agree?

No. Brazil’s focus should be to boost investment. It is necessary to regain the credibility of macro policy and attract private investment with a more predictable plan for raising
productivity. It is a mistake to think that to increase productivity it will be necessary to cut wages, punishing workers. Other countries in the region have shown that this is not the most viable path for sustainable growth. … What is needed is for more people to participate in the economy with productive jobs. Brazil must be careful to avoid destroying the social fabric [the composite demographic consisting of its ethnic composition, wealth, education level, the employment rate, and regional values]. Our studies indicate that it can take 10 years for GDP growth to recover, but more than 25 years for the social fabric to recover. I think President Rousseff sees clearly that she needs to find ways to restart the economy and lower inflation; she needs to review the issue of high interest rates, regain macroeconomic policy credibility, restore access to external financing, and increase exports—but without sacrificing Brazil’s social achievements.

Today it is common to talk about two ideologically opposed blocs in South America, one preaching open trade, and the other the more protectionist Mercosur countries. In November, ECLAC advocated the convergence of the Pacific Alliance (Chile, Colombia, Mexico, and Peru) and Mercosur. How could this be done?

It is not possible to have a Pacific Alliance without Brazil. It is impractical to think of regional integration without Brazil, which is one of the most important trading countries in the region … . We suggested a working agenda between the Pacific Alliance and Mercosur that would involve companies themselves. Large and very powerful Brazilian companies are investing in Latin America, state-owned Petrobras, Vale, Friboi, Odebrecht, Gerdau, BRFoods, among others. They may contribute to a production chain. We are not recommending negotiating import tariffs. Our focus is the exchange of goods and services between Mercosur and Pacific Alliance member countries. Brazil remains a powerful engine of growth and trade in South America. If the member countries of both Mercosur and the Pacific Alliance agreed to convergence, much could be done in terms of trade in intermediate goods and services. We have assessed the potential of trade between individual members of the Alliance and Mercosur. For example, between Mercosur and Chile, there is important intra-industry trade in key segments like paper and pharmaceuticals. We identified 20 sectors with intra-industry connections [between the two commercial blocs].

But exchanges of goods and services are still modest, aren’t they?

It is natural that trade between Argentina and Brazil represents 60% of intra-Mercosur merchandise trade. But we cannot forget, for example, that Brazil-Mexico trade represents 20% of total trade between Mercosur and

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To what extent could China become a threat to the creation of a value-added production chain in South America, recognizing China’s increasing role as an investor and a direct competitor in the region?

China is an opportunity. China has 1.4 billion people, Latin America has 600 million. China is seeking greater integration with Asia and now faces the Trans Pacific Partnership (TPP), which consists of 12 members of the Asia-Pacific Economic Cooperation forum, of which China is not a part. We could work with China in a more coordinated way on concrete issues, especially in the Community of Latin American and Caribbean States (CELAC), a forum in which China has proposed a framework for cooperation. But so far we have lacked a coordinated approach. Ties with China and other Asian countries can be very important for us. We have lost a lot by each country acting on its own. We have to do as China does in Asia: China exports products that were assembled elsewhere in Asia. This is the path we must take to create value-added chains in sectors such as food, which matters a lot to the Chinese. Why do we export raw material and not the value-added products of South American industries? That’s what we’re arguing for.
THE BRAZILIAN NATURAL GAS market is trapped in an almost paradoxical situation. On both the supply and demand sides, the industry has plenty of room to expand, because there is plenty of gas associated with deep sea oil production and there is demand for gas from the power sector, which is increasingly dependent on thermal generation. However, each side wants a clear signal from the other, for the supply side guarantees for carrying out expansion projects, and for the demand side regulatory guidelines, such as those related to expansion of and access to pipelines.

There is consensus among those in the market on the growing importance of gas in the Brazilian energy mix and the need to come to agreement in order to match expectations and provide predictability despite all the changes. That will not be easy. “It is clear that we cannot develop the natural gas sector without extensive discussion and exchange of ideas,” says Marco Antonio Almeida, executive secretary for petroleum and natural gas of the Ministry of Mines and Energy (MME), who participated in the recent launch of FGV Energy’s Natural Gas Report. To make a diagnosis of the sector, the report draws upon five months of interviews with industry players by FGV researchers. “Following up on this study, we want to set up working groups in 2015 to make proposals for gas sector expansion,” says Lavinia Hollanda, FGV Energy research coordinator.

On the demand side, the main point of uncertainty for investors, the study found, is the supply of gas for electricity generation. Marcio Zimmermann, MME executive secretary, says that over the last three years the share of thermoelectric in the total consumption of gas rose from 10% to 45%. The 10-year plan for 2023 estimates an increase in gas production of 206 million cubic meters per day, compared to the current 87 million. Investment in gas production, which is explored along with oil production, depends on guaranteed demand,
particularly for electricity. “This sector has been on hold because of intermittent demand and had to turn to liquefied natural gas, paying international prices. Generating electric power with gas is complicated,” he says. “Power generation can be a major consumer of natural gas, but it will have to change its generation to ensure a stable electric base load, and the oil industry will have to adapt to a dependable customer.”

On the supply side, there is uncertainty about supply expansion and stability. According to Hollanda, the doubts are about how much offshore production there will be, when the gas will be available, and whether there will be enough demand to justify investment in production. As for onshore production, there is no consensus on the size of the reserves. And as for imports, Hollanda warned that Bolivian gas may become more expensive after 2019 when the current contract expires. Bolivian imports currently account for 33% of Brazilian consumption.

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I understand the distress of Brazil exporters who compete with other countries where gas is cheap, but the price has to encourage domestic producers to put gas on the market. We cannot ever have the same price as the United States. But we need to get closer to it.”

Marco Antonio Almeida

Of 458 billion of cubic meters of proven natural gas reserves in Brazil:

- **75%** are associated with petroleum
- **77%** are concentrated in the Southeast

Of 98 million of cubic meters per day of gas available in the market:

- **48.4%** are domestic production
- **33.4%** are imported from Bolivia
- **19.3%** are liquified natural gas

Source: Ministry of Mining and Energy, and FGV Energy.

The value of gas

The price factor is a major challenge for the industry, mainly because relative prices of energy in Brazil are not reliable, Hollanda says. “When natural gas competes with bottled gas, which is price-controlled, the consumer loses the reference to the relative price of energy, which makes long-term investment decisions more complex,” she says.

Another challenge is to the contrast between the domestic gas price and international prices. More efficient producers, such as shale gas companies in the United States, can sell five times cheaper. “Our view is that the gas price has to reflect market conditions, supply and demand or actual market structure. And so expanding the supply becomes even more relevant,” says Hollanda. “Today about 50% of our supply is imported. However, we cannot match domestic prices to competitive international prices,” Almeida adds. “I understand the distress of Brazil exporters who compete with other countries where gas is much cheaper, but the price has to encourage domestic producers to put gas on the market. We cannot ever have the same price as the United States. But we need to get closer to it.”
Dealing with dry spells

Chico Santos

THE PERSISTENCE OF THE DROUGHT in the southeast, Brazil’s most populous and economically developed region, which began in the second half of 2013, has definitely overthrown the popular myth that Brazil does not have to worry about a lack of water (except in the northeast, where the problem was identified in the 1800s).

According to the National Water Agency (ANA), lack of rainfall in 2014 in the basins of San Francisco, Paraíba do Sul, Rio Grande, and Cantareira—the main source of supply for the São Paulo city area—was the most severe recorded since 1930. ANA believes that this year’s drought will replace the drought of the 1950s as a historical reference for planning.
Water consumption in São Paulo—Brazil’s largest city, with 21 million inhabitants—is still seriously affected. The water shortage, which had already pushed up the cost of electricity for industry, has now begun to worry consumers.

Nélson Pereira dos Reis, director of environment for the Federation of São Paulo State Industries (FIESP), says that “the situation is extremely serious, with no prospect of improvement for years to come.” He points out that hydrological forecasts are not favorable, and infrastructure works to ensure a better water supply for the main industrial centers will not be ready before 2018. The State of São Paulo generates about half of Brazil’s industrial production.

“The industrial sector, which has been facing a serious economic crisis, is being forced to consider the lack of water, an essential input, as another challenge to face, without many alternative solutions in the short term,” Reis says. FIESP has been recommending that companies adopt a contingency plan for water. Reuse of water in industrial processes that do not require potable water is today the main strategy during water shortages, but this alternative is as yet little used in Brazil.

Reis said that even before the current crisis, in regions where the water supply is considered most critical, such as metro São Paulo, Campinas, and the Vale do Paraíba, industry has been working for more than 10 years to reduce dependence on both the water utilities, whose tariffs are high, and surface waters (rivers, streams, and ponds), which are drying up and are in any case almost always contaminated by sewage because sanitation infrastructure is poor. According to the 2014 National Household Survey, in 2013 43% of Brazilian households had no access to the sewage system, and the Trata Brazil Institute found that in 2012 only 39% of sewage collected in Brazil was treated before being dumped into rivers.

Unending water shortage

Environmental engineer Marilene Ramos, deputy director of the Center for Studies in Regulation and Infrastructure of the Getulio Vargas Foundation (Ceri / FGV), points to evidence that the water shortage in southeastern Brazil is associated with global warming—it is not accidental and can be expected to recur often in the form of “extreme events”: periods of torrential and destructive rains alternating with periods of severe drought, as in 2014.

Ramos agrees that, given the severity of the drought this year, with rainfall barely half the historical minimum, it would have been very difficult for governments and agencies responsible for water supply to be fully prepared to face it. “But it did not need to be as bad as it is,” she argues, noting that limited storage capacity and deterioration of water quality have been known, but not addressed, for decades. When the license for the Cantareira Water System was renewed early in the last decade, she points out, ANA warned the state government that it needed to expand capacity and seek new sources of water supply, and “the government spent a lot of time making a plan that was never carried out.”
It is also well known, Ramos added, that the Paraíba do Sul River has been drying up and lost water quality as a result of deforestation, disorderly occupation, and release of sewage into it. Little has been done to reverse the degradation, even though the Paraíba do Sul basin is the main source of water for Rio de Janeiro’s metropolitan area.

“We see the degradation, the waste, and we are no longer able to create large water reservoirs because of their environmental impact,” Ramos says. Storage limitations also affects the generation of hydroelectric power. New hydropower plants and those under construction operate using “run of the river,” meaning that they can generate only what normal river flow allows, turning off turbines during the annual dry season.

Ramos points out that, fortunately, the problems have been identified and technologies are available to resolve them through sewage treatment, waste reduction, and reforestation. However, new public works must be properly managed and maintained to avoid waste. Ramos believes that upgrading will increasingly be the work of public-private partnerships (PPPs). PPPs eliminate red tape that obstructs public works and make the private sector responsible for managing and maintaining water systems, with the public sector responsible for managing tariffs.

To provide a more secure supply of water for industry, Ramos considers water reuse as a most attractive alternative, since other possibilities, such as seawater desalination, require huge investments. As an example, she pointed to the National Steel Company (CSN), which was considered the main polluter of the Paraíba do Sul River in the 1990s. Today its reuse system recycles 87% of the water it uses and closely monitors the 13% it returns to the river to prevent pollution.

CSN’s intake from the river today is 14,500 cubic meters per hour, of which 12,000 m³/hr are
The water shortage in southeastern Brazil … is not accidental and can be expected to recur often in the form of “extreme events”: periods of torrential and destructive rains alternating with periods of severe droughts, as in 2014.

returned to the river. Of the difference, 1,500 m$^3$/hr evaporate and 1,000 are used up in the CSN manufacturing process. The company’s goal is to apply the reuse solution to all its new facilities.

The Capuava unit of petrochemical company Braskem (Odebrecht group) in Maua, São Paulo State, also reuses water. The Sanitation Company of the State of São Paulo (Sabesp) and Odebrecht Environmental are partners in the Environmental Aquapol project, an investment of US$146 million that started operating in 2012.

The Capuava unit consumes 65% of recycled water from Environmental Aquapol—almost 10 billion liters a year. In its Camaçari unit in Bahia State, Braskem partners with Cetrel, a company dealing with waste and effluents, in the Água Viva project, which reuses both treated wastewater and storm water. According to Braskem, the project saved 3 billion liters of drinking water in 2013. Braskem also reports that water reuse in its 36 industrial units went up from 19% in 2011 to 30% in 2013.

**Expanding water reuse**

Sabesp, the largest sanitation company in the country, said its current capacity for processing reused water is 600 liters per second. The water is used in industrial processes where water does not have to be potable, such as cooling industrial plant equipment; washing streets, courtyards, and monuments; clearing storm sewers; watering gardens; and reducing dust on construction sites.

Currently, FIESP reports, São Paulo industries use only 2% of the water supplied by Sabesp; their intake of water from rivers and dams is 145 times what they receive from Sabesp—a significant amount that could, Sabesp says, be replaced by recycled water to take the burden off the rivers.

In December 2015 Sabesp plans to open two water reuse plants, one in Marginal Pinheiros,
south of São Paulo city, that will recycle 2 m³ per second, and the other in Barueri city, with a capacity of 1 m³ per second. The water will be sent to the Guarapiranga and Isolina reservoirs to be treated and used for drinking water.

The potential of water reuse is considerable. FIESP’s Reis says that between 2008 and 2012, industries in the Piracicaba, Capivari and Jundiaí basis, one of the most vulnerable areas, reduced their demand for surface water from 14 m³ per second to 8. They did this mainly by reducing consumption and reusing water. A report found that of 853 companies surveyed, 65.7% had adopted some reuse measures, and 75% had targets for reducing water consumption.¹

Jorge Briard, operations director of the State Company of Water and Sewage of Rio de Janeiro (Cedae), said that “water reuse in Brazil is a solution that is accepted by industry, except for some specific sectors such as pharmaceuticals.” Briard wants new industrial plants to have reuse programs. Companies that draw water from rivers should be reusing water by the end of their water-intake licenses, especially where it is difficult to obtain water for human consumption.

The largest water reuse project being built by Cedae will handle about 1 m³ second at the Petrochemical Complex of Rio de Janeiro in Itaboraí starting in 2016. Cedae also provides reused water to the Municipal Company of Waste Management (Conlurb), which cleans streets, and to Maravilha Port, a project to revitalize the port area of Rio de Janeiro city.

New hydropower plants and those under construction operate using “run of the river,” meaning that they can generate only what normal river flow allows, turning off turbines during the annual dry season.

Businessman Paulo Ceschin of Paraná State, who has worked for more than a decade on water reuse projects, is disappointed with the slow pace of reuse of water in Brazil, which he blames on lack of a public policy and of regulation to encourage reuse.

Resolution No. 54 of the National Water Resources Council (CNRH), issued in 2005, covers reuse of drinking water but not reuse of water for industrial purposes, except where companies reuse effluents resulting from their own processes. As a step toward regulating reuse of water from external sources, in August the CNRH sponsored a workshop “Rationalization and Reuse of Industrial Sector Water,” to support drafting of a resolution on industrial reuse of water.

Inflation stubbornly persists at close to 6.5%, and for 2015, prospects are not favorable. Adjustment of controlled prices will continue to push inflation up, so that the inflation target is likely to be breached at the end of 2015.

Thais Thimoteo

If in 2013 producers and consumers split the cost of price increases evenly, in 2014 the cost of inflation has fallen squarely on the consumer. Through November 2013 12-month inflation went up to 5.6% as measured by the General Price Index 10 (IGP-10) calculated by the Brazilian Institute of Economics, Getulio Vargas Foundation (IBRE/FGV); the Producer Price Index (IPA) was 5.2% and the Consumer Price Index (IPC) 5.4%. This year, prices of farm products rose only 1.7% but the cost of the goods on supermarket shelves went up 6.6%. The difference between producer and consumer inflation lies with inflation of services, which has been stubbornly high, and adjustment of controlled prices.

Salomão Quadros, FGv/IBRE deputy superintendent of Inflation, explains that the IPA inflation was much less than the IPC inflation because major crops harvested this year were plentiful and commodity prices in U.S. dollars have fallen recently—, iron ore dropped 40% and soybean products fell 13%.

The decline of commodities prices reflects a worsening of the international economic outlook, particularly for China, which has reduced the pace of imports. “IPA inflation closely tracks the behavior
of the world economy because its basket of goods includes commodity prices. With the fall of prices of both iron ore and soybean products, which are flagship Brazilian exports, the external trade balance deteriorated,” Quadros says. Consumer prices, in contrast, reflect the domestic market and goods not traded externally, such as services, which take into account the high cost of labor.

IBRE expects that by the end of 2014 the official inflation rate (IPCA) will not breach the ceiling of the inflation target range (2.5–6.5%) but it will scrape it at about 6.4%, in line with the Central Bank survey of market inflation projections. “Actually, the government is treating the ceiling of the inflation target as a benchmark instead of the mid-point target of 4.5%,” Quadros points out. In the 12 months to November, the IPCA reached 6.4%.

For 2015, expectations are not favorable. Inflation for the year is likely at best to repeat the current outcome and may well exceed the 6.5% ceiling. The main source of inflationary pressure will come from adjusting prices controlled by the government. In 2013, inflation of controlled prices was low, 1.7%. In 2014, it may be ten-fold higher at 17%; next year it is expected to exceed 20%, especially considering the urgent adjustment of electricity tariffs as well as higher fuel prices and bus fares. Quadros says, “The prices of electric energy may well determine the inflation outcome because there is more room to raise those prices after the 20% discount imposed in 2013. That led to the disorganization of the electric sector. Other than being outdated, the price of gasoline is less flexible. However, devaluation of the exchange rate may affect the adjustment of gasoline prices next year.”

Quadros believes service inflation will continue on its 2014 path, pushing up inflation. Nevertheless, there is a surprise factor that may cause service prices to drop: if the labor market cools, vacancies would decline and wage growth would slow. November data from the General Register of Employed and Unemployed shows that 30,000 job vacancies closed. With these signs and a recession perhaps taking shape, wages may grow more slowly than before. However, the government could act to prevent a serious deterioration in the labor market. As the government is firmly committed to maintaining employment and wages, Quadros still sees service inflation continuing on an upward course in 2015.

Food

If in 2013 tomatoes were so expensive—prices went up 60%—that they vanished from Brazilian tables, in 2014 it was beef that was hurt by a 17% rise in its price over 12 months. The drought that damaged pastures, forcing producers to pay the higher costs of cattle feed, and heavy international demand for beef were responsible for raising the beef live weight price at the cattle ranch by 40% to R$9.33 per kg, up from R$6.67 per kg a year earlier.

“Market surveys project a 15% devaluation of the exchange rate in 2015. That will put pressure on food prices.”

Salomão Quadros