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Brazil Plans a Shift in Its Strategy

By JOHN LYONS, LUCIANA MAGALHÃES and MATTHEW COWLEY

BRASILIA—Brazil is shifting gears in its effort to revive its troubled economy, away from aggressive currency and interest-rate policies to a more hands-off approach, Finance Minister Guido Mantega said in an interview.

"In 2013 we will reap what we have sown," he said, predicting a return to strong growth after two years in the doldrums. "2013 will be calmer, with fewer measures, because they've been done."

Reuters

Guido Mantega, Brazil's finance minister, at a news conference in Brasilia last month.

Brazil, the world's second-largest developing economy after China, is a key bellwether for the economic health of the emerging world and a major source of growth, as Europe, the U.S. and Japan wrestle with debt woes.

During its slowdown, Brazil introduced a succession of measures, including a move to weaken its currency and one to cut what were once among the world's highest interest rates to a record low of 7.25%.

The change of pace comes as Mr. Mantega has attracted critics who say Brazil's rapid-fire policy packages are backfiring by spooking investors fearful of all the sudden rule changes. In an effort to reduce electricity prices, for example, Brazil is pressuring power companies to take less-profitable contracts.

In the interview, Mr. Mantega defended such policies as "good activism."

But overall, he expected 2013 to be a year of less policy making as the structural changes implemented in recent years take hold amid an improving global economy. Brazil's stock market will rise and the economy will

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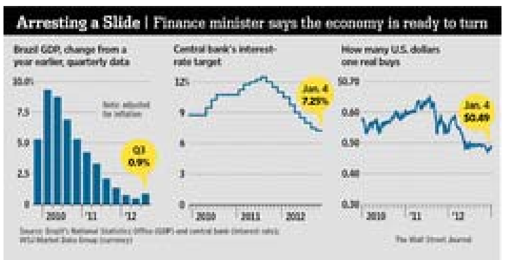
A woman carries shopping bags after making purchases at a fruit and vegetable stand in the Rocinha slum of Rio de Janeiro, Brazil, in November.



grow between 3% and 4%, he said. "2013 will be a scenario of Bonanza."

There will be at least one exception: The government plans a measure to lower natural-gas prices to follow on its effort to cut electricity prices.

Growth in Brazil could signal a stronger recovery in China, Brazil's top trade partner, as well as profits for major U.S. and European companies that have expanded here in recent years.

Mr. Mantega and his boss, President Dilma Rousseff, have a lot riding on making that come true. Ms. Rousseff faces re-election in 2014 and has staked her political reputation on being able to turn the government's big role in the economy into fast economic growth. She has said publicly that she isn't considering replacing Mr. Mantega, but some analysts say she may be forced to do just that if the economy remains sluggish.

"She might make the decision in 2013, since she will be under pressure to prop up the economy if she wants to get re-elected," said David Fleischer, professor emeritus at the University of Brasilia.

Like other emerging-market nations, such as India, that swung to rapid growth rates in 2010, Brazil's economy recently has slowed. A China slowdown and a fall in global commodity prices hurt resource-rich Brazil, a leading global exporter of iron ore, soy and other materials.

Brazil's crumbling infrastructure, sprawling bureaucracy and serial corruption scandals has aggravated the problem. After hitting 7.5% growth in 2010, Brazil's expansion slowed to 2.7% in 2011 and to about 1% last year.

Mr. Mantega has predicted a Brazil recovery before—and has been wrong. He promised growth above 4% in both 2011 and 2012, earning criticism that his optimism was eroding his credibility. In his defense, Mr. Mantega said his once-seemingly optimistic predictions for Brazil's economy have turned out to be right in other years.

"I will remain an optimist because I know the potential of this economy," he says. "No one wants a depressed finance minister going around saying things won't work."

Mr. Mantega burst onto the global stage in 2010 by using Brazil's growing stature in international forums such as the Group of 20 to criticize decisions by the U.S. and Europe to set interest rates near zero. He argued that the measures amounted to a "currency war" that would give rich countries an unfair advantage over poor nations in global trade.

The phrase served to crystallize thinking about the spillover effects of monetary policy making in the industrialized world, and galvanized a grouping of emerging-market nations opposed to it.

Analysts said the international cachet one reason Ms. Rousseff kept Mr. Mantega on as finance minister when she took office in January 2011, making him Brazil's second-longest-serving finance minister.

But as Brazil's economy has slowed over the years, some international economists have said Mr. Mantega has erred by placing too much blame for Brazil's woes on global economic trends instead of focusing on fixing Brazil's own economic bottlenecks.

"It becomes a red herring in terms of trying to shift the attention from much more difficult but essential structural reforms," said Cornell University professor Eswar Prasad, who has advised India and other emerging-market nations on currency and other economic issues.

Mr. Mantega says Brazil has proved skeptics wrong in the past. Conventional wisdom was that the country couldn't lower interest rates without sparking runaway inflation, but it did.

"We're certainly not orthodox conservatives," he said.

And his unorthodox policies are working, he said. Capital controls have weakened the currency by 25% since mid-2011, enough that manufacturers are starting to export more, he said. Brazil has maintained record low employment, by targeting tax breaks to industries, including automobile, to save jobs.

"Low unemployment isn't a miracle," he said.

Write to John Lyons at john.lyons@wsj.com and Matthew Cowley at matthew.cowley@dowjones.com

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