

Brazil Flash

“Bigger Brazil” Plan: even more measures to support the industrial sector

As expected, the government announced today a long list of new measures to help the industrial sector to face the negative impact of a relatively appreciated currency, a tight labor market, and series of structural problems such as insufficient infra-structure and high tax burden. Even though these measures will end up having a positive impact on activity, we expect growth this year to remain closer to 3.0% than to 4.0%, which is the level the government is targeting with these new measures.

- **An increasing role for industrial policy: the Dilma Rousseff model**

The measures announced today are an official response to mounting signs of weakness of the industrial sector (the 1.3% m/m industrial production expansion in February, which was also announced today, is more a natural recovery after a 1.5% m/m loss in January than a sign of strength). They complement the measures adopted in August of 2011 (when the “Bigger Brazil” Plan was initially launched) and those announced last week. The list of measures announced to protect and stimulate the industrial sector is long and diverse (see full list, in Portuguese, [here](#)). It includes i) exchange rate measures (the government cites the exchange rate measures taken in the past, including the reduction of the SELIC, and refers to more –unspecified– measures to be announced soon); ii) tax measures (according to the government “a continuous process to take the tax burden down” which will reduce public revenues by R\$5bn this year), iii) a “Buy Brazilian act” giving preference for domestic products on public sector’s purchases; iv) increase of resources available to finance exports; v) trade measures (an answer to “predatory competition”, according to the government); vi) specific incentives to the communication and information sectors; vii) credit measures (basically more supply of public credit based on larger transfers from the National Treasury to the BNDES); viii) more incentives to the automotive sector.

- **Plan announced today pose risks for fiscal accounts, inflation, credit markets...**

We are sceptical about the potential for the Plan outlined today to drive activity up, given the limited impact these types of measures had in the past and the distortions they can generate. Although the industrial output will probably react positively to the Plan announced today, we do not think it will be significant enough to drive GDP growth to 4.0% this year (as the government expects). As we pointed out in a recent note, we think the measures this government is implementing to support the industrial sector do not address the main problems of the sector. In addition to that, they create important costs/risks for fiscal accounts, inflation control, exchange rate markets, and banking sector (especially if to the R\$ 45bn recapitalization of the BNDES the government adds –as it has been rumoured – “incentives” for public commercial banks to reduce banking spreads).

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