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Publications

Programs

Resources

Working Groups

Media Guide

About

Home > Publications > News of the Americas

- Research & Analysis
- Americas Quarterly
- Exclusive Interviews
- Hemispheric Updates
- News & Views
- News of the Americas
- Papers & Reports
- Viewpoints Americas
- Weekly Roundup
- Program Materials
- Program Summaries
- Speeches
- On the Record
- Articles & Op-Eds
- Congressional Testimony
- Congressional Updates
- Multimedia
- Photo Galleries
- Podcasts
- Videos
- AS/COA News
- Announcements
- Communication Materials
- In the News
- Press Releases

Brazil Fights Recession with Investments

Carlos Macias
January 27, 2009

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Brazil announced a sharp rise in Petrobras investments. (AP Photo)

Brazil began 2009 **facing** deteriorating economic conditions and rising unemployment. But, through recent actions, the Brazilian government seeks to steer the economy into safer waters by committing billions of dollars to create jobs and propel Petroleo Brasileiro (Petrobras) into the heavyweight category of oil production companies. Furthermore, U.S. President Barack Obama signaled his interest to work with Brazilian counterpart Luiz Inácio Lula da Silva to **move forward** on biofuels and the

Doha round of global trade talks. Lula will visit Washington to meet with Obama in March.

With the goal of jumpstarting the ailing economy, Brazil's Central Bank **reduced** its overnight lending rate by a full percentage point to 12.75 percent on January 21. The move intended to stimulate economic activity at a moment when financial markers **signaled** the danger of recession; private consumption has shrunk, December job losses hit their highest level since 1999, and analysts predict GDP growth may not reach the 2 percent mark in 2009. The Economist Intelligence Unit's ViewsWire **augurs** that industrial growth could be close to zero and private consumption may drop to 0.9 percent in 2009—down from 6.2 percent last year. The analysis applauds the cash infusion of more than \$42 billion into the Brazilian Development Bank (BNDES), designed to stimulate the creation of new employment. The fund **helped create** 2.8 million jobs in 2008 alone, according to BNDES data. "The businessmen who used to shop for funds on the international market and are not managing to obtain capital due to the financial crisis will be able to resort to the BNDES," said Brazilian Finance Minister Guido Mantega last week.

In tune with the government's actions, Petrobras **unveiled** a plan on January 23 that promises a 55 percent expenditure increase over the next five years. The package includes investments of more than \$174.4 billion, with \$28 billion alone to **finance exploration** of recently discovered pre-salt oil fields. The company also hopes to double its total oil and natural gas output by 2015, counting on the Tupi oil field and three other offshore camps to begin production. The day after the plan's release, the first fully Brazilian-made natural gas platform, with capacity to generate electricity for 300,000 people, started operations. This also marks a **step forward** for Brazil's naval industry, which will **build** another eight platforms to be deployed by 2013.

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- Feb 18 **Book Launch: The Cuba Wars: Fidel Castro, the United States, and the Next Revolution**,
New York
- Feb 20 **Doing Business 2009 Report: Business Regulatory Reform and Best Practices in Latin America**
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Past Programs

- Feb 5 **The Global Financial Crisis: Implications for Latin America**
Washington
- Feb 5 **Private Luncheon: Ambassador of Spain to the United States Jorge Dezcallar**
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- Feb 2 **Private Luncheon: Cid Ferreira Gomes, Governor of the Brazilian State of Ceará**
New York

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Washington's new administration has signaled interest in working with South America's largest economy this week in the fields of energy and trade. Following Monday's phone conversation between the presidents of both countries, a spokesperson from Lula's office announced that Obama "is interested in **continuing discussions** to advance the Doha round" of trade negotiations. In his January 26 edition of his radio show, "Café com o Presidente" **urged** Obama to push Doha forward.

A new report by AS/COA's Trade Advisory Group entitled ***Building the Hemispheric Growth Agenda: A New Framework for Policy*** proposes creation of a hemispheric energy partnership that would include Brazil: "[A]s a starting point to greater regional integration, the United States and other willing partners across the hemisphere, perhaps as an E4 or E5, should join together to formulate a mutually beneficial hemispheric energy agenda roughly analogous to the original European Coal and Steel Community." The report also **suggests** that the new U.S. administration should scrap the 54 cent-per-barrel tariff on Brazilian ethanol and consider a pact for a civil nuclear program similar to the one signed with India during the Bush administration.

A December AS/COA panel **analyzed** the investment climate for energy in the region, with an emphasis on Brazilian energy and Latin American integration.

Send questions and comments for the editor to:
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