

Downgrade looms, so Brazil cuts

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Bloomberg News

BRASILIA, Brazil – Brazil will cut 44 billion reais (\$18.5 billion) from this year's budget, as policymakers seek to rein in inflation and shore up fiscal management that has sparked warnings of a rating downgrade.

The cuts will allow Brazil to meet a primary surplus target of 1.9 percent of gross domestic product, the Finance Ministry said in a statement distributed in Brasilia Thursday. The Brazilian budget is based on estimates that the economy will grow 2.5 percent this year and inflation will slow to 5.3 percent.

President Dilma Rousseff's efforts to spark economic growth by increasing public spending led to a wider budget deficit and fueled inflation last year. Rising prices eroded business and consumer confidence, holding back economic growth in the world's biggest emerging market after China. In June, Standard & Poor's placed Brazil's rating on negative outlook.

Brazilian policymakers "are giving themselves an ambitious but achievable goal," said Daniel Snowden, an emerging-markets analyst at Informa Global Markets, in a telephone interview.

Policymakers increased the benchmark interest rate by half a percentage point in each of their past six meetings

to 10.5 percent.

"The central bank now has very relevant room for reducing their hiking pace," Roberto Padovani, chief economist at Votorantim Ctvm, said by phone from Sao Paulo. "We're changing tools, using more fiscal and less monetary tools, so the bank doesn't have to hike interest rates that much. It's a new policy mix."

The government's goal is to consolidate public accounts and cut inflation, Finance Minister Guido Mantega told reporters in Brasilia Thursday.

Inflation rates have remained above the central bank's 4.5 percent target for more than three years, reaching 5.59 percent in the first month of 2014. Consumer prices have prompted

central bankers to lift the benchmark Selic by 325 basis points since April.

The government last year shaved 28 billion reais from the budget, as well as 10 billion reais to cover states and cities, while posting a primary surplus of 1.9 percent of GDP. That fell short of its 2.3 percent target, which had been reduced from about 3.1 percent at the start of last year.

Brazil's budget gap in 2013 reached 157.6 billion reais after widening in December to 13.6 billion reais from 0.2 billion reais a month earlier, the central bank said on Jan. 31.

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