VERA BRANDIMARTE

Vera Brandimarte was part of the team that launched *Valor Econômico* in May 2000, becoming Diretora de Redação (Editor-in-Chief) three years later. Previously, Brandimarte worked for *Gazeta Mercantil,* Brazil's traditional business newspaper, which first printed in 1920 and shut in 2009; then *Jornal do Brasil* and *O Estado de S. Paulo*, before joining the *Valor Econômico* start-up project.

VALOR ECONÔMICO

Valor Econômico, Brazil's largest and most influential business newspaper, is a joint venture between media conglomerates Organizações Globo and Grupo Folha. It has content-sharing partnerships with *The Wall Street Journal* and the *Financial Times,* as well as an online English news service called Valor International, launched in January 2013.

BRAZIL AFTER THE HYPE

After riding high on the BRICs story, Brazil is slowly but surely working out its own development narrative, Vera Brandimarte, Editor-in-Chief of the country's most influential business newspaper tells Brunswick's Ana Paula Pessoa and Thomas Kamm

The oft-told joke about Brazil was, "It is the country of the future and always will be." After nearly two decades of relative economic stability, and with the country set to host both the 2014 soccer World Cup and the 2016 Olympic Games, it seemed there were good reasons to expect South America's largest economy to bounce back strongly from the world financial crisis and economic downturn. After all, unemployment has remained low and President Dilma Rousseff, who succeeded the wildly popular Luiz Inácio Lula da Silva three years ago, still rides high in the opinion polls.

The main stock market index, Bovespa, had recovered to about 55,000 by May 2013, up from a trough below 30,000 at the end of 2008; but that was still well below the peak of nearly 73,000 in spring 2008. For sure, some of Brazil's private sector companies were hit hard by the downturn, just as many others were around the world. But the real drag on the index was the listed government-controlled companies that are the largest components in the Bovespa index.

"Among the most significant factors that have led to market grumblings were investor losses in the most lucrative Brazilian companies: state-run companies such as oil and gas giant Petrobras and electric utilities," says Vera Brandimarte, Editor-in-Chief of Brazil's leading business daily, *Valor Econômico*, and a long-time chronicler of the country's economic ups and downs.

The reversal for these companies was rooted in a history of government involvement in the energy sector, whereby efforts to curb inflation and manage energy infrastructure have often resulted in erratic pricing policies, hampering the companies' ability to invest. These problems run counter to a more positive Brazil narrative, Brandimarte says.

In 2010, the country was still the darling of international investors, with the economy growing at a China-like pace of 7.5 percent a year, fueled by credit and a rising middle class, as 40m people were lifted out of poverty in the space of a decade. But after slowing to 2.7 percent in 2011, Brazil's economy last year sputtered along at a paltry 0.9 percent growth rate.

Yes, Brazil had been riding a commodity boom and slower growth was partly caused by the global economic slowdown, but behind the see-saw performance there also lurked some befuddling Brazilian idiosyncrasies that affected the country's image with investors.

"Today, the government's greatest challenge is communication," Brandimarte says, "and that fuels the negative image abroad."

Indeed, the Brazilian economic model mixes a vibrant private sector – epitomized by companies such as aircraft-maker Embraer, and the meatpacker JBS – with state intervention through behemoths such as Petróleo Brasileiro (commonly known as Petrobras), the mining giant Vale, and state development bank BNDES, which itself has stakes in many Brazilian companies.

This mixed and sometimes muddled approach extends to the broad economic policy choices in front of President Rousseff, who faces an election herself next year. Her government is torn between stepping on the accelerator to foster growth (with the risk of reigniting inflation, which is running at an annualized rate of about 6.6 percent) and applying the brakes by raising interest rates (which could lead to an inflow of capital that could cause the currency to rise, further harming Brazil's competitiveness).

Key to Brazil's future are its oil and gas reserves, located in a hard-to-reach "sub-salt" offshore region about the size of New York state, which could yield between 35bn and 100bn barrels, according to the latest estimates.

The government has created a sovereign wealth fund and has pledged to use the proceeds in a similar way to Norway, spreading the wealth by using the oil windfall for general development, such as on education and infrastructure building. But its management of the state oil company has often seemed clumsy.

This is illustrated by the recent history of Petrobras, which has drawn criticism in the international business press, as Brandimarte points out. Having peaked above $72 in May 2008, Petrobras' New York-listed shares had fallen to just below $15 by March 2013. The decline is due largely to government policies, which required Petrobras – the country's largest refiner and marketer of petroleum products – to sell fuel at below-market prices, even fuel it had to import. That and a weakening currency meant that Petrobras' 2012 profit was the lowest since 2004, at a time when it needed to spend more than Exxon on oil development projects.

No wonder, then, that Petrobras' debt stood at nearly 3.5 times earnings at the end of last year and it still has enormous capital spending ahead. As Charles Roth wrote in *The Wall Street Journal* in April: "Compounding the cost for Petrobras is the government's demand that the company buy much of its equipment from local suppliers. Like the fuel-price subsidies, this prioritizes economic policy over Petrobras's profits. That is par for the course with a national oil company. But investors buying the stock should realize that they aren't merely betting on Petrobras developing its huge resources on time and on budget. They are also implicitly wagering on Brazil's economic and industrial development concerns and political swings."

There was a similarly damaging development in the power sector. Last year, Rousseff's government enacted legislation to cut power rates by renegotiating the terms of electricity concessions. Companies that declined to accept sharply-lower government-mandated rates had the option of giving up their concessions in exchange for compensation. It was an unattractive dilemma that left some companies with languishing share prices.

"Everything was poorly explained. The [electricity concession] process was perceived as a breach of contract and that simply was not true," says Brandimarte. "Almost everything they do seems disorganized. For example, during the negotiations on the distribution of oil royalties among the states, there were political efforts in Congress that attempted to pass a law to cluster several state governments together. That plan was abandoned suddenly. The President then issued a veto that was defeated. This waste of political energy projected the image of a government that has no solid support."

> "THE GOVERNMENT'S GREATEST CHALLENGE IS COMMUNICATION ... ALMOST EVERYTHING THEY DO SEEMS DISORGANIZED"

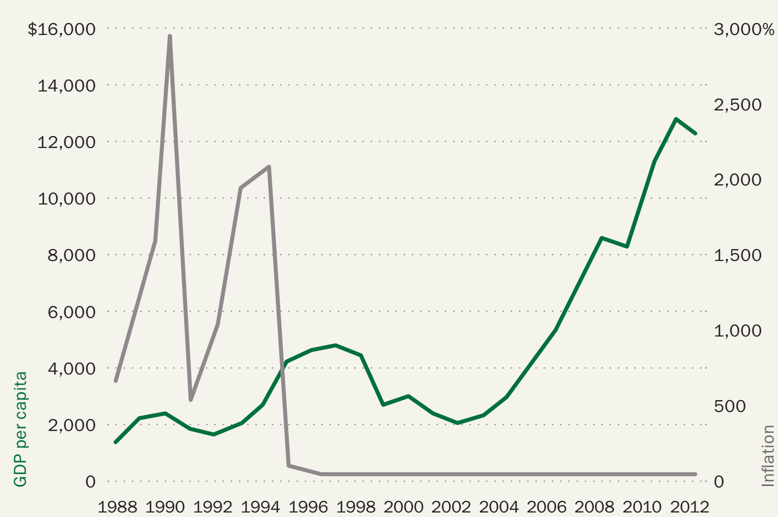
For more than a decade, Brazil's story has been linked with that of Russia, India, and China, which together formed the "BRICs," a group of large, fast-growing economies that Goldman Sachs had identified as key for investors looking for growth this century. But after the 2008 crisis, that story has faded somewhat, especially for Brazil.

Brandimarte argues that infrastructure projects are now required to get the economy going again, but she sees problems because of Brazil's history of debt and military control: "Brazil's situation is quite different from China's, [whose] growth was sustained by investment of national savings in infrastructure projects. In Brazil, the government has mostly used national savings to pay high interest rates to investors because of the debt, and little infrastructure investment has been carried out since the 1970s, when the [military-led] governments had their own companies to conduct these projects. Today, neither the private sector nor the government have the necessary infrastructure to create these projects."

But Brazil has a lot to be proud of in its transformation from hyperinflation basket case to dynamic growth story. "Brazil is a great democracy, and great democracies always take two steps

BRAZIL'S ECONOMIC GROWTH TAKES OFF ...

GDP per capita vs. inflation



Inflation averaged 6.5 percent from 1996 through 2012

Source: IMF

forward and one step back," Brandimarte says. One aspect of this is Brazil's vibrant business press, still fairly rare in emerging economies in Latin America and elsewhere.

Where does the business press fit into this next phase of development for Brazil? "Traditionally, the macroeconomic story was such a big part of Brazil's story – inflation hitting 40 percent a week, and so on – that the general press would cover the big economic stories as thoroughly as the business press," Brandimarte says. "But there are a lot of regional business stories, so that is a huge opportunity for the business press to offer additional content. Plus, with all this volume of information circulating on the internet and on social networks, the business press becomes the point of reference for people to determine what is true and what is rumor."

The Brazilian business press has also managed to keep its independence, she adds: "The government often criticizes the media, but there is no record of interference. It doesn't, for example, use its huge official advertising budget – very important to the Brazilian press – to manipulate the media."

What about the private sector's relationship with the press? "Some listed companies are still in the Stone Age in terms of communications," Brandimarte says. "If they don't like an article, they will stop advertising in that newspaper. But that doesn't really work any more. It is an old-fashioned way of behaving, and harks back to the early days of business journalism when some newspapers were struggling financially."

She adds, "Companies today have to be accountable to society, they are learning that. However, some still have double standards. They believe that the investor relations team should communicate in a transparent way with institutional investors, but not with smaller, retail investors. Similarly, a company might make significant revelations to its international investors, while at the same time saying the opposite here in Brazil. What is said abroad quickly arrives in Brazil through the international newswires, and contradictions appear immediately."

Brazil has its own quirks and rhythm: "Everything that happens here requires a grand bargain [between central and regional governments and business]. Nothing happens fast in this country," Brandimarte says.

But for all that, Brazil is among the countries that still holds the most promise for growth and that remains its strongest message, she says. "Where are the opportunities now? In Europe? No. Here? Yes. Brazil requires much to be done, and compared to other BRICs – despite its bureaucracy and everything – the rules are stable and there is a strong consumer market. So, I guess everything will be sorted out, in Brazil's way. Slowly."

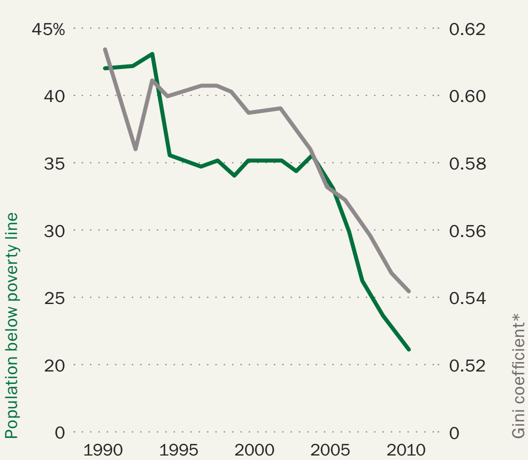
Ana Paula Pessoa is a Partner in Brunswick's São Paulo office. Previously she worked at Globo, the largest media group in Brazil, including 10 years as CFO for their newspapers.

Thomas Kamm is a Brunswick Partner in São Paulo and specializes in corporate positioning and financial communications. He was formerly a journalist with *The Wall Street Journal* and Vice-President for Communications and Corporate Affairs at PPR, the French luxury and retail group.

Adriana Prado, an Executive in Brunswick's São Paulo office, also contributed to this article.

… THE BENEFITS ARE SPREAD MORE EVENLY…

Poverty level vs. income inequality measure

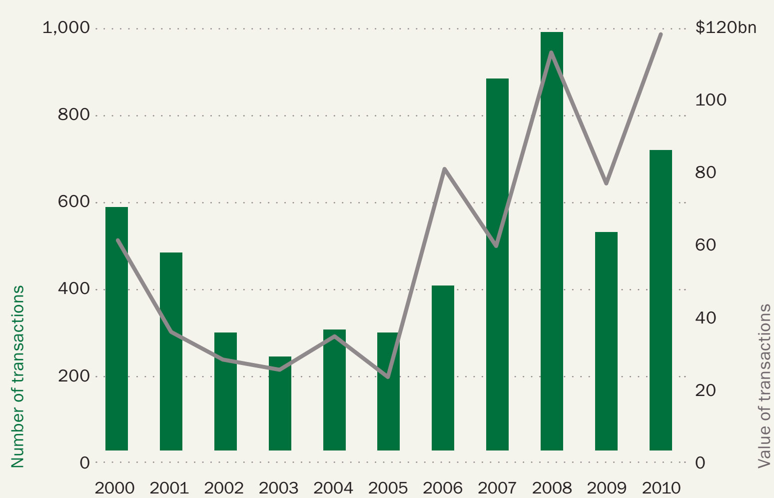


*The Gini coefficient measures equality/inequality of distribution, where zero is perfect equality and 1 is maximum inequality. Here, it measures distribution of Brazilian incomes

Source: The Economist

… AND DEALMAKING HAS INCREASED

Number and value of transactions



Sources: Thomson Financial, BM&F Bovespa