

Brazil GDP grows at fastest pace in 3 years in '07

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Business

(Adds Lula comments)

By Todd Benson

SAO PAULO, March 12 (Reuters) - Brazil's economy grew at its fastest pace in three years in 2007, expanding 5.4 percent as a credit boom and lower interest rates fueled a surge in domestic consumption, official data showed on Wednesday.

The economy, Latin America's largest, was expected to grow about 5.3 percent last year, according to most forecasts. In 2006, gross domestic product expanded 3.75 percent.

The Brazilian economy has benefited in recent years from employment growth, rising wages and a steady decline in borrowing costs that has increased demand for everything from automobiles to homes.

In 2007, companies invested at a break-neck pace to keep up with surging demand, paving the way for future growth. Capital investments in things such as machinery, factories and infrastructure jumped 13.4 percent last year, the biggest such increase since 1996, the statistics agency IBGE said.

"The surge in capital investments shows that businesses are upbeat about the future because these are investments that don't bring any returns in the short term," said Fabio Knijnik, an analyst at BES Investimento, a bank in Sao Paulo.

Finance Minister Guido Mantega said the economy could grow more than 5 percent again in 2008, suggesting that official forecasts of 4.5 percent growth this year are conservative.

With inflation largely under control and interest rates at an all-time low, more Brazilians are spending money and taking out loans. Household consumption jumped 6.5 percent in 2007, expanding for the fourth year in a row, the IBGE said.

The buoyant economy has helped lift the approval ratings of President Luiz Inacio Lula da Silva, a former shoeshine boy and metalworker who took office in 2003 pledging to lift millions of Brazilians out of poverty.

Lula made a hearty defense of the government's economic policies, their contributions to the GDP expansion and said the prospects for growth in 2008 are better than for 2007. Still he said that just because the economy was doing well, he wouldn't ease the government's fiscal discipline.

"I want to be cautious with the economy," Lula said in a speech in Brasilia. "It doesn't scare me to be called conservative."

Faster economic growth has come at a price, rekindling inflation concerns and raising the likelihood that the central bank may have to increase interest rates this year to prevent the economy from overheating.

"There are things to worry about," said Roberto Padovani, chief economist at Banco WestLB in Sao Paulo. "Inflation risks are on the rise."

The revival of strong economic growth has also highlighted Brazil's deficient infrastructure, with bottlenecks mounting at ports and traffic clogging major cities as more people buy cars.

AGRICULTURE LEADS THE WAY

The agricultural sector, often referred to as the green anchor of Brazil's economy, grew 5.3 percent last year thanks to a bumper grains crop and surging commodities prices. Brazil is a major producer of soybeans, sugar cane, oranges, coffee and beef.

Industrial output rose 4.9 percent last year while the services sector, an increasingly important part of the economy, expanded 4.7 percent.

In the fourth quarter, GDP grew 1.6 percent from the third quarter and 6.2

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percent from the fourth quarter of 2006, the IBGE said.

A Reuters poll forecast fourth-quarter GDP would grow 1.3 percent from the third quarter and 5.4 percent from the fourth quarter of 2006, according to the median estimates from nearly 30 economists.

Brazil's economy grew a revised 1.8 percent in the third quarter of 2007 from the previous quarter and 5.7 percent from the third quarter of 2006.

For the IBGE's complete GDP report please go to:

http://www.ibge.gov.br/home/presidencia/noticias/noticia_visualiza.php?id_noticia=1106&id_pagina=1

(Additional reporting by Aluisio Alves in Sao Paulo and Raymond Colitt in Brasilia; editing by Carol Bishopric)

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