

# BRAZILIAN BLUES

FERNANDO J. CARDIM DE CARVALHO  
SENIOR RESEARCH SCHOLAR – LEVY  
INSTITUTE  
MINSKY CONFERENCE 2016

# CONTEXT

- FALL IN GDP 2015-2016: ABOUT 8%, RISING UNEMPLOYMENT
- INFLATION RATE (CONSUMER PRICES) ABOUT 10%
- BUDGET DEFICIT/GDP): ABOUT 10% IN 2015
- PUBLIC DEBT/GDP: ABOUT 68% AND RISING
- OVERNIGHT INTEREST RATE: 14.25% P.A.
- EXCHANGE RATE TO THE US DOLLAR: RISING 50% IN 2015, FALL (APPRECIATION OF THE REAL) IN 2016 AND STABILIZATION
- THREATS TO PRIVATE SOLVENCY
  - LOCAL CURRENCY
  - FOREIGN CURRENCY
- MAJOR CORRUPTION SCANDAL AND INVESTIGATION INVOLVING ALL MAIN PARTIES IN GOVERNMENT AND OPPOSITION
- IMPEACHMENT PROCEDURES IN PROGRESS

# HOW DID WE GET THERE?

- 1999 TO 2010: EXPERIENCE WITH “NEW MACROECONOMIC CONSENSUS”
  - MONETARY POLICY REGIME: INFLATION TARGETING
  - EXCHANGE RATE REGIME: FLOATING EXCHANGE RATES
  - FISCAL POLICY REGIME: PURSUIT OF FISCAL BALANCE (AND REDUCTION OF PUBLIC DEBT)
- LED TO
  - PERMANENTLY HIGH INTEREST RATES
  - OVERVALUED CURRENCY
  - LOW AND VOLATILE GROWTH
  - DEINDUSTRIALIZATION

# HOW DID WE GET THERE?

- 2011 TO 2014 (ROUSSEFF'S FIRST TERM IN OFFICE)
- MANIPULATING AND CIRCUMVENTING REGIME RULES (INTEREST RATES, PRICES OF UTILITIES, FISCAL ACCOUNTS, ETC)
- SUPPLY-SIDE EXPANSIONARY POLICIES (CREDIT AND FISCAL SUBSIDIES)
- SUPPLY SHOCKS: DROUGHTS AND FLOODS
- LED TO:
  - CONSISTENTLY LOW GROWTH
  - ACCELERATING INFLATION
  - DEINDUSTRIALIZATION (SUPPLY SIDE POLICIES HAD NO EXPANSIONARY IMPACT ON INDUSTRIAL OUTPUT)

# HOW DID WE GET THERE?

- 2015 TO 2016: SUDDEN CONVERSION OF PRESIDENT ROUSSEFF TO AUSTERITY (AFTER BASING ELECTORAL CAMPAIGN ON ITS REJECTION)
- EMERGING CORRUPTION EVIDENCE
  - MELTING POLITICAL BASE
  - PARALYSIS OF GOVERNMENT UNDER THREAT OF IMPEACHMENT
  - SHARP FALL OF OUTPUT AND (NOW) EMPLOYMENT
  - IMPEACHMENT AND OTHER INITIATIVES

# THREE LESSONS OF RECENT BRAZILIAN EXPERIENCE

- NEW MACROECONOMIC CONSENSUS LED TO LOW GROWTH AND DEINDUSTRIALIZATION
- TINKERING WITH THOSE POLICIES BY TRICK AND ARTIFICE DOES NOT MAKE THE SYSTEM MORE EFFICIENT
- (SOMEWHAT OBVIOUSLY) THERE IS NO WAY OUT OF ECONOMIC DILEMMAS WITHOUT CLEAR-MINDED POLITICAL LEADERSHIP