26th Annual Hyman Minsky Conference

“LATIN AMERICAN POLICY AND THE NEW NATIONALISM: BRAZIL”
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LEVY ECONOMICS INSTITUTE AND FEDERAL UNIVERSITY OF RIO DE JANEIRO – APRIL 2017
BRAZIL: REAL GDP (II/2012 TO IV/2016)
BRAZIL: DOMESTIC PROBLEMS

• DEEP RECESSION
• AUSTERITY POLICIES IN THE MIDST OF GROWTH DECELERATION
• ACUTE POLITICAL CRISIS WITH WIDESPREAD CORRUPTION SCANDALS
• POLITICAL VACUUM FOR PRESIDENTIAL, PARLIAMENTARY AND STATE ELECTIONS IN 2018

→ NOT MUCH ATTENTION TO WHAT IS HAPPENING IN THE UNITED STATES OR IN WESTERN EUROPE

HOW COULD THE NEW NATIONALISM AFFECT OPPORTUNITIES IN THE MEDIATE FUTURE?
  INTERNATIONAL TRADE
  CAPITAL FLOWS
DEGREE OF OPENNESS

![Graph showing degree of openness over time for Chile, Argentina, Brazil, and Mexico.](image-url)
BRAZIL: FOREIGN TRADE

• RECESSION IMPROVED TRADE ACCOUNTS (USUALLY UNDER THE PRESSURE OF OVERAPPRECIATED EXCHANGE RATES)

• IMPROVEMENT IN TERMS OF TRADE (CHINA IS BACK):
  • 2013: 119
  • 2014: 115
  • 2015: 102.4
  • 2016: 105.5
  • JAN 2017: 117.4
  • FEB 2017: 115.5
BRAZIL: CAPITAL FLOWS

• PORTFOLIO INVESTMENTS: VOLATILE
• FOREIGN DIRECT INVESTMENT STILL COMING IN, DESPITE THE DOMESTIC CRISIS
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<th>Date</th>
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BRAZIL: INTERNATIONAL RESERVES

• WHAT PROTECTION DO THEY REALLY GIVE?
  • SUDDEN STOPS
  • FOREIGN CAPITAL RETURNING HOME
  • CAPITAL FLIGHT (BY RESIDENTS)
  • AGAINST SPECULATIVE ATTACKS

• ALTERNATIVES
  • USE OF RESERVES TO COVER GAPS: SIGN OF WEAKNESS
  • EXCHANGE RATES ADJUSTMENT
    • INFLATION
    • ILLIQUIDITY AND INSOLVENCY FOR DOMESTIC DEBTORS IN FOREIGN CURRENCY
BRAZIL: PERSPECTIVES

• FOREIGN TRADE
  • PROTECTIONISM WILL AFFECT EXPORTS, PARTICULARLY OF AGRICULTURAL PRODUCTS
  • MANUFACTURING EXPORTS WILL DEPEND NOT ONLY ON PROTECTIONISM, BUT ALSO ON BEHAVIOR OF EXCHANGE RATES (OVERAPPRECIATION)
  • INTERNATIONAL TREATIES: 1. ARBITRATION SPACE; 2. MANY ADVERSE RULES
  • WHAT WILL HAPPEN TO CHINA?

• CAPITAL FLOWS
  • FDI MAY BE AFFECTED BY “AMERICA FIRST”
  • PORTFOLIO FLOWS AND FED INTEREST RATE POLICY

• BUT IT IS HARD TO THINK THAT DOMESTIC FACTORS, AT THIS POINT, ARE NOT MUCH MORE IMPORTANT FOR THE MEDIUM TERM PERSPECTIVES FOR THE BRAZILIAN ECONOMY