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27th Annual Hyman P. Minsky Conference on the State of US and World Economies

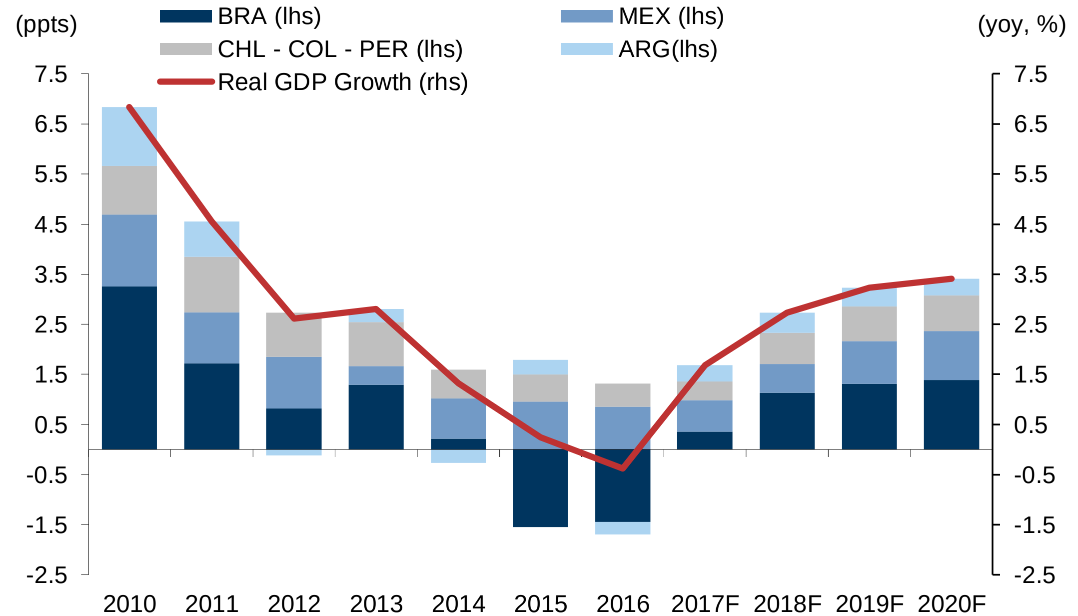
Financial Stability in a World of Rising Rates and the Repeal of Dodd-Frank

Is it mainly Brazil?

Since the 2009 crisis economic performance of LAC has deteriorated very fast – and a lot of that has to do with Brazil

Exhibit 2: Country Contribution to Aggregate Real GDP Growth

LA-IT6 Aggregate Growth, % yoy; Contribution by country, ppts



Source: Goldman Sachs Global Investment Research

The commodities boom created opportunities

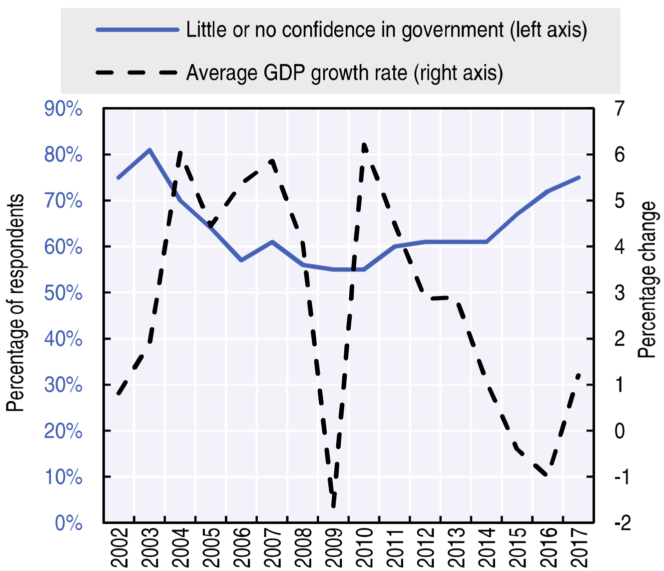
Chart 1: 100 Years of Commodity Valuation

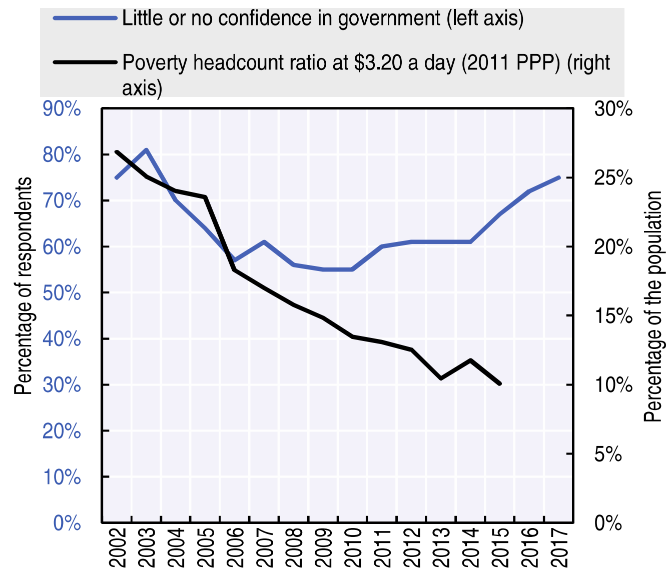
(1) Goldman Sachs Commodity Index to 1970. Goehring & Rozencwajg Commodity Index pre-1970.
Source: Bloomberg, Goehring & Rozencwajg Models.

Used to accumulate reserves and create “policy space”

That allowed for policy space, used successfully for reducing poverty and inequality

Figure 1. **Trust in governments vs. growth and poverty rates in Latin America**





Note: Unweighted average for all variables for Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela. Figures in USD.

Source: OECD/ECLAC/CAF, own elaboration based on CEPALSTAT (2017), *World Bank Development Indicators* (2017) and Latinobarometro (2017).

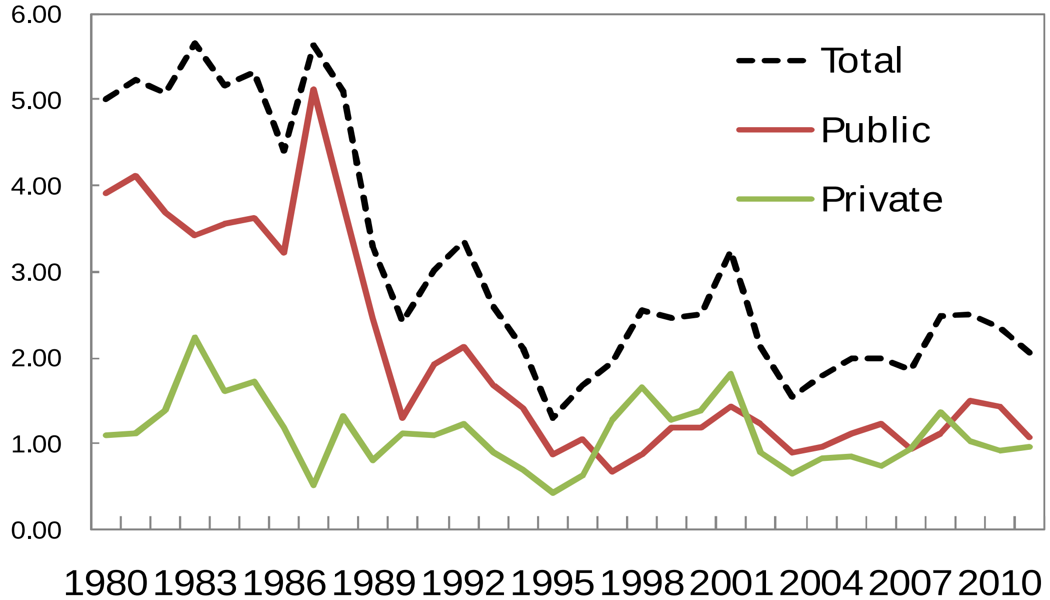
StatLink http://dx.doi.org/10.1787/888933649506

A perfect storm of overlapping problems

- Long-term public and private investment crisis (1980-2000)
- Global crisis and the burst of the global commodities bubble (2010)
- Failed counter-cyclical policies (2013-14)
- Political crisis and disastrous adjustment (2015)
- A suicidal mixture of austerity and government incompetence (2015-)

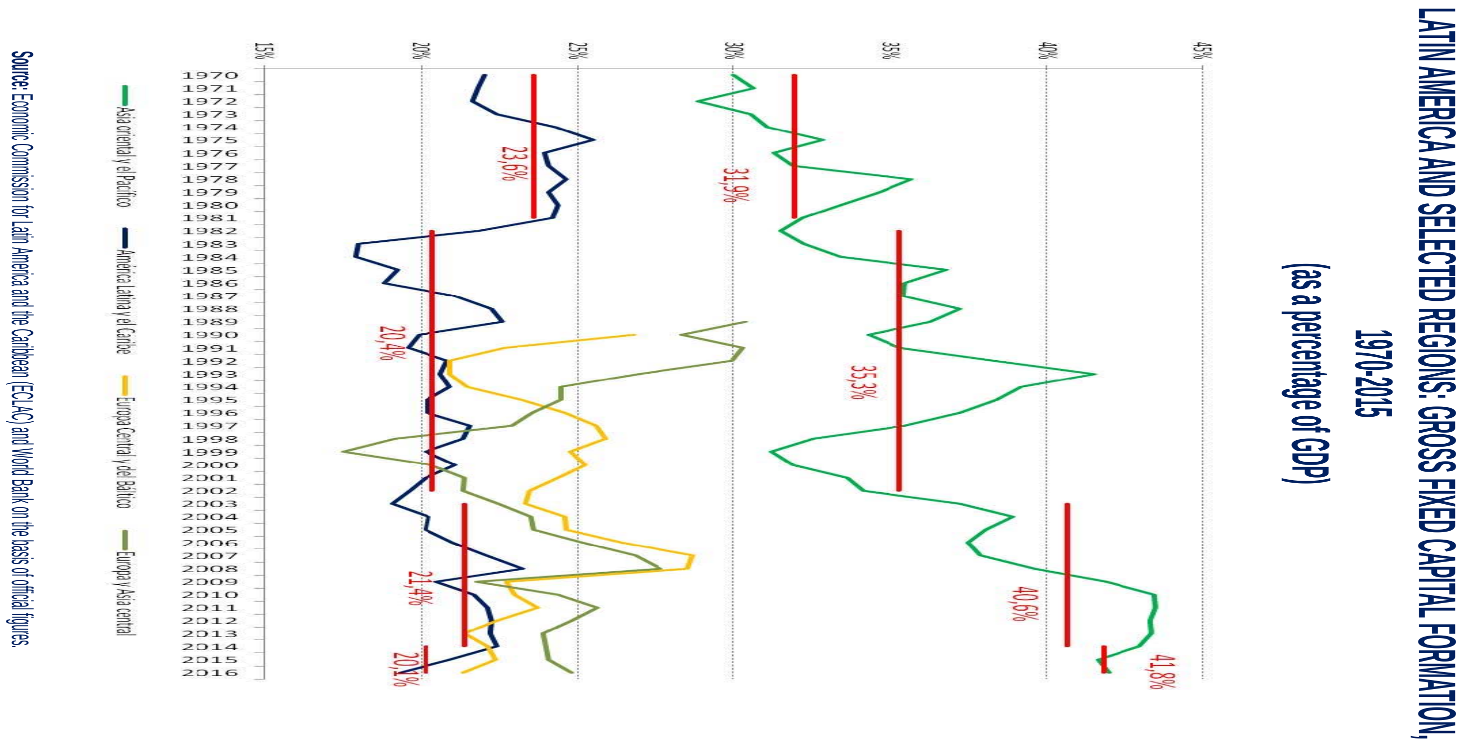
Infrastructure investment: Govt retrenched, and the private sector never took the lead

Figure 12. Brazil: Public and Private Infrastructure Investment
(In percent of GDP)

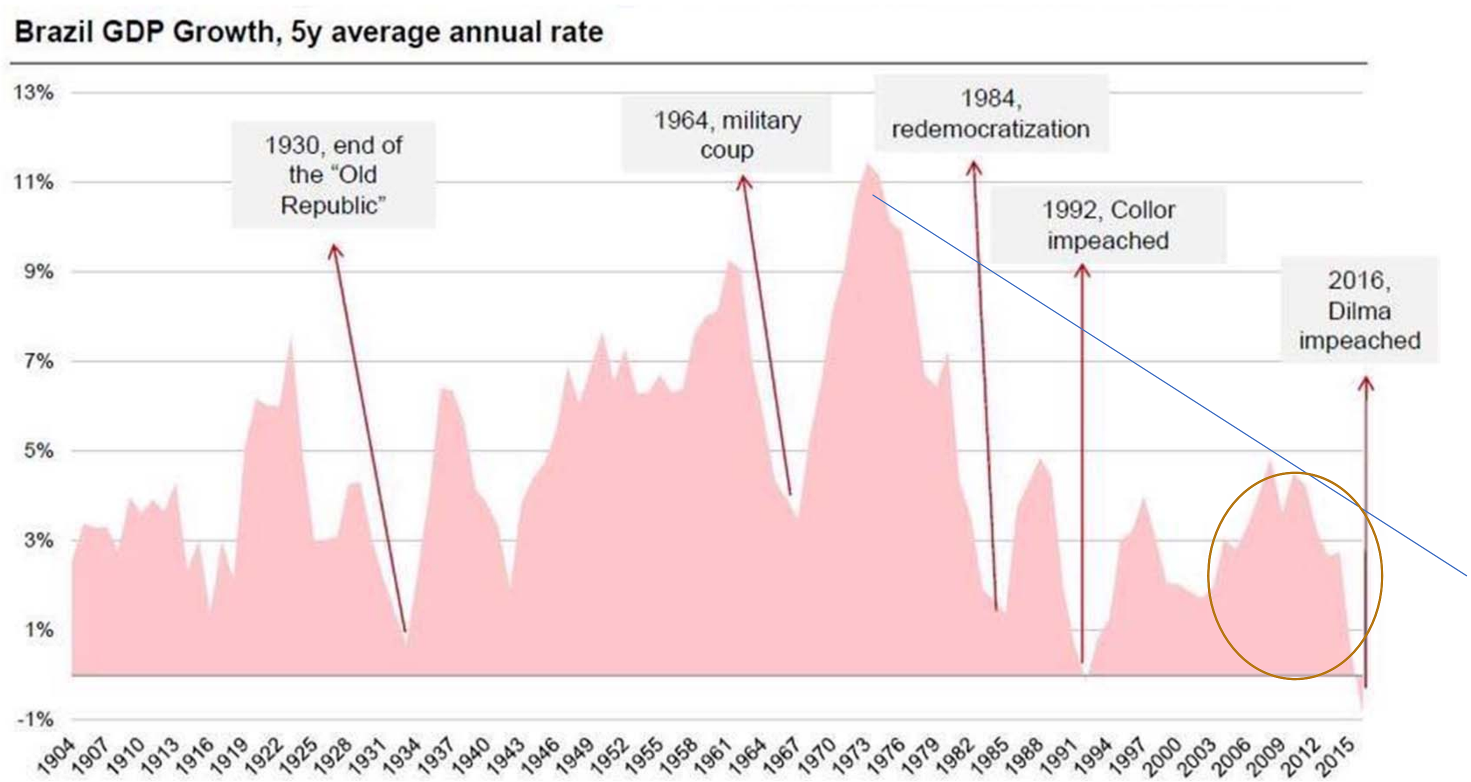


Source: The chart shows data till 2006 from Calderón and Servén, 2010; and for the period 2007-2011 from Frischtak, 2013.

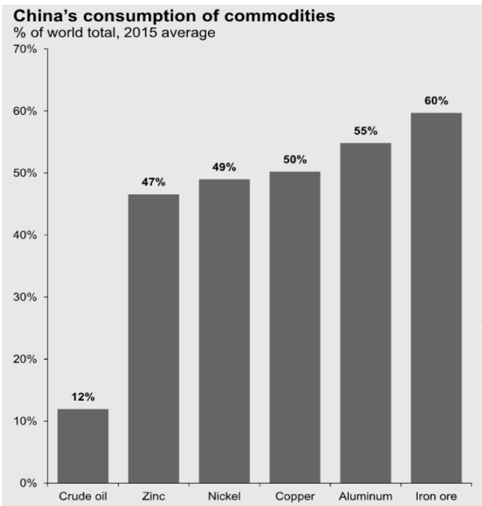
Common to most LAC economies

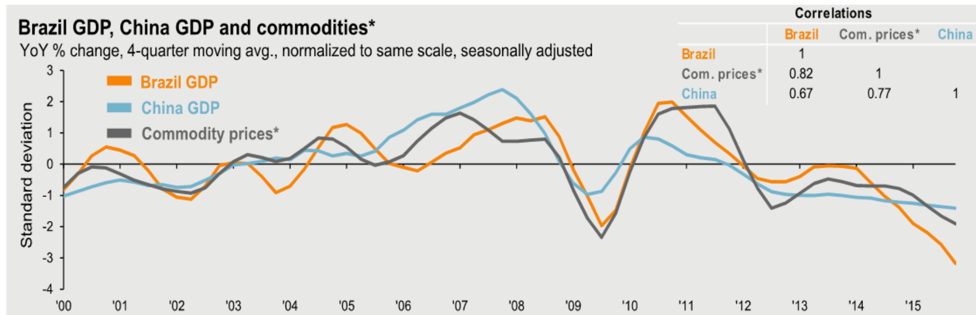


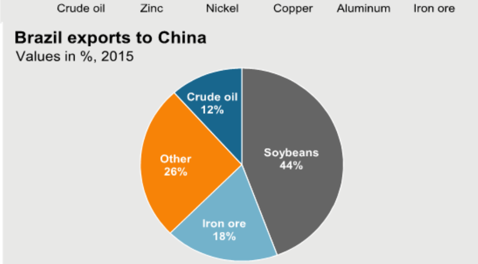
Long-term loss of dynamism

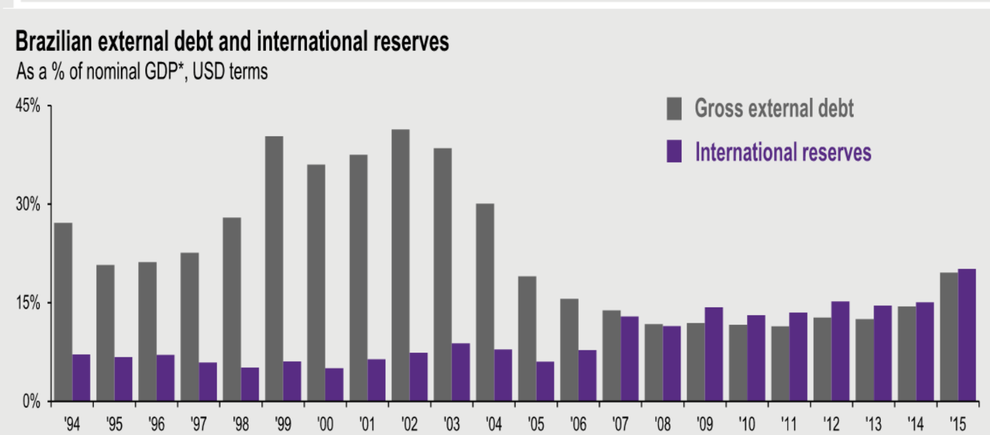


A boat drifting in the China sea



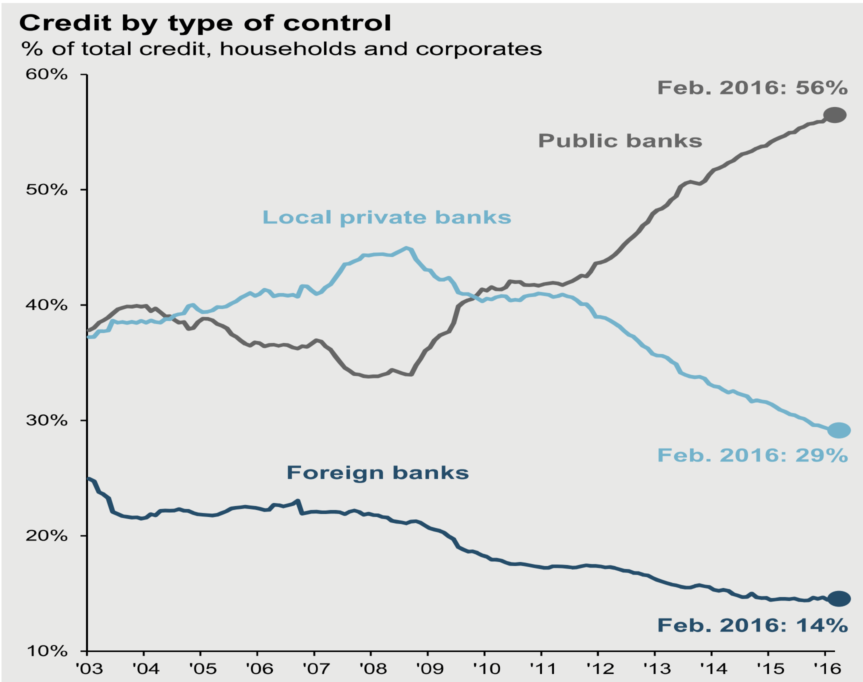


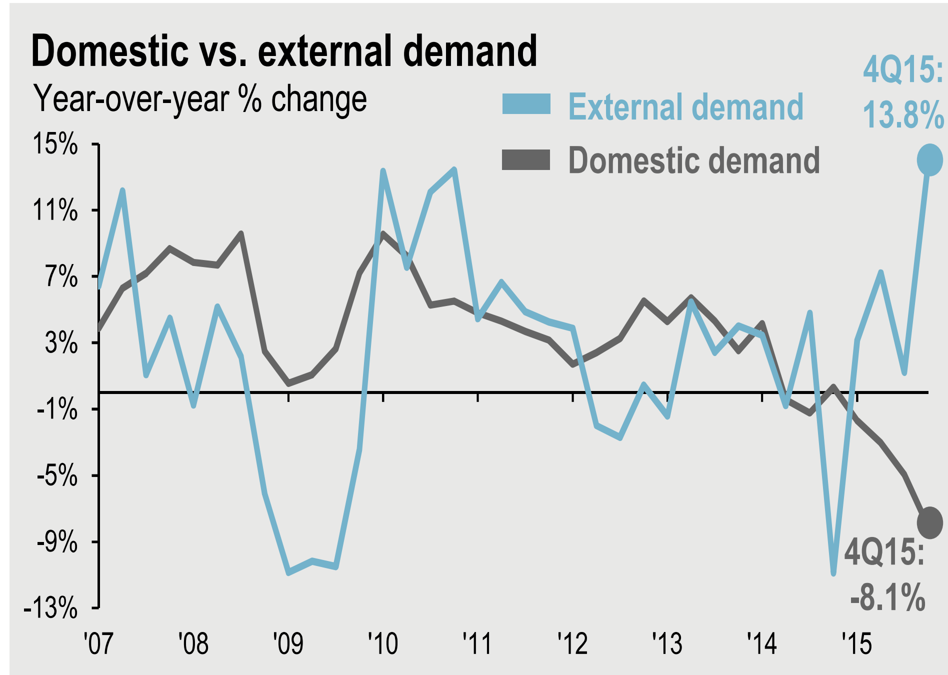




Disastrous adjustment

- In 2013-4 President Dilma tried to address the loss of economic dynamics with subsidies and credit
- In 2015, the recently elected Dilma government chooses to promote a dramatic fiscal adjustment
- This adjustment was done in tandem with a hike of public tariffs
- Inflation rises, and the central banks increases the benchmark rate to over 14% in a question of months

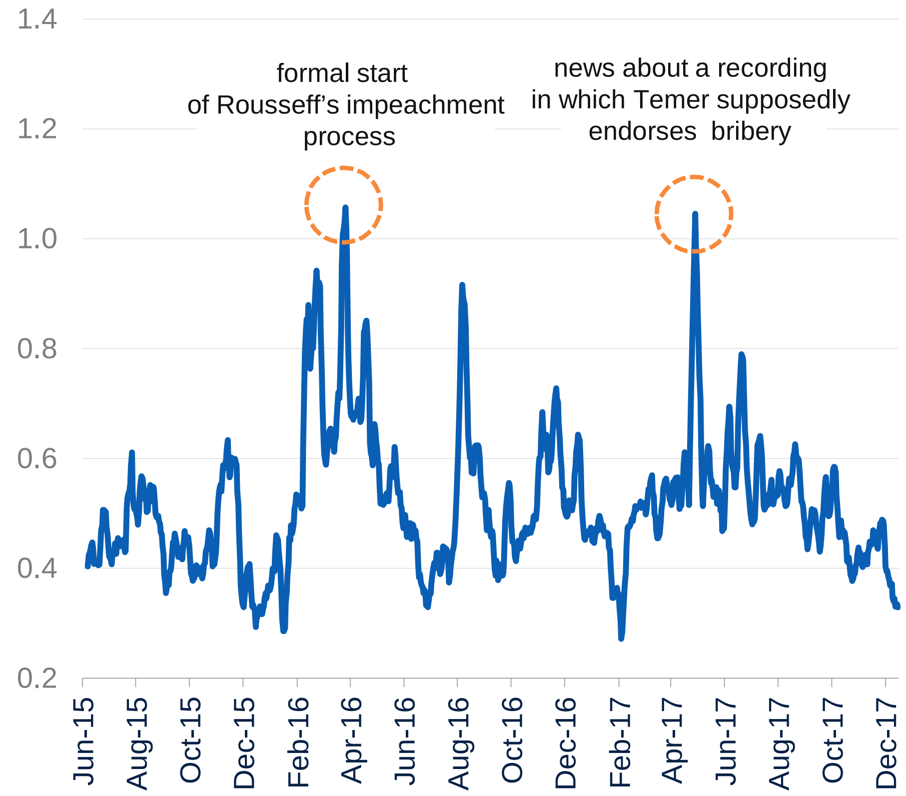




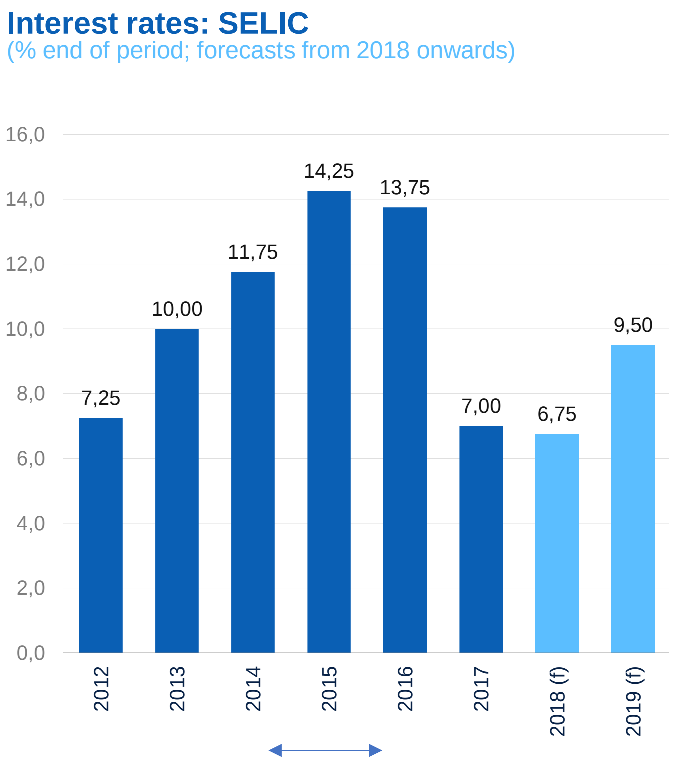
The government tries to respond by expanding credit

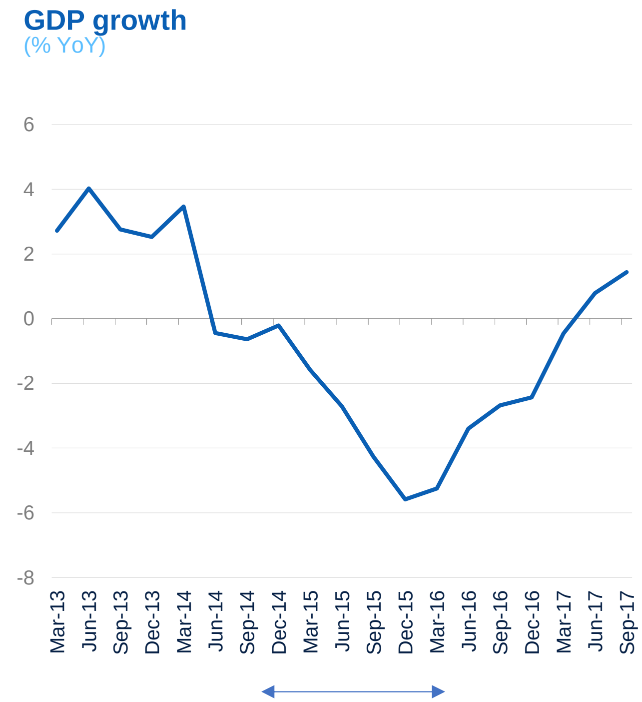
Political turmoil in making: one earthquake a day

BBVA Research's index of political tensions in Brazil*
(7-days moving average)

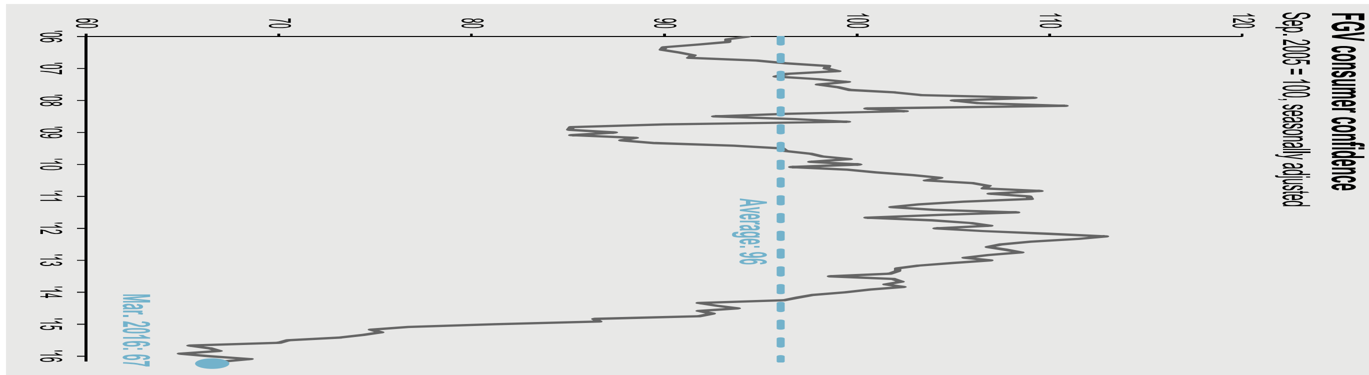


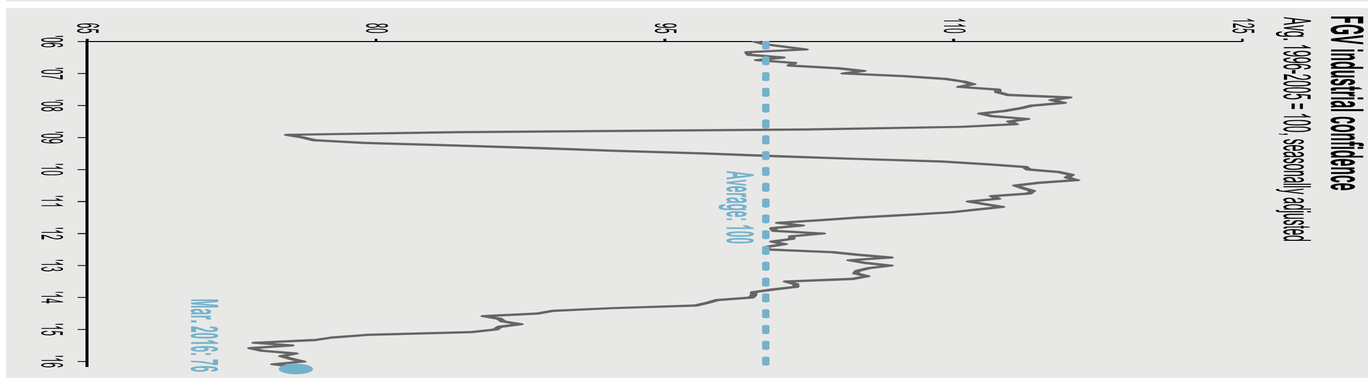
A high price paid for austerity at all costs





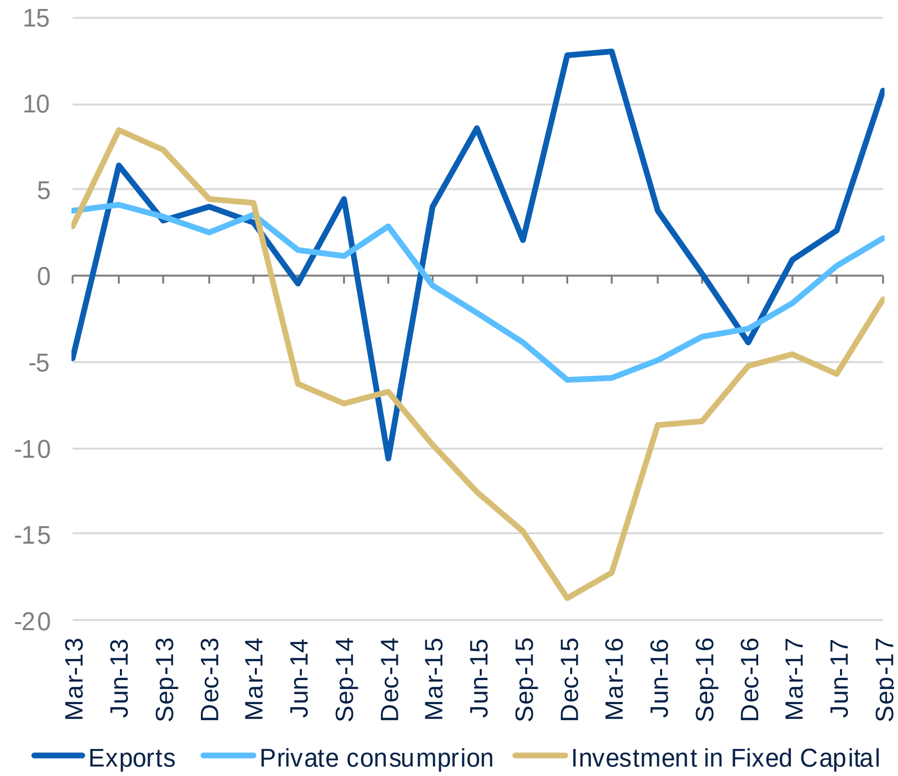
A perfect storm





But aggregate demand collapses

Exports, private consumption and investment
(% YoY)



The picture today: slow jobless recovery

Brazil - Economic Forecasts - 2018-2020 Outlook

This page has economic forecasts for Brazil including a long-term outlook for the next decades, plus medium-term expectations for the next four quarters and short-term market predictions for the next release affecting the Brazil economy.

Overview	Actual	Q2/18	Q3/18	Q4/18	Q1/19	2020	
GDP Growth Rate	0.10	0.5	0.3	0.3	0.4	0.7	percent
Unemployment Rate	12.60	12.8	12.6	12.5	12	11.8	percent
Inflation Rate	2.68	2.8	2.9	3.1	3.4	5	percent
Interest Rate	6.50	6.5	6.5	6.5	6.5	8	percent
Balance of Trade	6280.75	7600	5500	4500	9000	3000	USD Million
Government Debt to GDP	74.04	72	72	72	73	75	percent

Conclusions

1. This crisis is exceptional, and the politics as usual will play a significant role in shaping how the country comes out of that
2. Challenges for future government is huge
   - Downward trend of industrial investments that generates a <u>increasingly vulnerable manufacturing sector</u> – aggravated by the wrong exchange rates and excessive costs of capital
   - <u>**Significant infrastructure and logistics gaps, further contributing to near-to-the-ground factor productivity and low competitiveness (our topic here)**</u>
   - Very sophisticated, but short-term private financial institutions; shallow capital markets; and a “does-it-all” public financial sector: <u>scarce and expensive long-term financing</u>
   - A rapid changing international landscape that makes it necessary to build a long-term strategy that maximizes using and enhancing the efficiency of <u>vast</u> domestic resources

Thank you