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.
The commodities boom created opportunities
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.


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

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-)

A perfect storm of overlapping problems
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

Latin America and Selected Regions: Gross Fixed Capital Formation, 1970-2015

(as a percentage of GDP)

Source: Economic Commission for Latin America and the Caribbean (ECLAC) and World Bank on the basis of official figures.
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)

formal start of Rousseff’s impeachment process
news about a recording in which Temer supposedly endorses bribery
A high price paid for austerity at all costs

**Interest rates: SELIC**  
(% end of period; forecasts from 2018 onwards)

![Bar chart showing interest rates over the years with forecasts for 2018 and 2019.]

**GDP growth**  
(% YoY)

![Line chart showing GDP growth over the years from March 2013 to September 2017.]

- Mar-13: -8
- Jun-13: -6
- Sep-13: -4
- Dec-13: -2
- Mar-14: 0
- Jun-14: 2
- Sep-14: 4
- Dec-14: 6
- Mar-15: 8
- Jun-15: 10
- Sep-15: 12
- Dec-15: 14
- Mar-16: 16
- Jun-16: 18
- Sep-16: 20
- Dec-16: 22
- Mar-17: 24
- Jun-17: 26
- Sep-17: 28
A perfect storm
Exports, private consumption and investment (% YoY)

But aggregate demand collapses
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.

<table>
<thead>
<tr>
<th>Overview</th>
<th>Actual</th>
<th>Q2/18</th>
<th>Q3/18</th>
<th>Q4/18</th>
<th>Q1/19</th>
<th>2020</th>
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</table>
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 increasingly vulnerable manufacturing sector – aggravated by the wrong exchange rates and excessive costs of capital
   - Significant infrastructure and logistics gaps, further contributing to near-to-the-ground factor productivity and low competitiveness (our topic here)
   - Very sophisticated, but short-term private financial institutions; shallow capital markets; and a “does-it-all” public financial sector: scarce and expensive long-term financing
   - A rapid changing international landscape that makes it necessary to build a long-term strategy that maximizes using and enhancing the efficiency of vast domestic resources
Thank you