

# Brazilian Economy: a panoramic view of the recent track

Lecture 1, BRICS Winter School, 2019

**André M. Biancarelli**

Institute of Economics, University of Campinas, Brazil

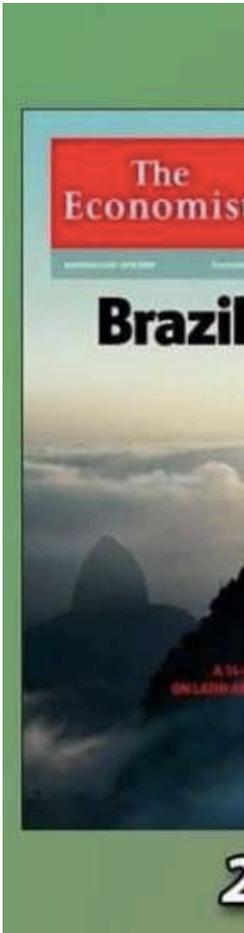
Unicamp, August 5, 2019



---

# Introduction

- Brazilian current economic situation is quite disappointing:
    - Low growth (after a deep recession); persistent unemployment; social regression; public finance in a terrible situation
      - Good numbers related only to inflation and external accounts (but not for good reasons)
  - In other aspects of life in society, things are even worse: the country is experiencing its worse phase in recent decades, a nightmare
  - All of this in sharp contrast with the reality of few years ago
  - What went so wrong? How things could deteriorate that way?
-



---

# Outline

1. A broad historical perspective
  2. Lula (2003-10) and the optimism
  3. Rousseff (2011-16): deceleration, crisis and fall
  4. Temer (2016-18) and Bolsonaro in economic issues: some preliminary ideas
-

# 1. Historical overview



- The role of Brazil in the ancient colonial system
- Economy was essentially oriented toward the external market. Primary-exporter model
  - "Pau-Brasil"
  - Gold
  - Sugar cane
  - Rubber
  - Coffee
- Slavery (abolished only in 1888) with persistent consequences in our society
- One of the most unequal countries in the world
  - Roots on colonial heritage, slavery, concentration of land and wealth
- International division of labor

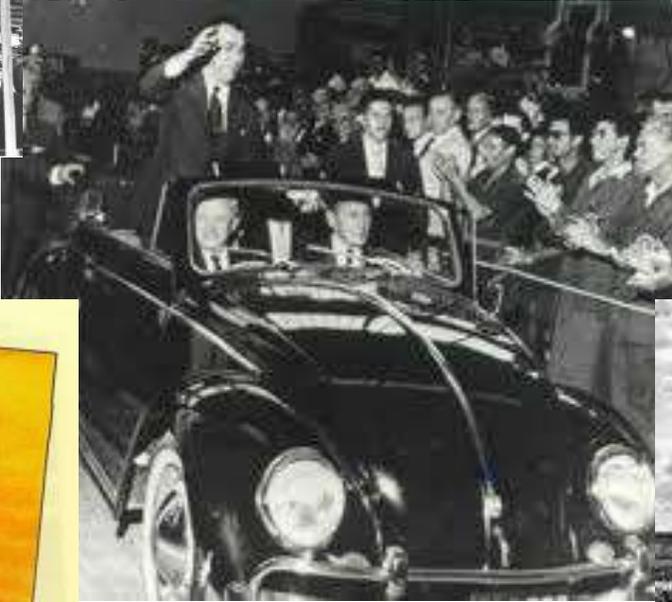


Luis Teixeira. *Litoral Brasileiro com as Capitanias Hereditárias*, Portugal, Biblioteca da Ajuda, 1574

# 1. Historical overview-2



- 1929 crisis, Great Depression: "Shift in the dynamic axis of the economy", towards domestic market (Furtado)
- Vargas Era (1930-54): strong state, institutional foundations, social rights (limited to urban workers), economic diversification Industrial development (durable goods, machinery, automobiles)
- Import substitution model
- Creation of public companies in strategic sectors, and public banks
- 1955-60: *Plano de Metas*, "50 years in 5", fast structural change
- Military dictatorship (1964-85): high economic growth, but income concentration and wage repression
- A socially unfair, but highly dynamic model. A "Developmentalist State", but far from a "Welfare" one
- Recurrent inflation and Balance of Payments crises



# 1. Historical overview - 3



- ❑ Latin America debt crisis
- ❑ Low and unstable economic growth
- ❑ Very high inflation and failed stabilization programmes
- ❑ Worsening of social conditions
- ❑ Re-democratization and 1988 Constitution: progressive in terms of social rights



# 1. Historical overview-4



- "Washington Consensus Reforms": trade liberalization and financial deregulation, privatization
- Real Plan: price stabilization
- 1999: currency crisis
- Low growth, high unemployment, price (but not macro) stability,
- Crisis of the liberal strategy in the early 2000s, shift in the power coalition: the Lula/Dilma period (2003-2016)



Pêrsio Arêde



Edmar Bacha



Gustavo Franco



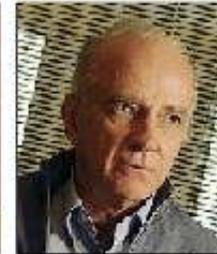
Pedro Malan



Fernando Henrique Cardoso



Itamar Franco



André Lara Resende



Rubens Ricupero



2 ■ 8 dinheiro domingo, 31 de janeiro de 1999

FOLHA DE S.PAULO

TRABALHO **Recessão pode deixar até mais 3,6 milhões sem ocupação este ano; total de 1998 chega a 6,6 milhões**

# Desemprego cresce 38% no governo FHC

JOSÉ ROBERTO DE TOLEDO da Pesquisaem Local

Para isso, Puchmann considerou o aumento das taxas de desemprego mensais nas regiões metropolitanas ao longo do ano passado. Em seguida, ele relacionou os dados de ocupação e desocupação com a variação do PIB nacional.

Com essa metodologia, o economista pôde estimar que a taxa nacional de desemprego em 1998, como fazer as três projeções descritas acima para 1999, sempre correlacionando o crescimento do desemprego com o aquecimento ou a recuo da economia.

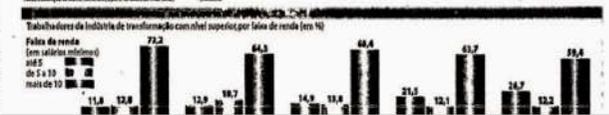
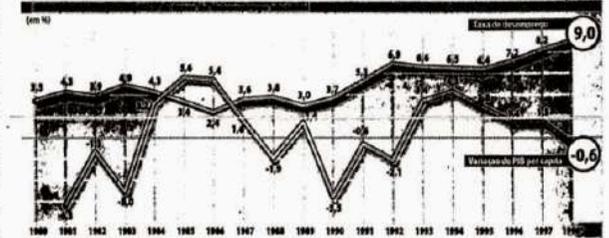
Os números são realistas. Para efeito de comparação, o número de novos desempregados durante o primeiro governo de FHC chegou a 492 mil. Entre dados são da Fundação Seade, do governo paulista.

Dirigente-executivo da fundação, Pedro Paulo Martini Franco concorda com a projeção de um quadro ainda mais grave para o mercado de trabalho neste ano.

"1999 já é um ano perdido. Não adianta. O recorde de 1998 vai ser batido", diz.

Ele prefere não fazer previsões numéricas, mas afirma que o eventual crescimento do setor exportador da economia brasileira (que foi beneficiado pela desvalorização cambial) não será suficiente para recuperar o estalo do mercado

## Queda do PIB aumenta desemprego

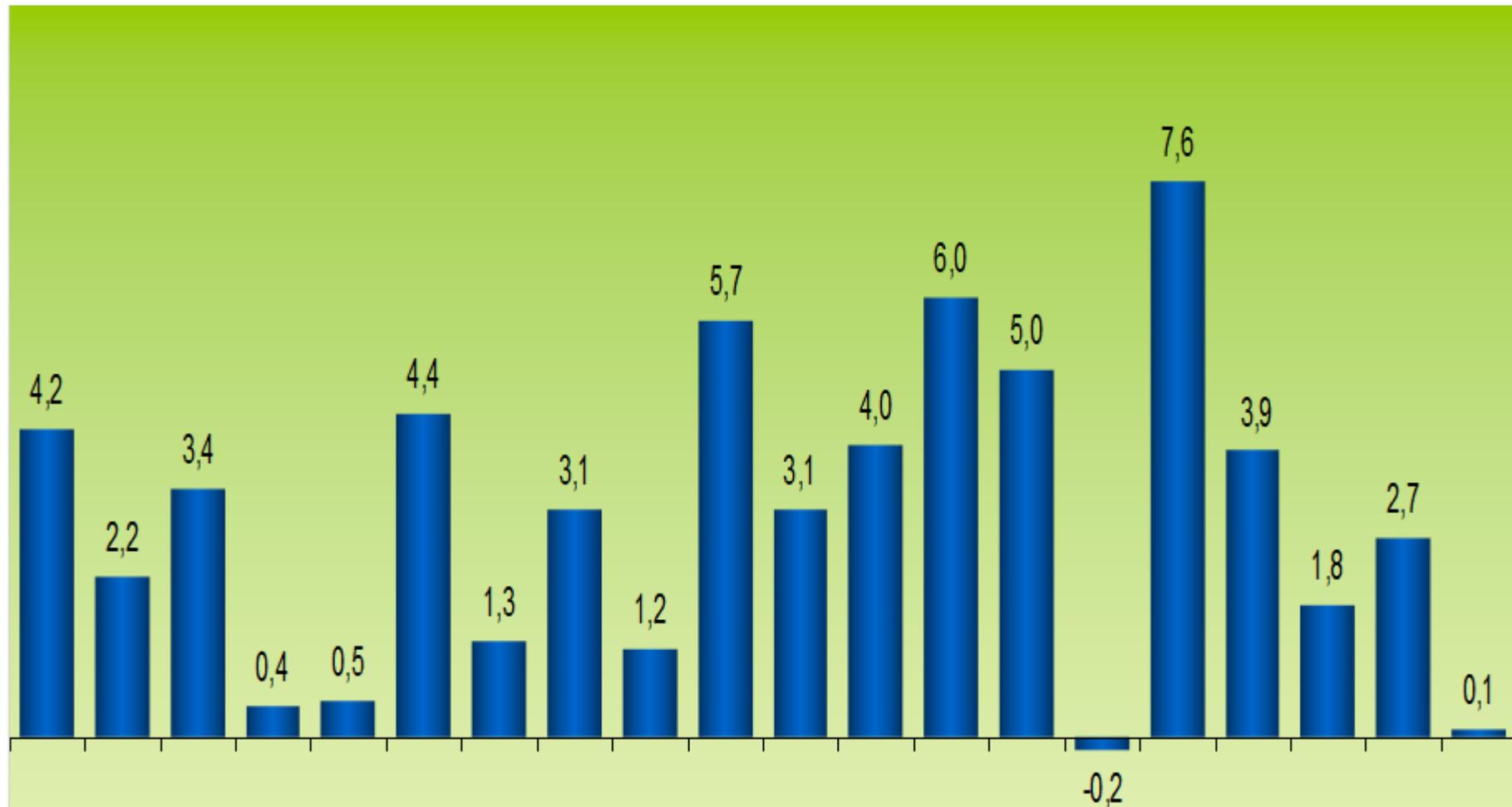


## 2. Lula (2003-10) and the optimism

- After two decades of slow growth and high macroeconomic instability, Brazilian economy experienced a very good moment in the first decade of XXI Century
  - Growth resumption
  - Reduction in external vulnerability
  - Low inflation
  - Fiscal consolidation
  - With a great novelty: the combination of economic growth with social inclusion
- This phase can be understood by a combination of domestic and external impulses, and a specific mix of economic policy
- In the sequence: numbers and determinants

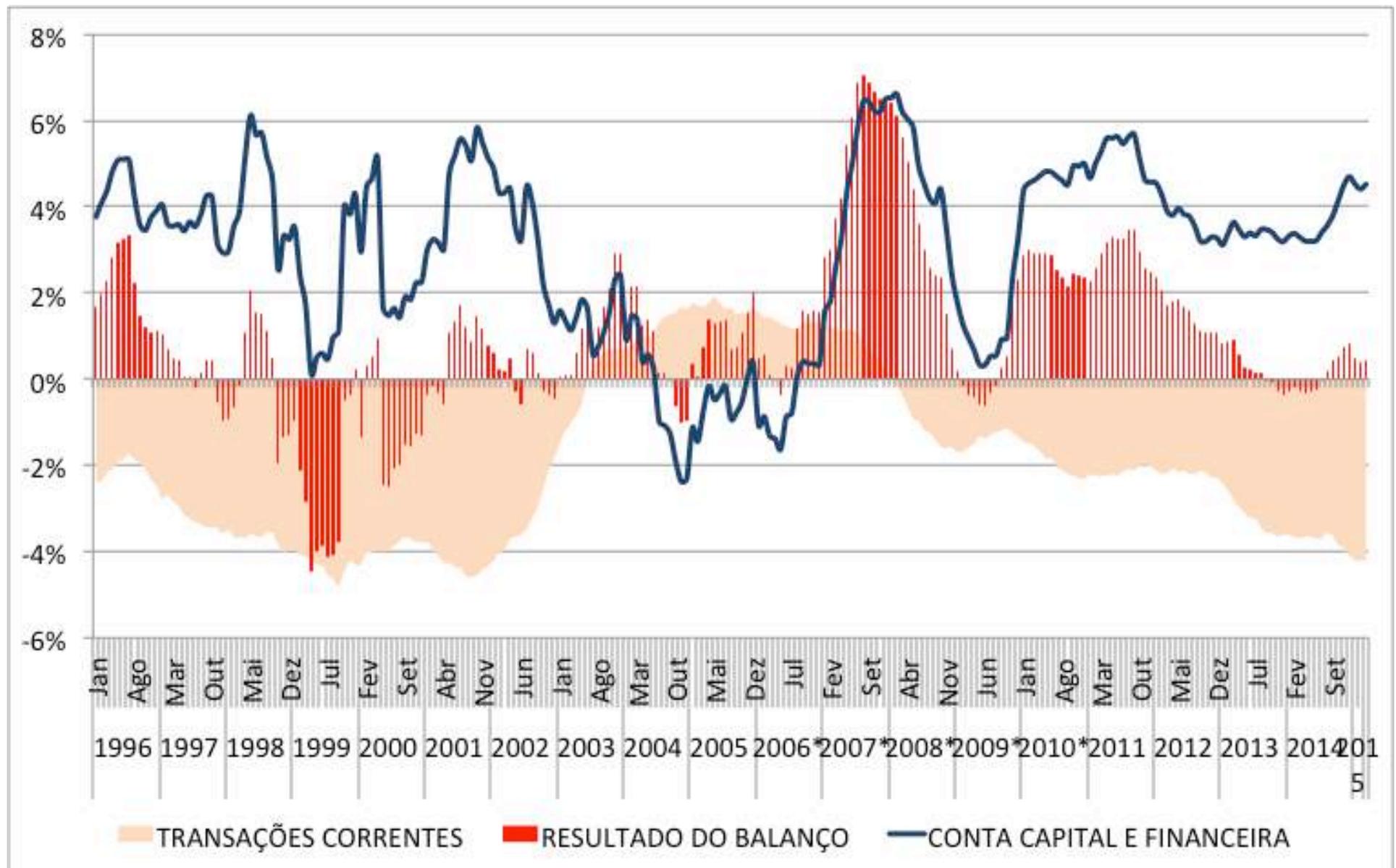


# GDP Growth

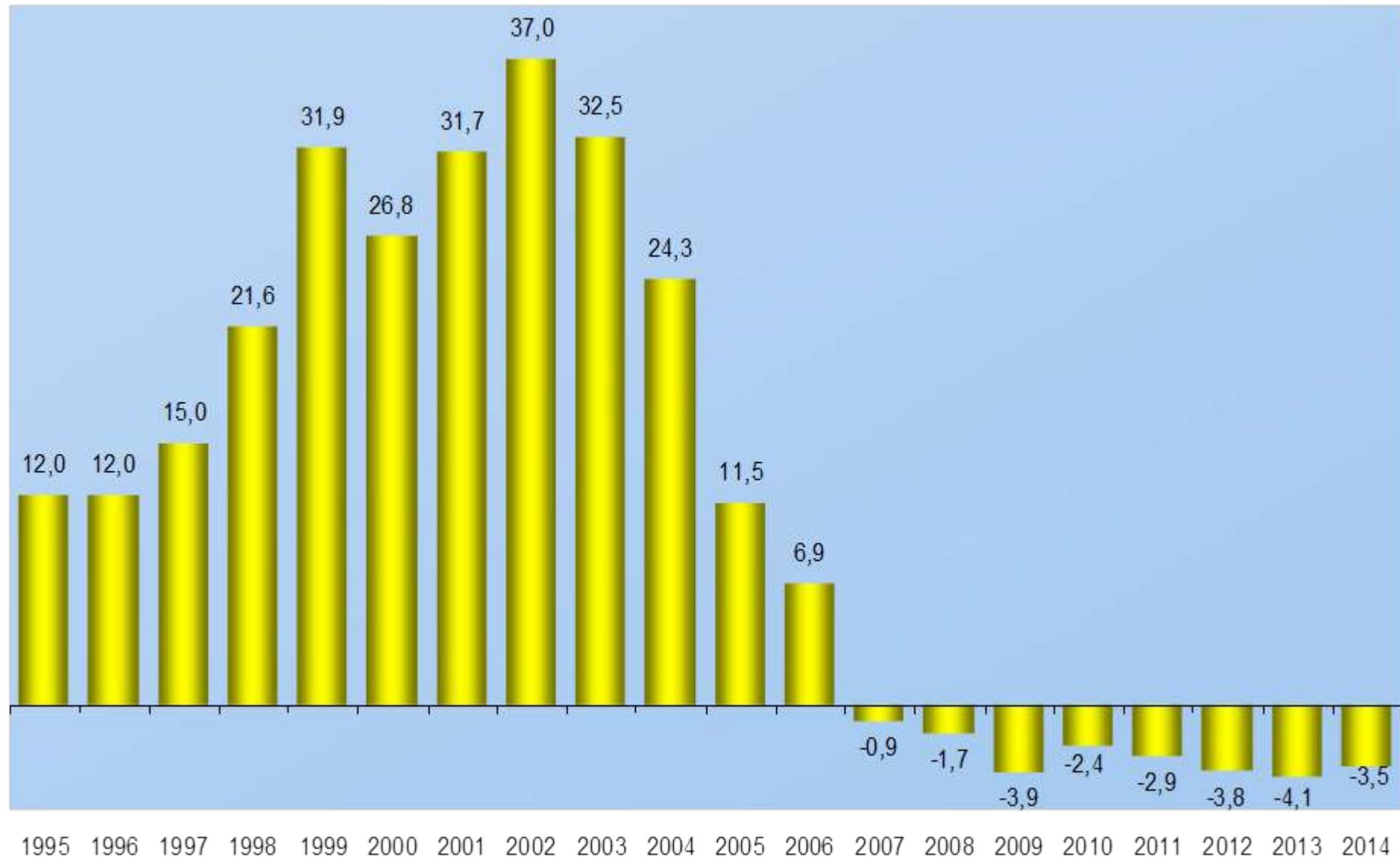


\*Série revisada  
Fonte: IBGE

# Balance of Payments (Current Account and Financial Account)

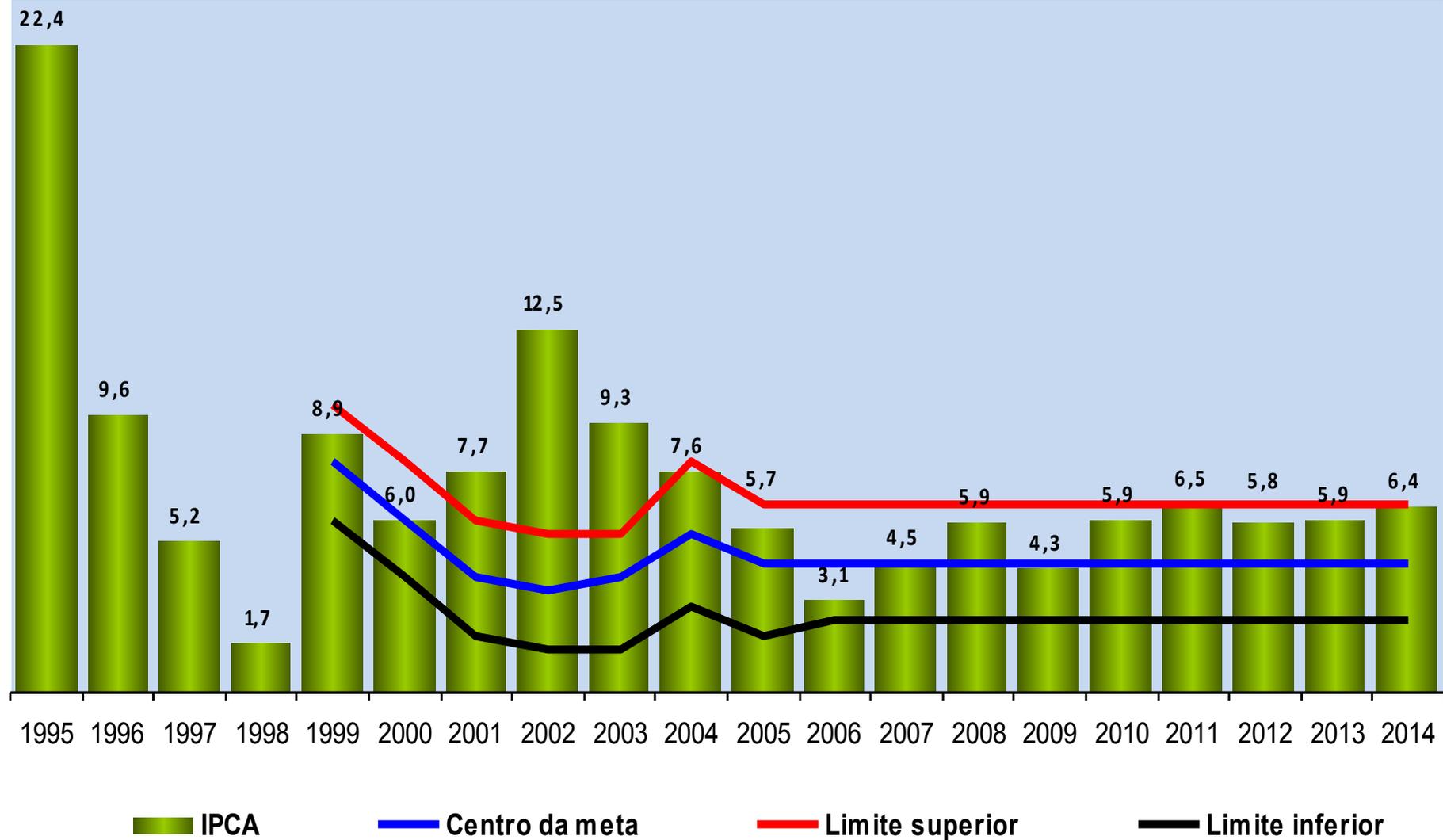


# Net external debt/GDP



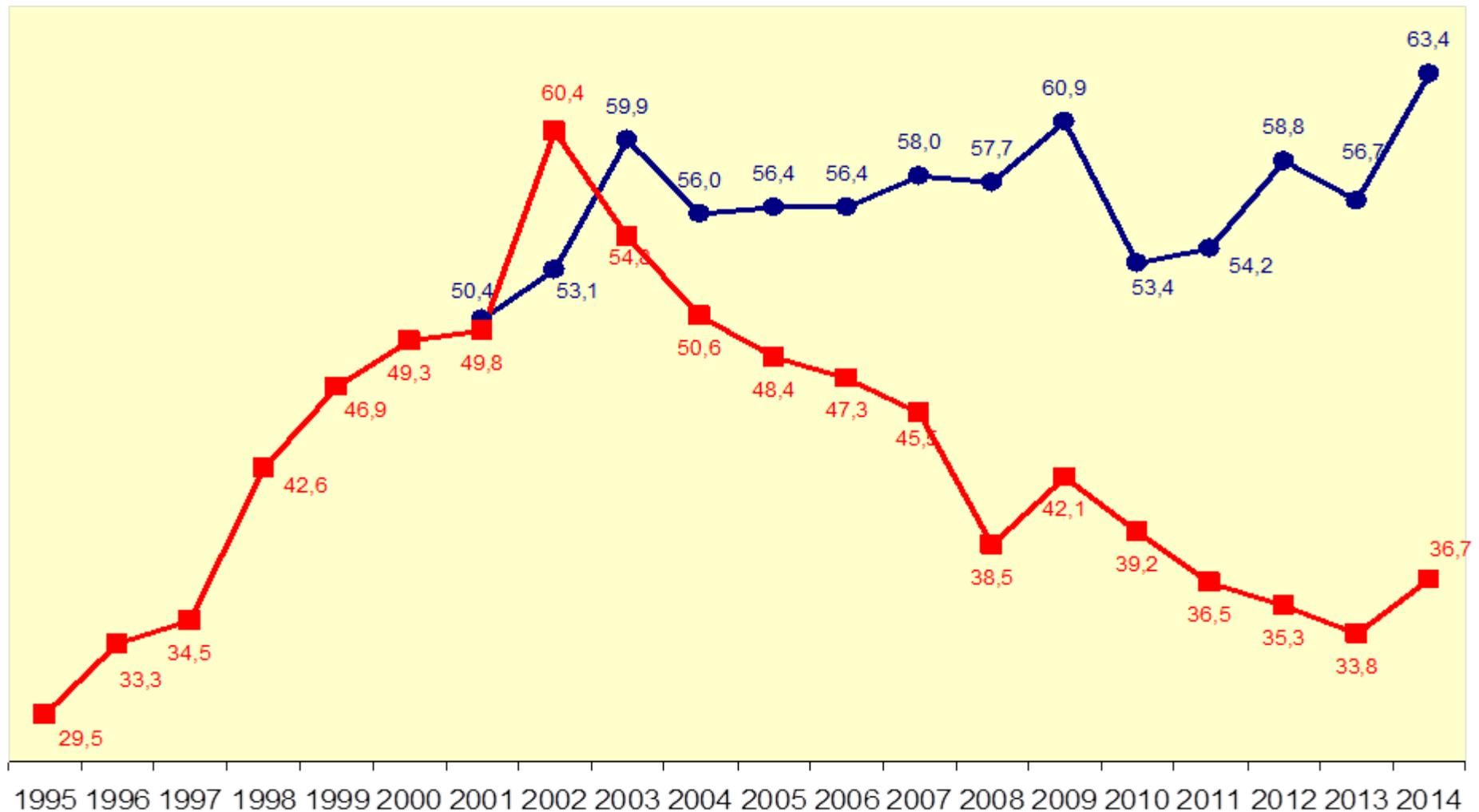
Fonte: BCB

# Inflation (CPI)



Fonte: BCB

# Gross and Net Public Debt/GDP



Fonte: BCB

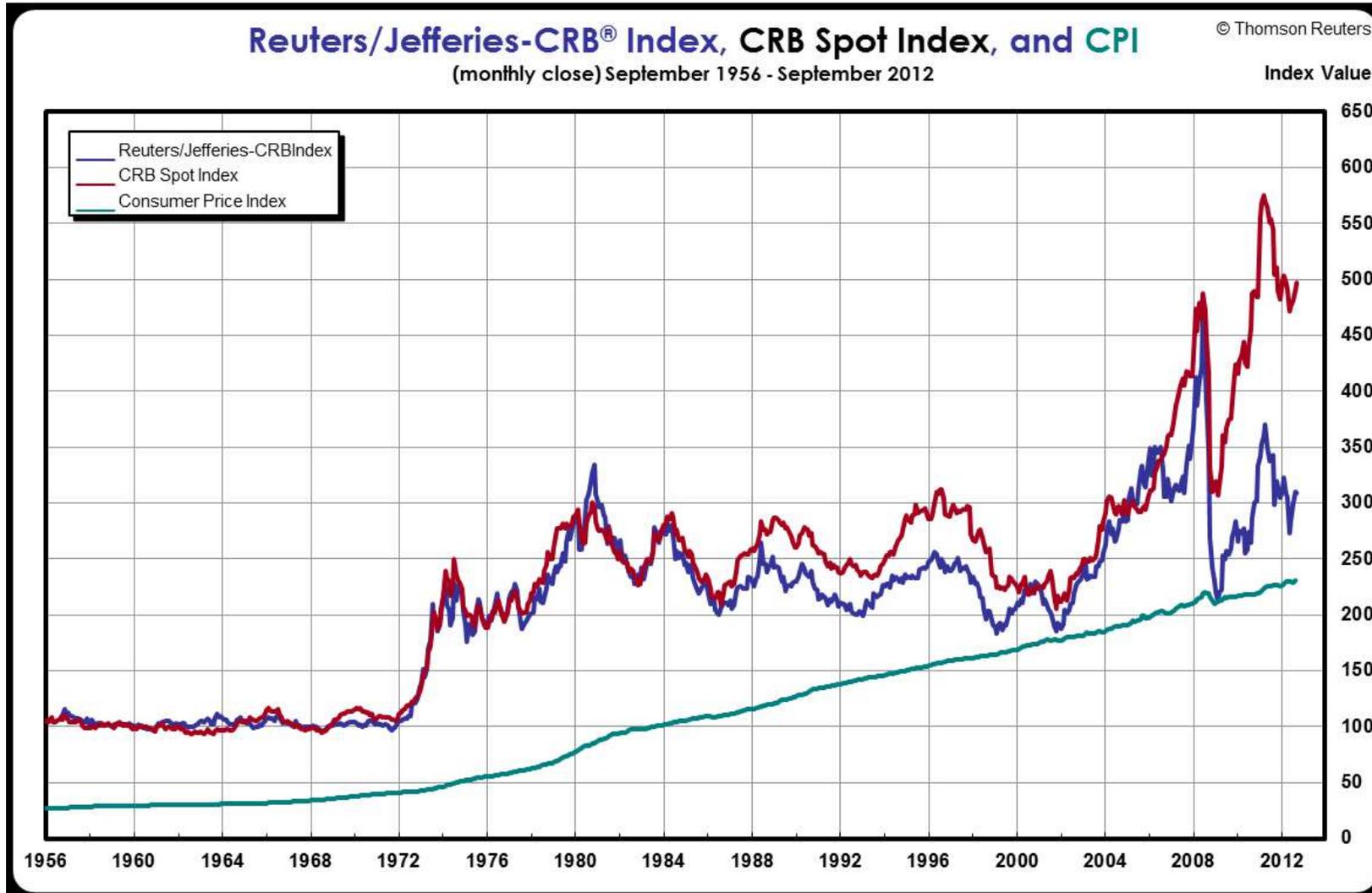
● Dívida Bruta

■ Dívida Líquida

## 2. Drivers of the success?

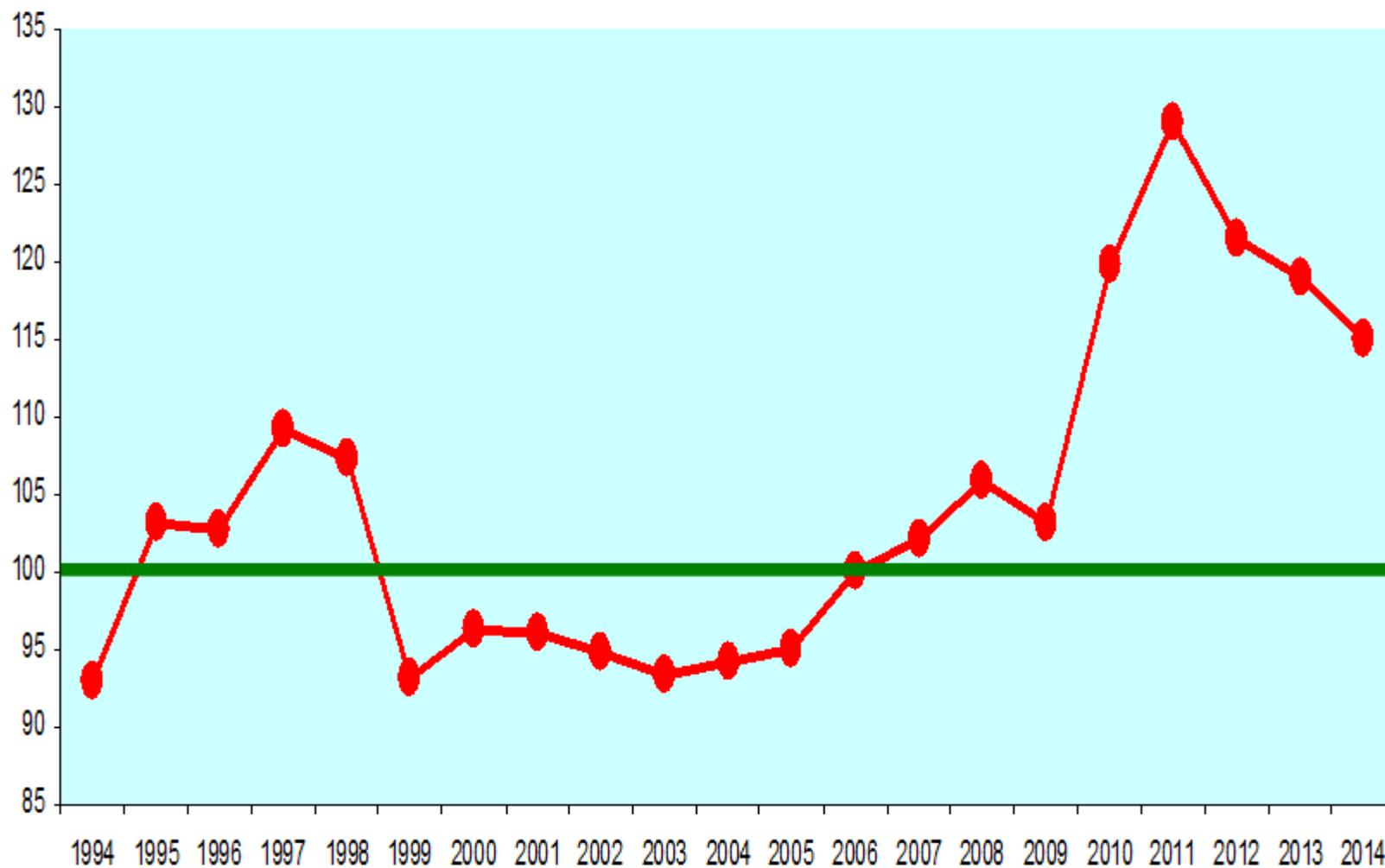
- How to understand these good results?
  1. A very favorable external environment, *bonanza*
    - Trade (primary commodity prices) and financial (capital flows) impulses
    - Important for growth resumption in 2004 and, later, for the improvement in external accounts
  2. Income distribution and credit expansion: domestic market as main growth engine
    - Social transfers, minimum wage increase, public banks and macro stability fostering credit
  3. Since 2007, increase in Public Investment (with a program of infrastructure, PAC)

# Primary commodity prices



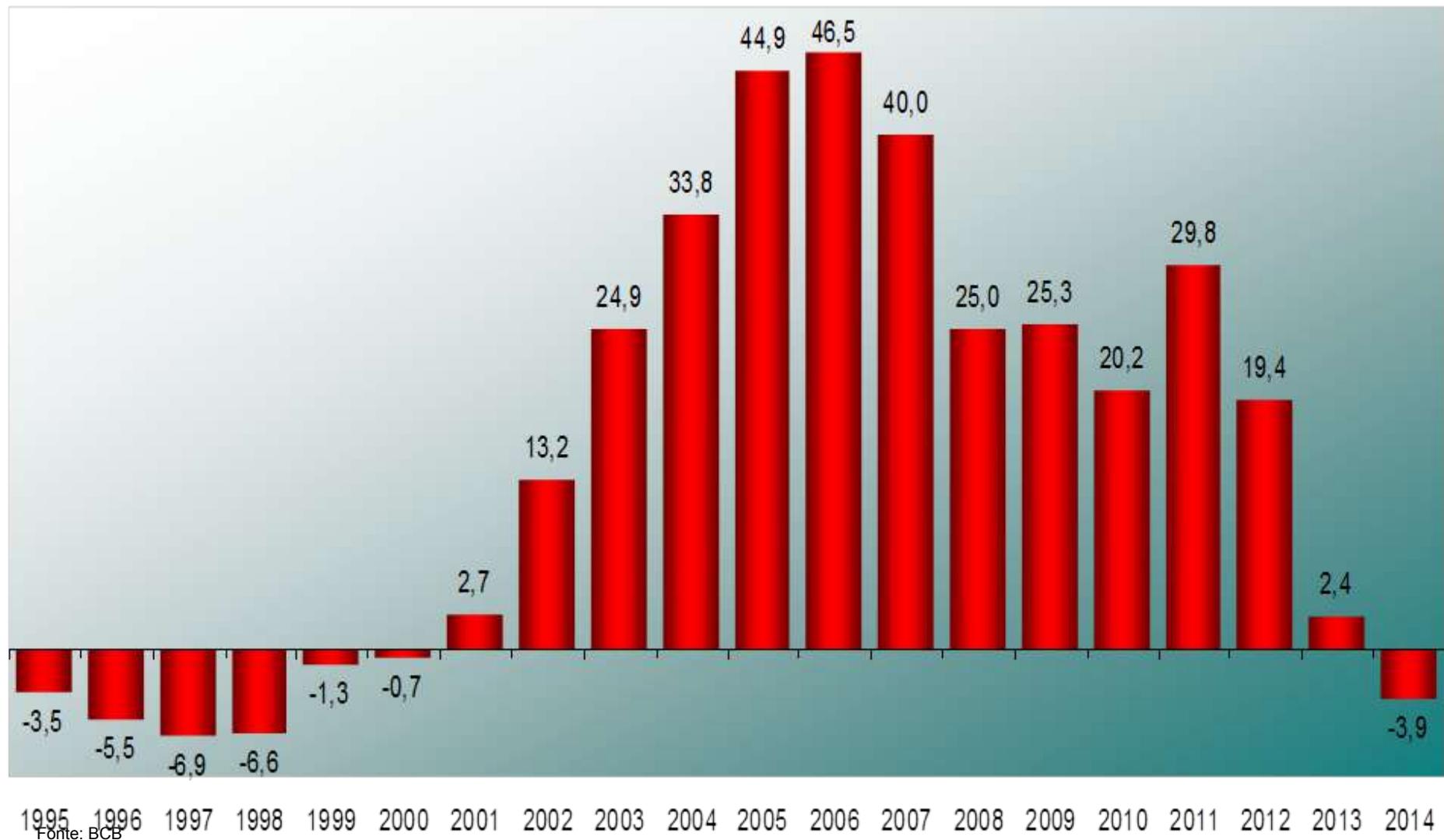
# Terms of trade (2006=100)

Índices	
1994	92,9
1995	103,2
1996	102,8
1997	109,1
1998	107,4
1999	93,2
2000	96,2
2001	96,0
2002	94,7
2003	93,4
2004	94,2
2005	95,0
2006	100,0
2007	102,1
2008	105,9
2009	103,2
2010	119,7
2011	129,0
2012	121,5
2013	119,0
2014	115,0

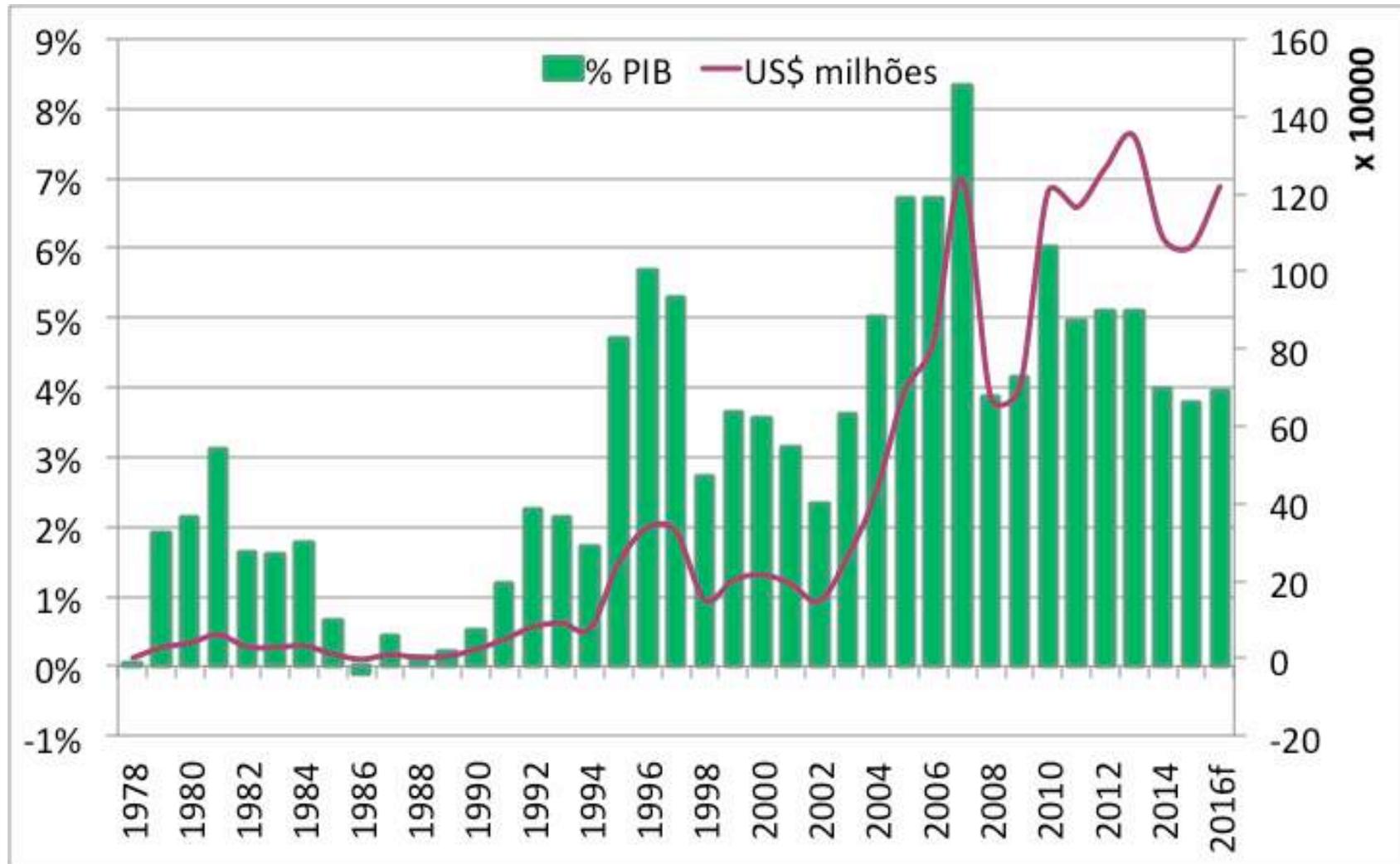


Fonte: Funcex

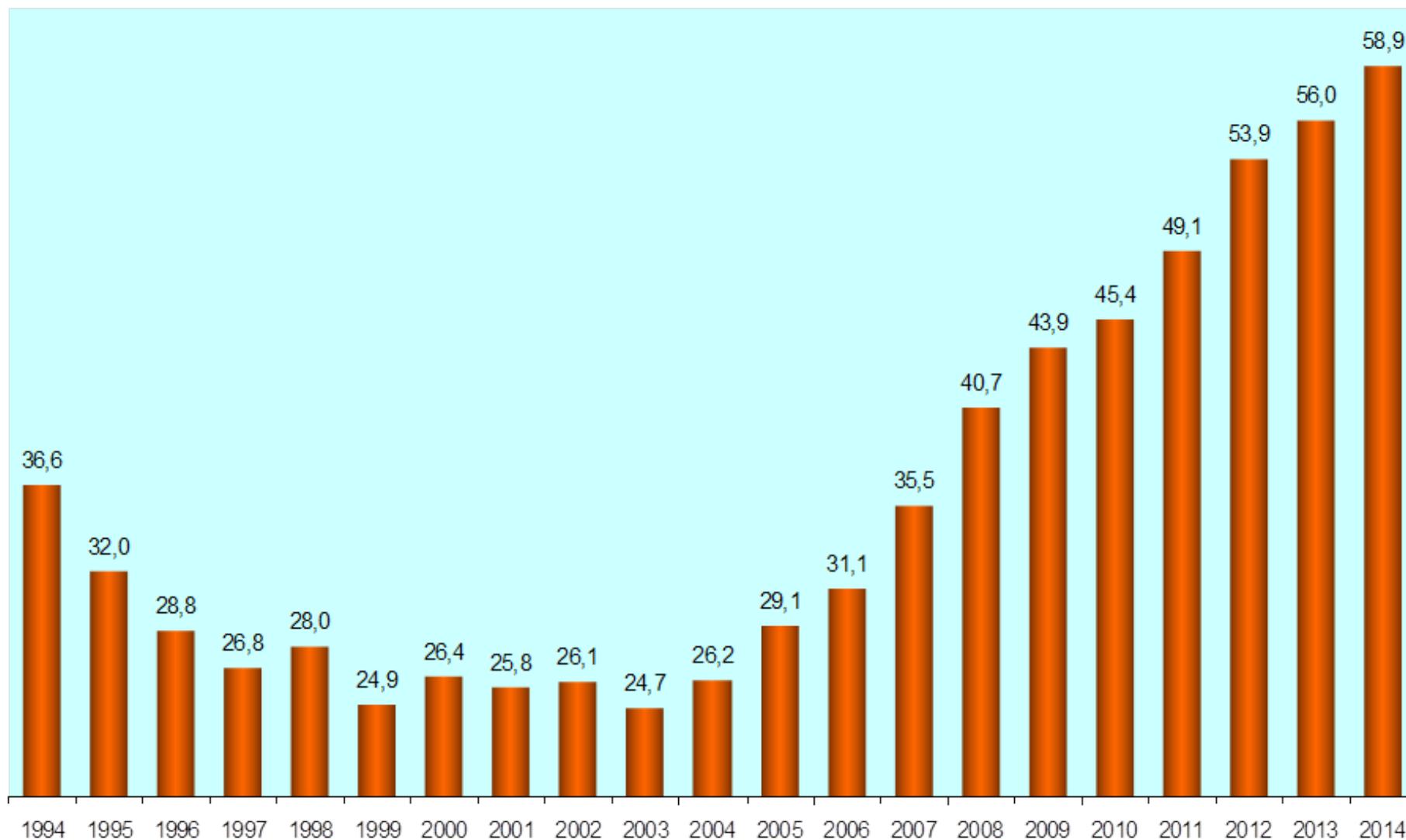
# Trade Surplus (US\$ billion)



# Liquidity cycle (Capital flows to Emerging Economies)

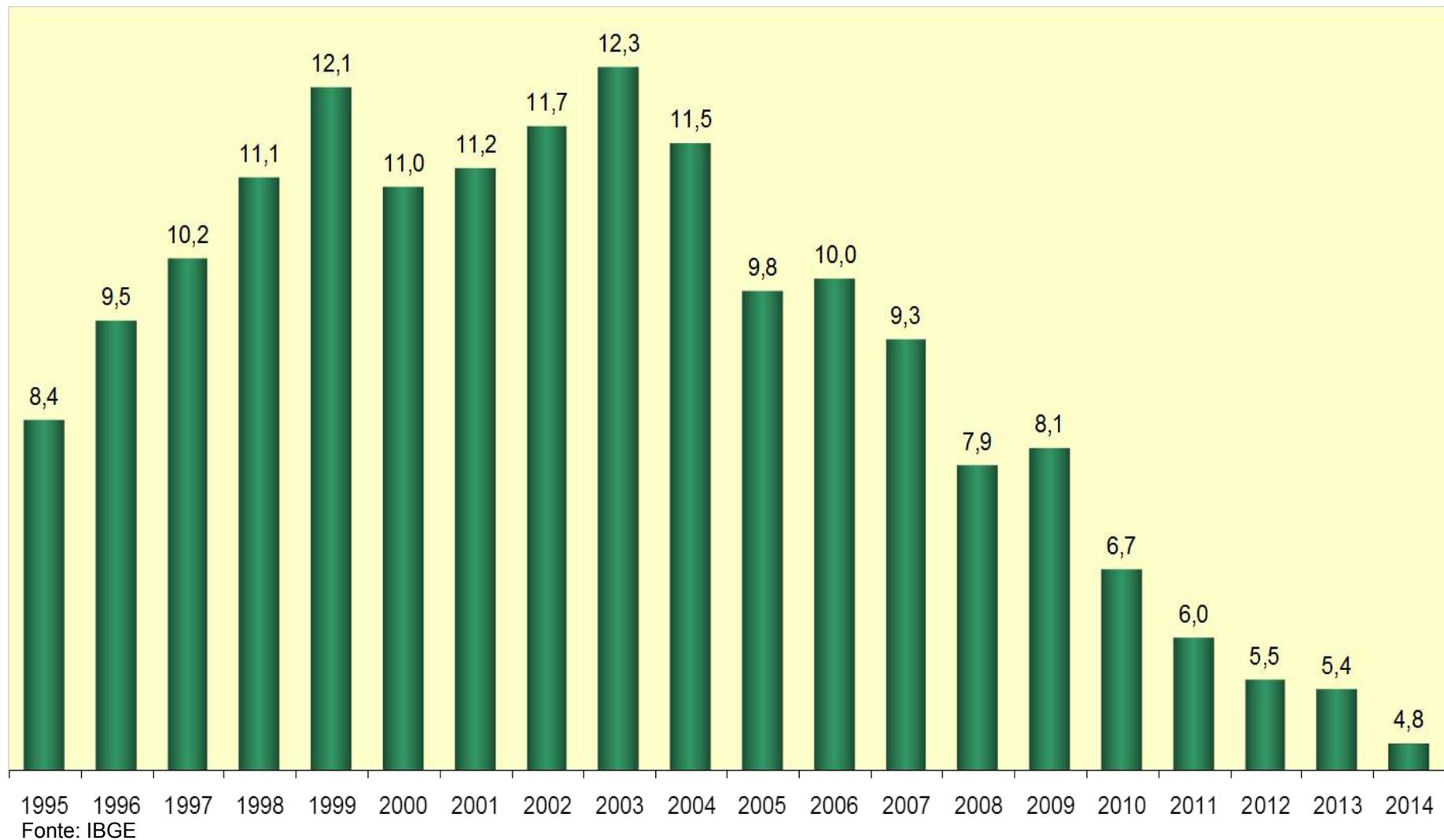


# Credit (stocks, % GDP)

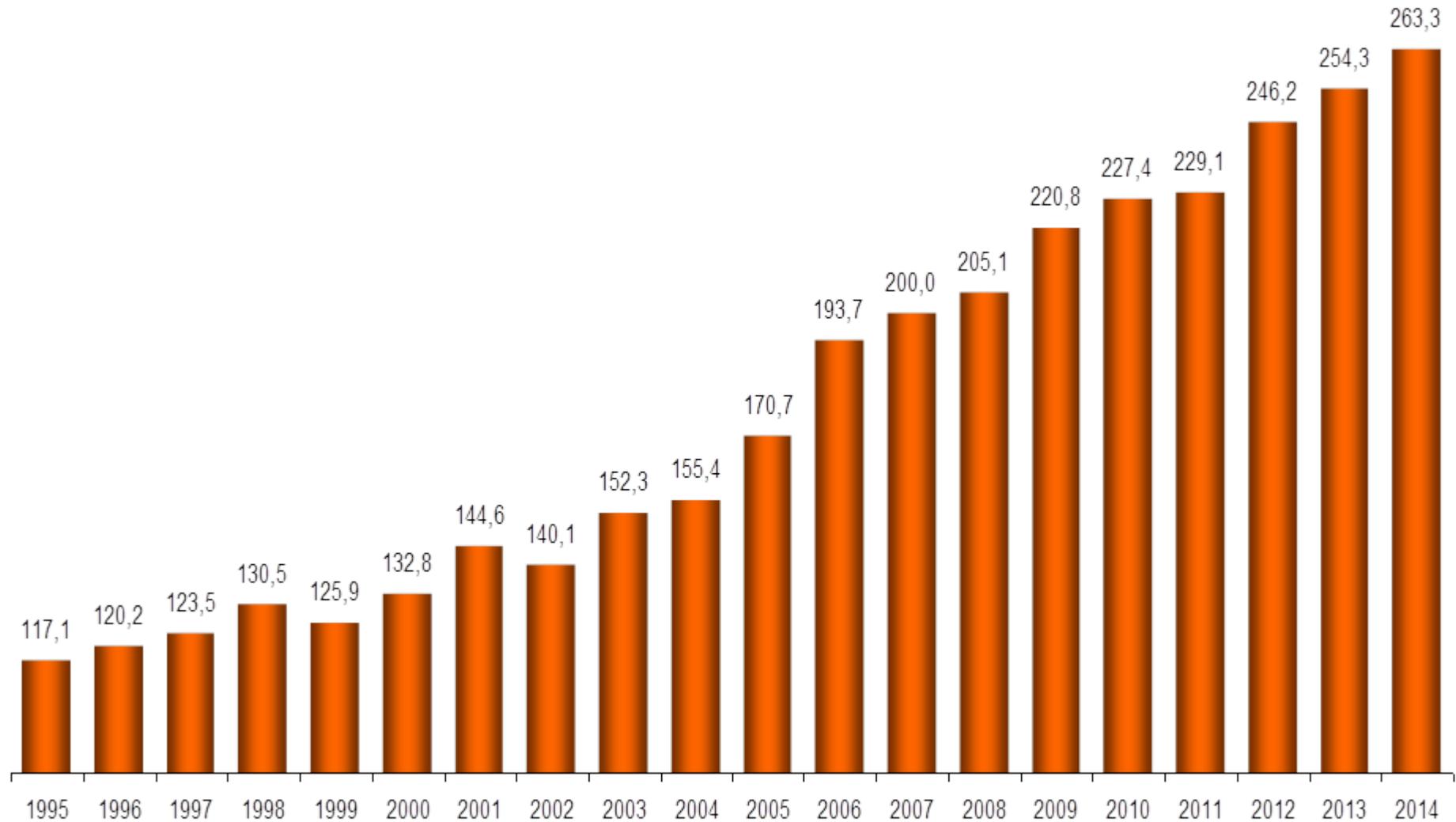


Fonte: BCB

# Unemployment rates

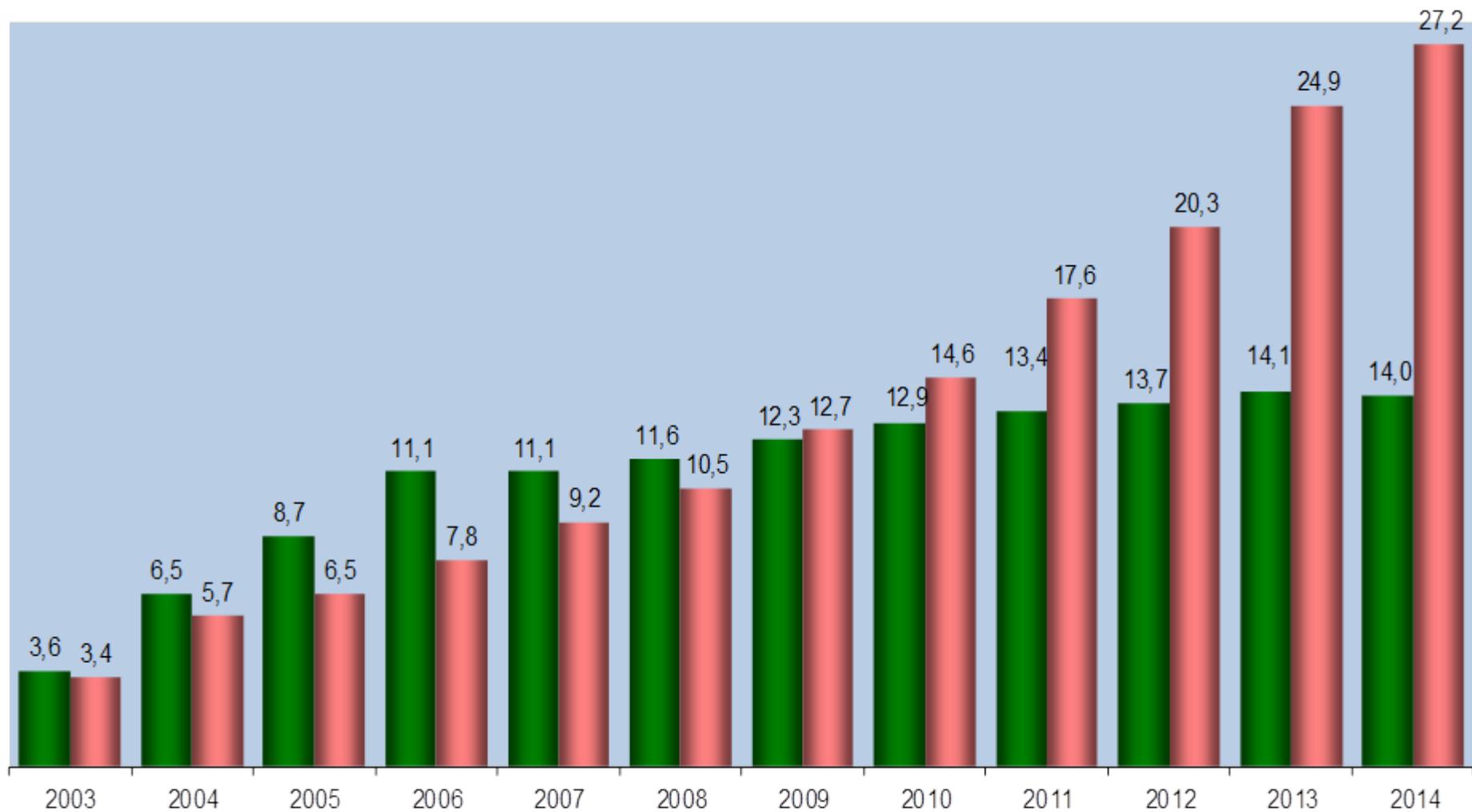


# Minimum wage (real value)



\* Deflacionado - INPC  
Fonte: DIEESE

# Bolsa Família program (number of families and values)

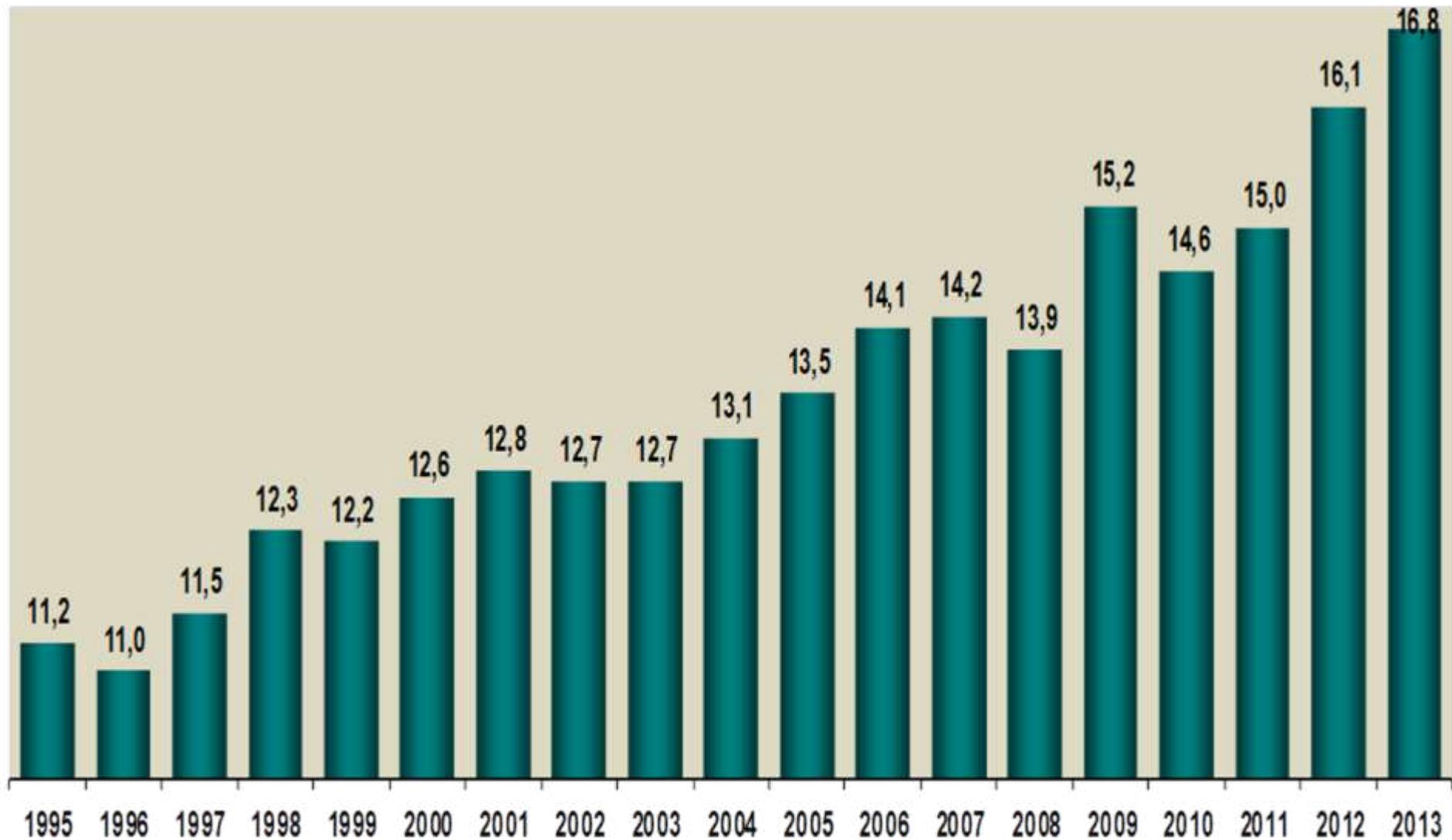


Fonte: MDS

■ Famílias Atendidas (milhões)

■ Valores Transferidos (R\$ Bilhões)

# Total social spending (%GDP)



Fonte: 1995 a 2000 (SIAFI/SIDOR e IPEADATA) e de 2001 a 2013 (Plano Brasil Maior PPA 2012/2013)

# Poverty and extreme poverty (% of population)



\* Linha de Extrema Pobreza do Plano Brasil sem Miséria

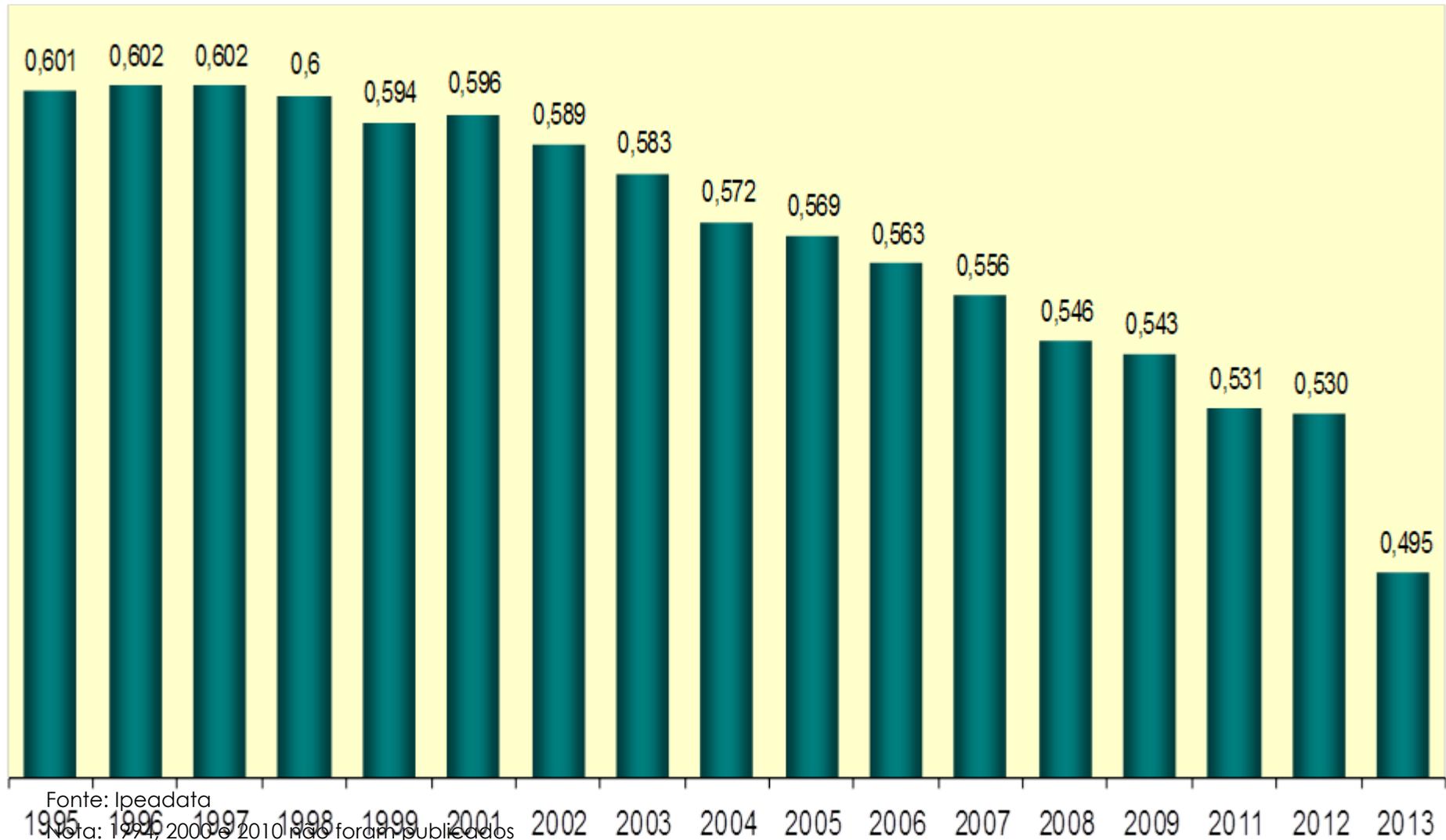
Nota: 1994, 2000 e 2010 não foram publicados

Fonte: MDS Plano Brasil sem Miséria

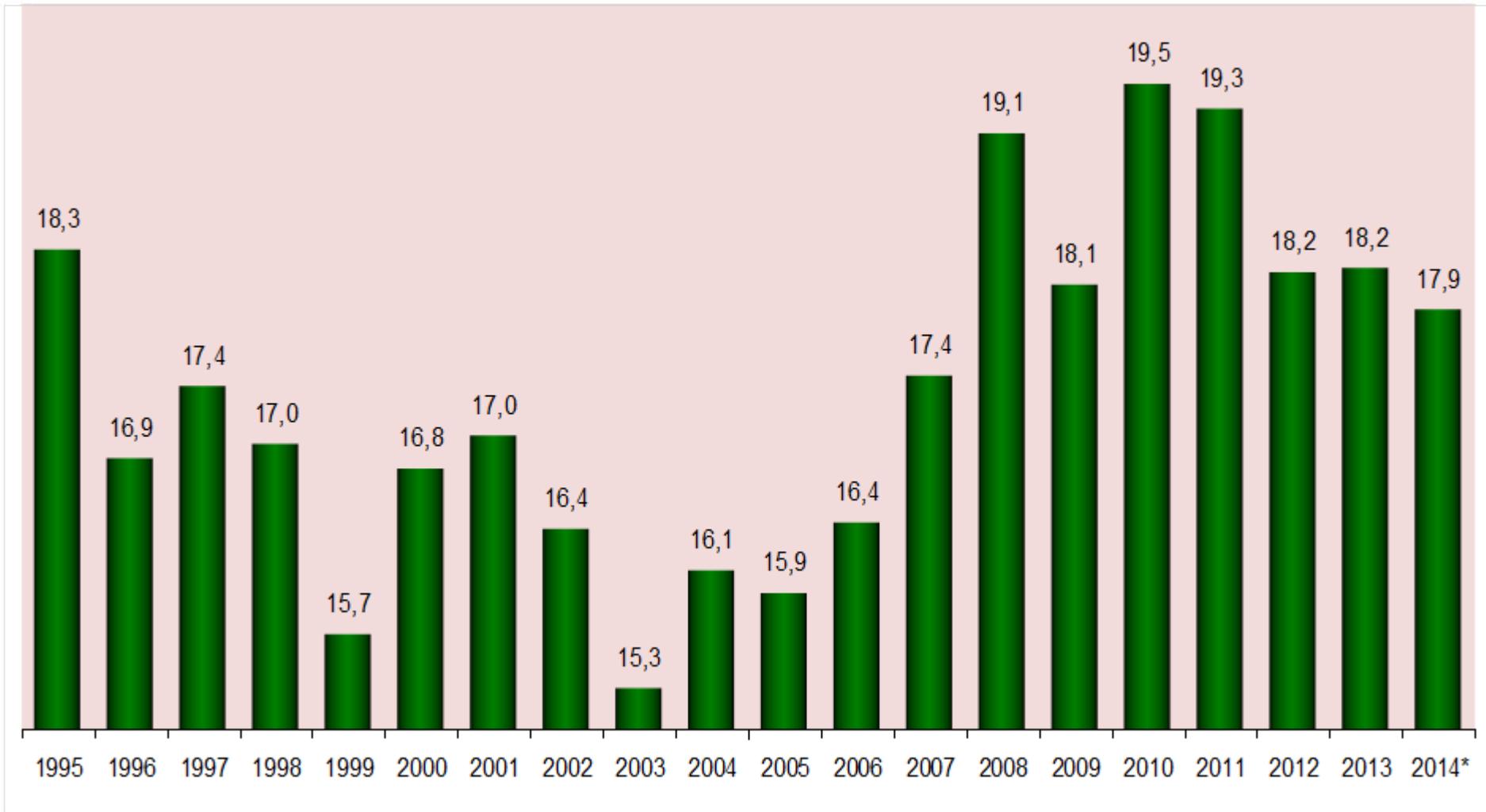
■ Extremamente pobres

■ Pobres

# Gini Coeficient (income concentration)

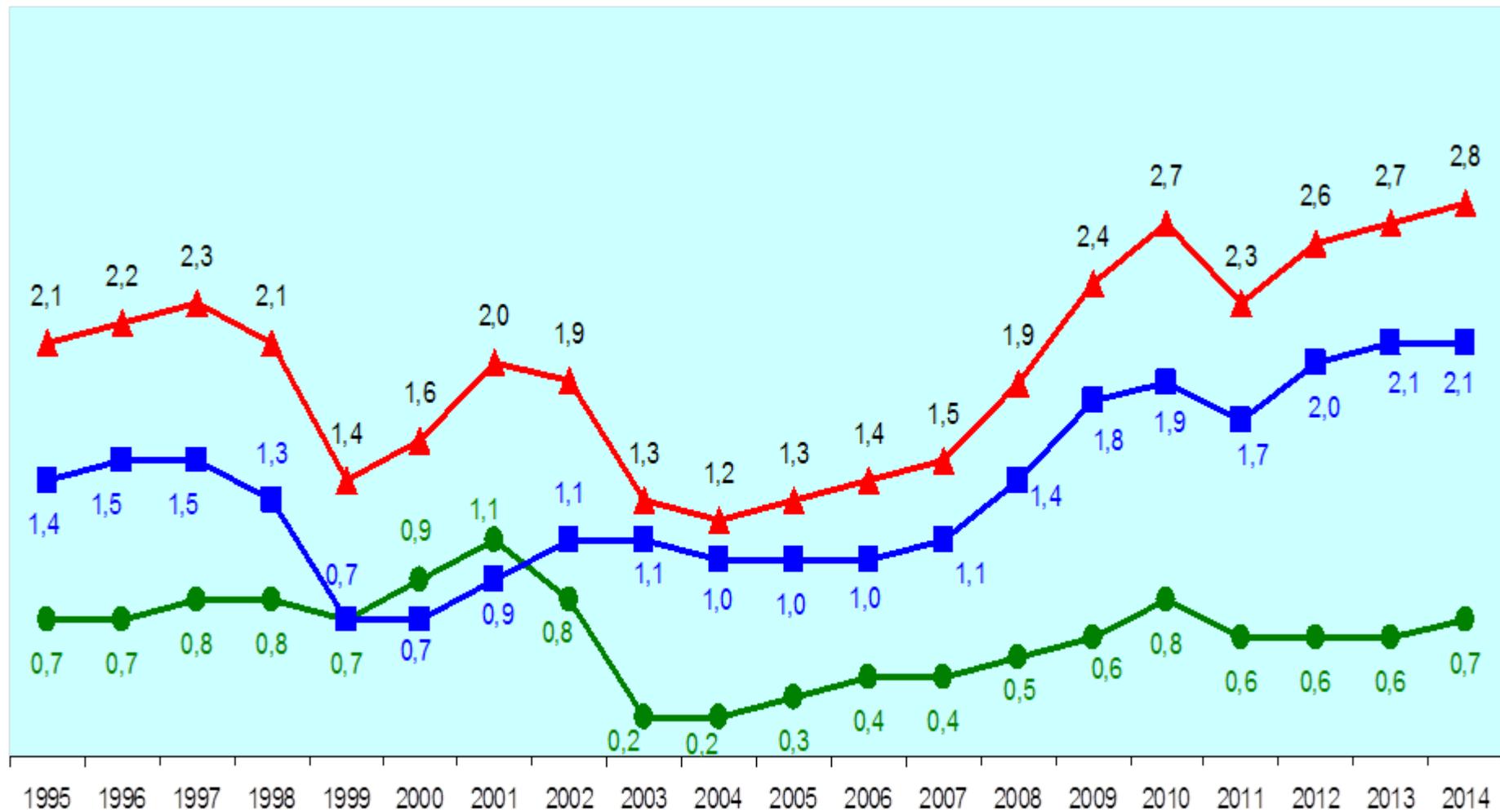


# Investment (Capital formation/GDP)



Fonte: IBGE

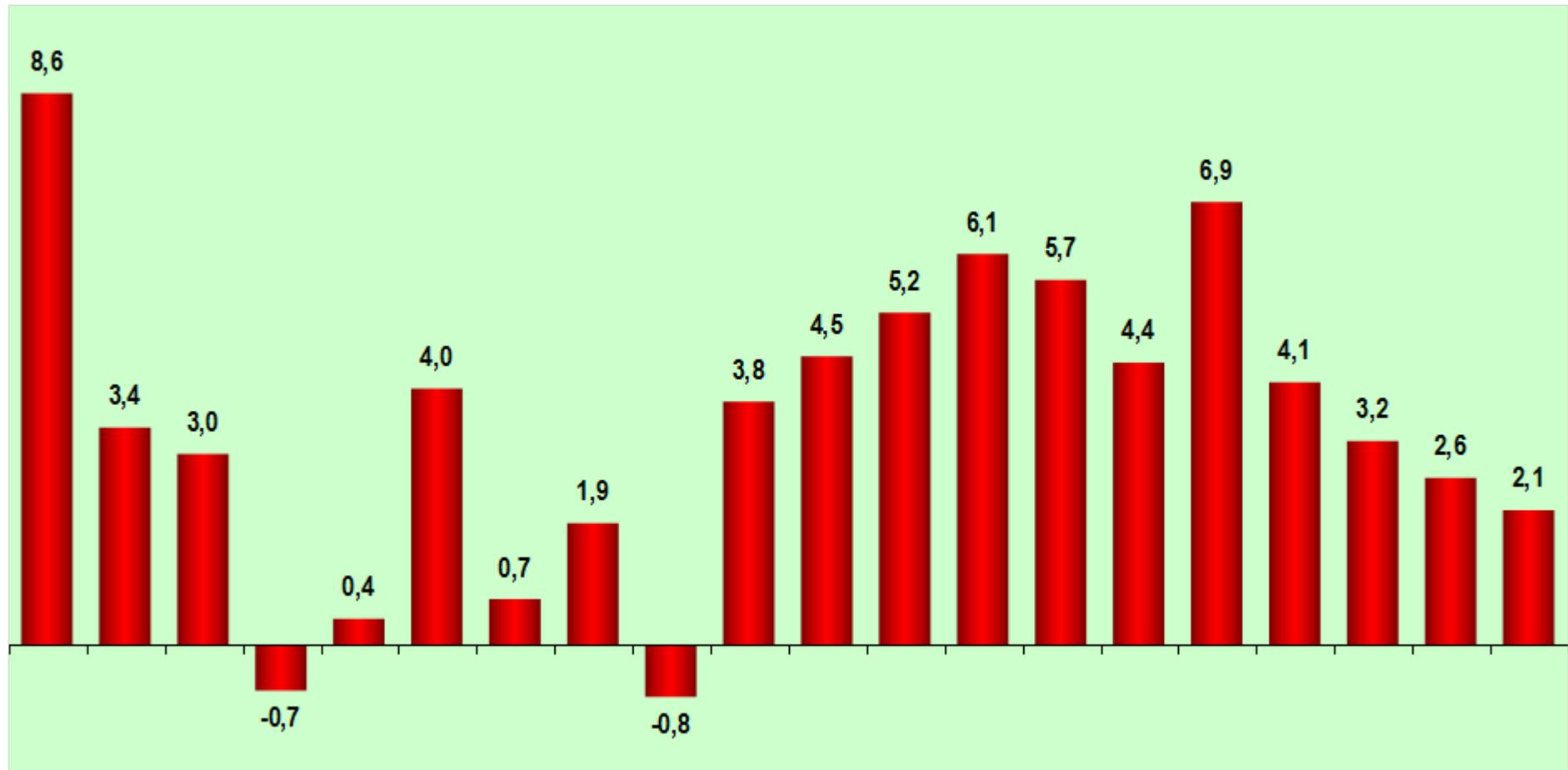
# Public Investment (% GDP)



Fonte: STN Secretaria do Tesouro Nacional

● União      ■ Estatais      ▲ Total

# Private consumption growth



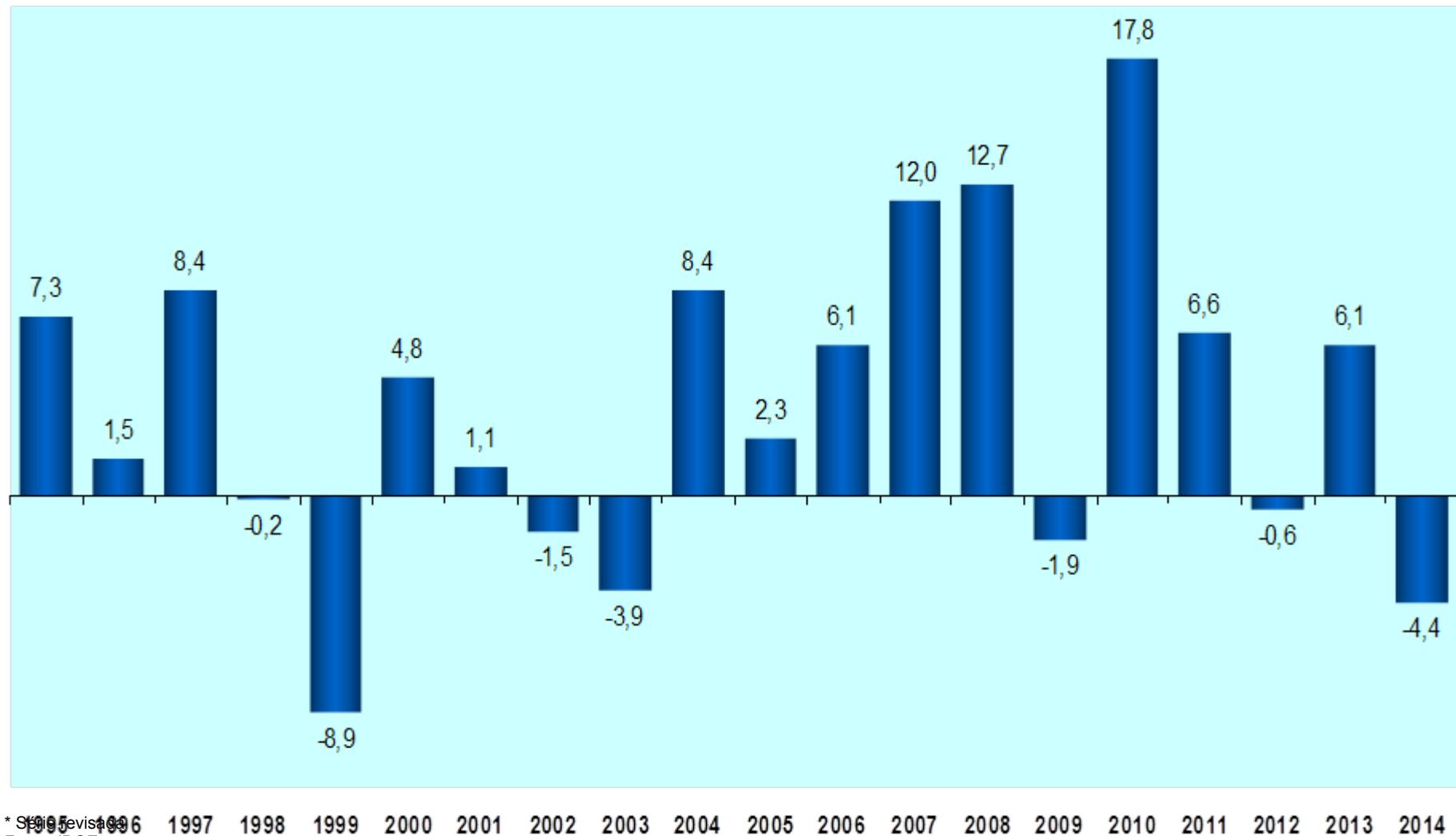
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014\*

\* 2014 - Dados de junho, acumulado em 12 meses

\*\* Série sem revisão

Fonte: IBGE

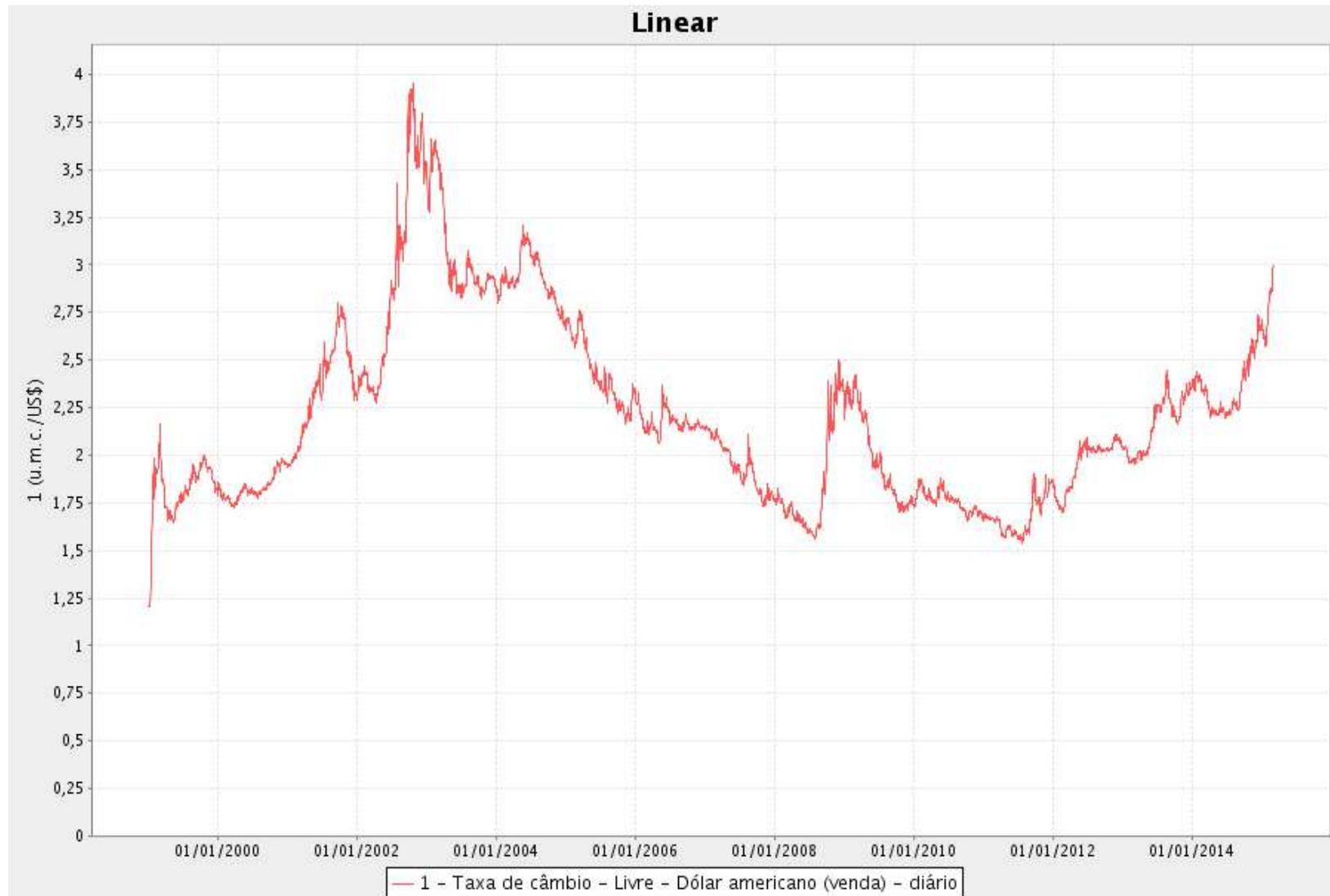
# Investment growth



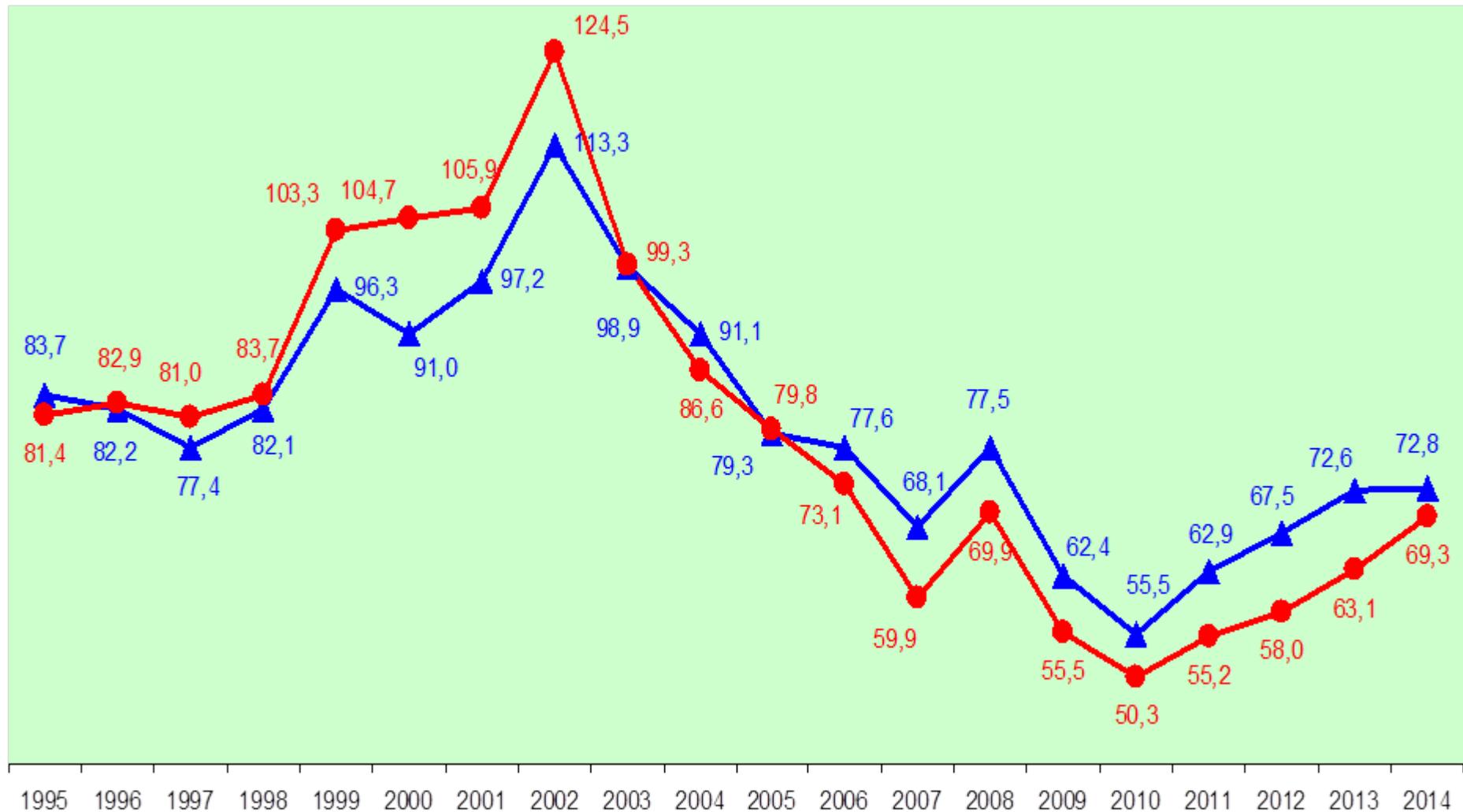
## 2. And the economic policy?

- Dichotomy: structural options x macroeconomic management
- Structural: a gradual, slow and incomplete return to “developmentalism”, with novelties:
  - More state, public banks and enterprises, industrial policies. And the social orientation
- Macro: orthodoxy
  - Exchange rate appreciation; tight fiscal policy; very high interest rates
  - Moderation since 2007, more space to public spending
  - Strong anticyclical policy in response to 2008 international crisis; more fiscal than monetary

# Nominal exchange rate (since 1999)



# Real and effective exchange rates (2000=100)

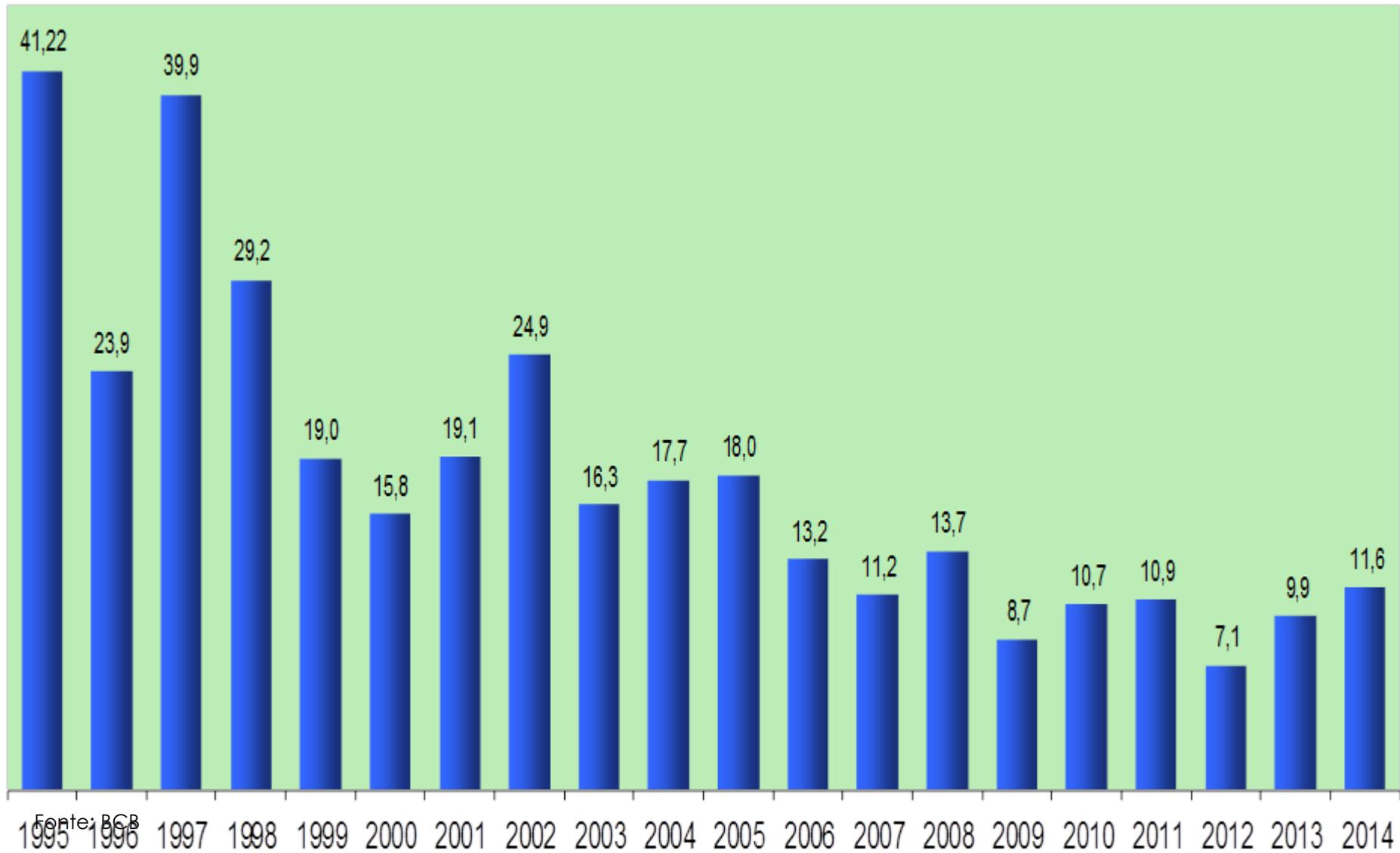


\* Cesta de moedas de 15 países  
Fonte: BCB

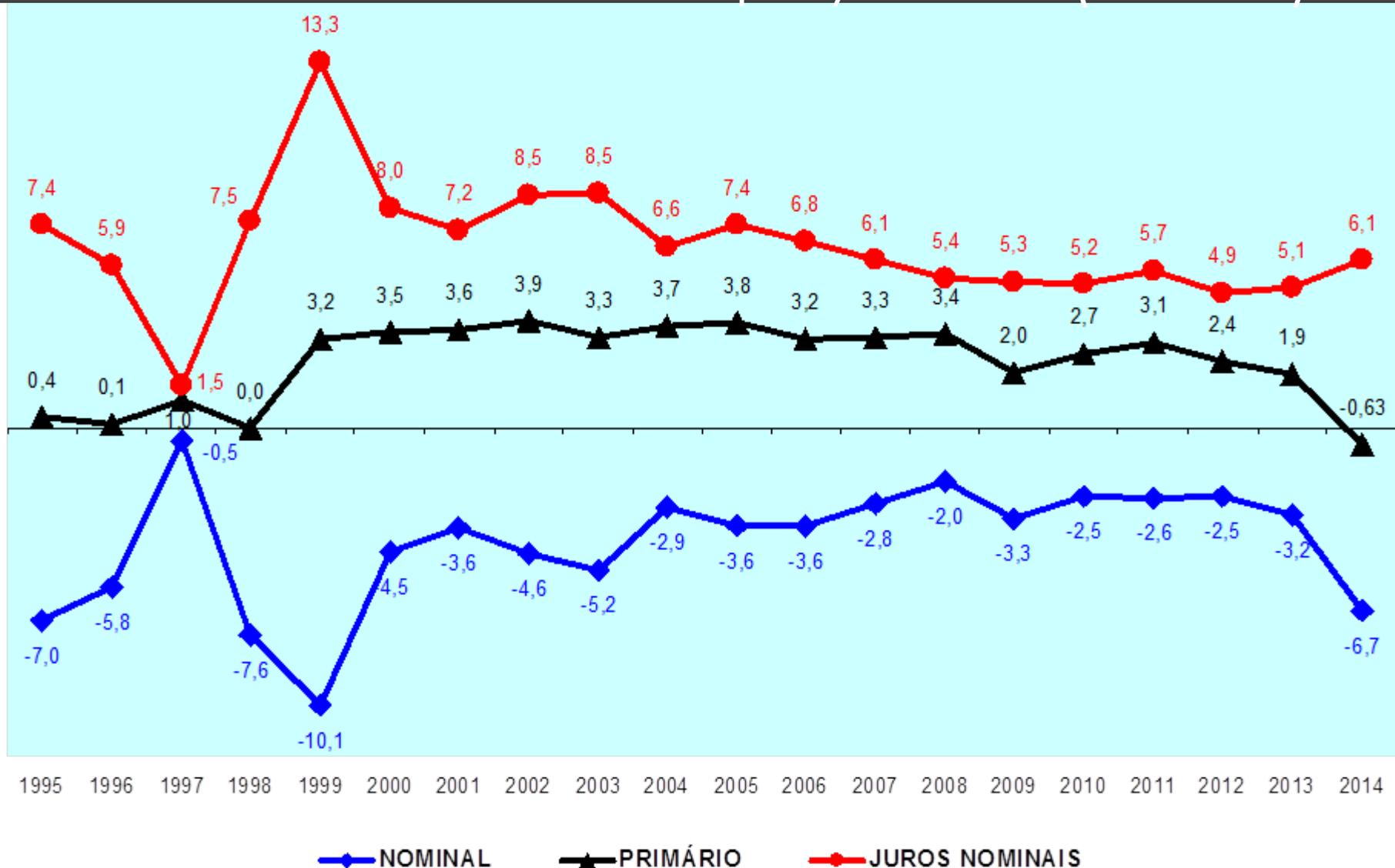
▲ Efetiva\*

● Dólar Americano

# Selic (policy interest rate), %



# Fiscal results: nominal and primary balances, interest payments (%GDP)

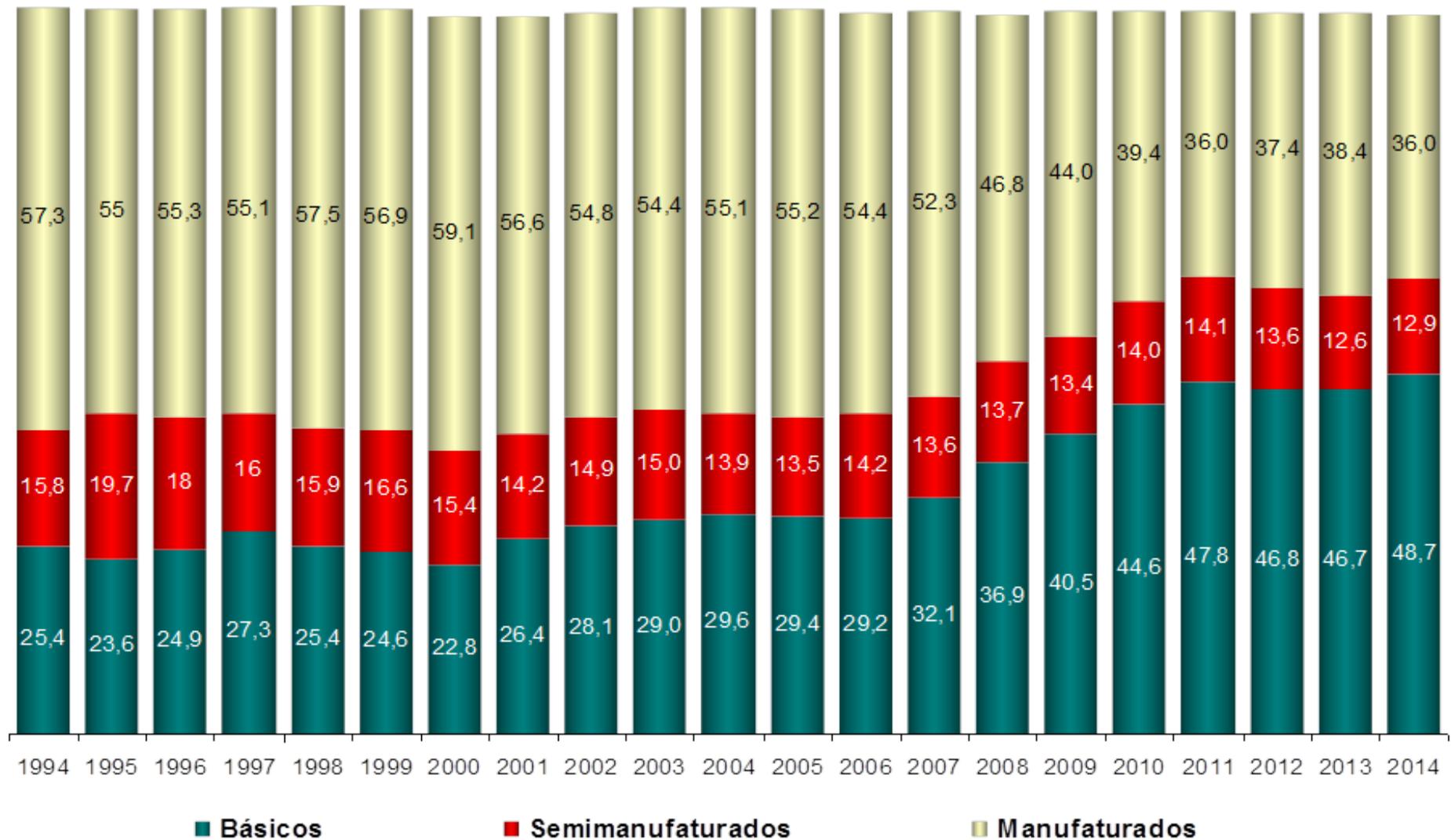


Fonte: BCB

## 2. What was wrong? Was the trend “unsustainable”?

- In Brazilian debate, the “model” was (and still is) criticized: “consumption-led growth”
- Investment (induced) growing more than Consumption; C and I are not competitors
- Nevertheless, in fact income distribution with decreasing effects; additional impulses needed
  - Infrastructure investments (social and logistics) were the obvious candidates
- And, the major problem was in the productive structure
  - Premature “de-industrialization” (?), primarization, clear signs of regression
  - Not only because of exchange rate appreciation

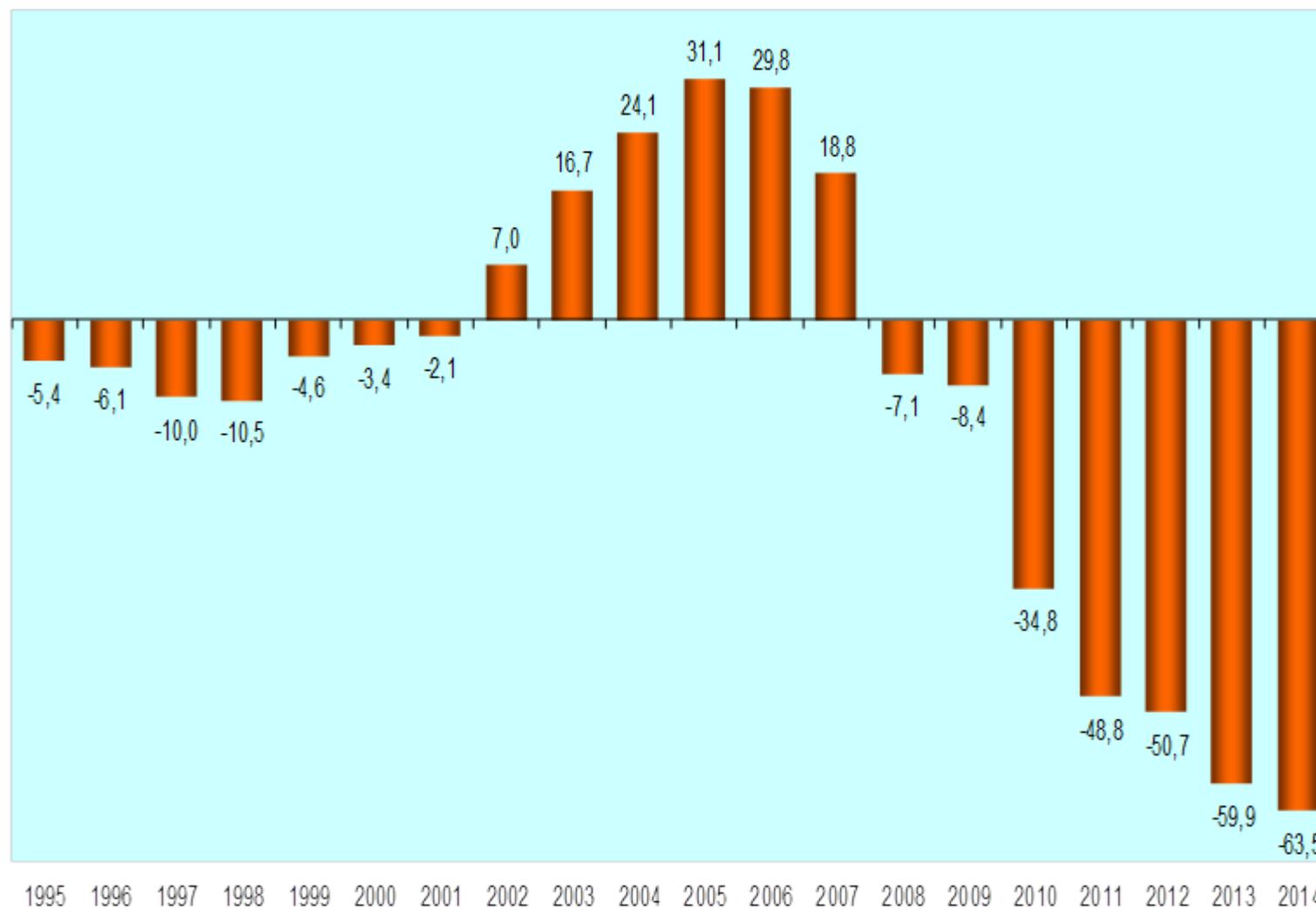
# Exports composition



Fonte: Funcex

# Industry trade balance (US\$ billions)

Período	(US\$ Bilhões)	
	X	M
1995	38,5	43,9
1996	39,3	45,3
1997	41,8	51,8
1998	40,6	61,1
1999	38,4	43,1
2000	44,8	48,3
2001	46,4	48,6
2002	47,7	40,7
2003	57,4	40,7
2004	75,8	51,8
2005	92,0	60,9
2006	105,0	75,2
2007	118,9	100,1
2008	137,0	144,2
2009	101,8	110,1
2010	124,6	159,4
2011	148,0	196,8
2012	144,3	194,9
2013	146,1	205,9
2014	133,5	196,9

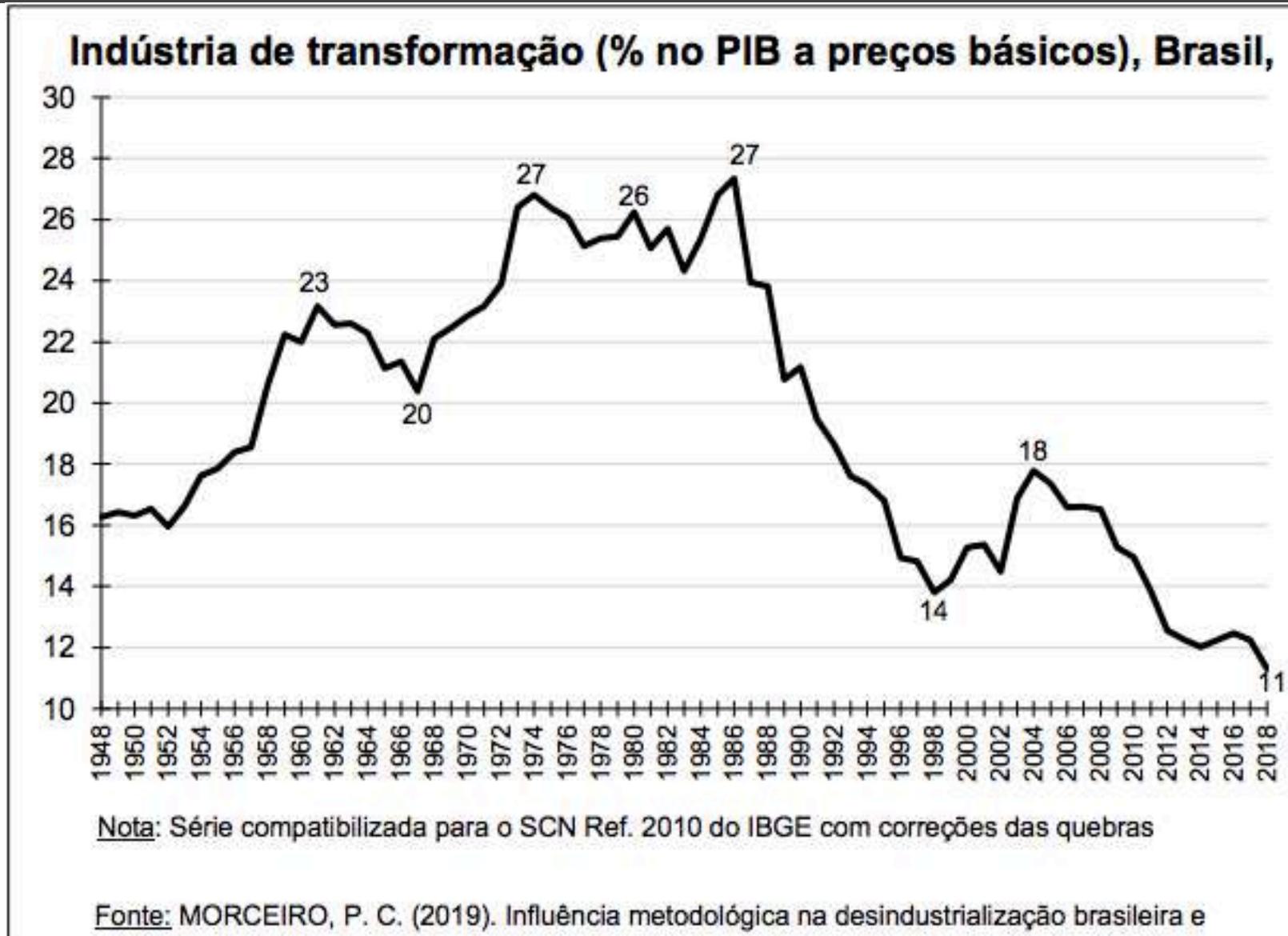


X – Exportações

M - Importações

Fonte: Carta IEDI 665

# Industry as a share of GDP



## 2. In summary...

- Vergnhanini and Biancarelli (2019), *From “inclusive growth” to “vicious circle”: the recent Brazilian trajectory (2004-2015) according to an integrated approach to development*
- An effort to to integrate 3 dimensions of development (macro, productive/structural and social) and characterize a period with synthetic indicators
- Lula (2004-2010): **Inclusive growth, with no progressive structural change**

	progressive structural change		regressive structural change	
	expansionist macro	contractionist macro	expansionist macro	contractionist macro
social inclusion	I	II	V	VI
social exclusion	III	IV	VII	VIII



### 3. The Dilma I strategy: major shifts

- Keeping or reinforcing two of the main features of the Lula's developmentalism: role of State and social policies
- But an effort to change the macroeconomic mix:
  - Firstly, a fiscal adjustment (public investment cuts) and a monetary contraction: growth moderation;
  - In later 2011, the signal was shifted: cumulative reductions in interest rate (reaching a historical low of 7.25% in September 2012); capital controls and future markets regulation that started to revert the exchange rate appreciation;
  - And a lot of other “incentives” to the private sector: energy cost reduction, tax exemptions
- It can be better defined as an “industrialist” strategy:
  - The goal was to reduce the cost of production (and investment), eroding the fiscal space available

---

## 3. The Dilma I: exhaustion and failure

- The evolution of the macro policies, especially after the political and economic consequences of June 2013, was erratic and have worsened the situation
    - The increase in inflation in early 2013 and a “rentier attack” led to a reversion in monetary policy
    - Some turbulence in international financial market led to the dismantling of financial regulations, and the devaluation trend was reinforced by domestic and external pressures
      - Moderated by a costly Swap-based intervention program
    - An extension of tax incentives, BNDES, regulated prices controlled
  - As a result, not only stagnation of industry and investment, but also more inflation, fiscal and external deterioration
-

# 3. The Dilma I: a summary

- Verghnhanini and Biancarelli (2019): “Moving towards the vicious circle”

	Y	Z	X	Cg	Ig	Cc	IRES									
average 2004-2010	4,5%	5,9%	5,4%	3,2%	17,2%	24,4%	10,6%									
2011	4,0%	1,5%	5,4%	2,2%	-8,6%	-16,0%	6,3%									
2012	1,9%	2,0%	-0,4%	2,3%	-1,1%	-6,0%	13,3%									
2013	3,0%	1,9%	2,7%	1,5%	1,7%	-3,0%		average real wage*	real social income (SP per capita)**	effective real income (SUM)	tx var. (%)	Household credit concession				
2014	0,5%	-0,5%	-1,0%	0,8%	11,0%	-25,2%		var. (%)	var. (%)			var. (%)				
2015	-3,8%	-3,6%	6,2%	-1,1%	-25,9%	-59,3%										
average 2011-2015	1,1%	0,3%	2,6%	1,2%	-4,6%	-21,9%		average 2004-2010	2,6%	7,7%	5,8%	18,9%				
								2011	2.215	2,6%	391	3,1%	2.606	3,0%	1.197.534	13,2%
								2012	2.307	4,2%	422	7,9%	2.729	4,7%	1.337.694	11,7%
								2013	2.351	1,9%	429	1,5%	2.780	1,8%	1.465.443	9,5%
								2014	2.414	2,7%	463	8,0%	2.877	3,5%	1.574.515	7,4%
								2015	2.324	-3,7%	466	0,7%	2.790	-3,0%	1.594.746	1,3%
								average 2011-2015		1,5%		4,2%		2,0%		8,6%

	Real growth rate (%)					Share in total MI (%)					MI	dif. (p.p.) 2004-10
	low	medium-low	medium-high	high	MI	low	medium-low	medium-high	high	MI		
average 2004-2010	3,0%	3,5%	5,3%	2,6%	3,6%	0,3	-1,4	2,0	-0,9			
2011	4,9%	2,1%	3,9%	-2,8%	3,2%	33,5%	32,7%	27,5%	6,3%	100%	2011	
2012	4,8%	1,2%	-3,2%	5,1%	1,4%	34,6%	32,6%	26,2%	6,5%	100%	2012	
2013	1,3%	4,5%	3,8%	-4,9%	2,6%	34,2%	33,2%	26,5%	6,0%	100%	2013	
2014	0,9%	-0,2%	-6,9%	8,6%	-1,1%	34,9%	33,5%	24,9%	6,6%	100%	2014	
2015	-0,1%	-5,9%	-7,5%	-15,4%	-4,9%	36,7%	33,2%	24,3%	5,9%	100%	2015	
average 2011-2015	2,4%	0,4%	-2,0%	-1,9%	0,2%	3,6	0,1	-3,0	-0,8			dif. 2011-15

\* MI = manufacturing industry

## 3. The Dilma II radical shift

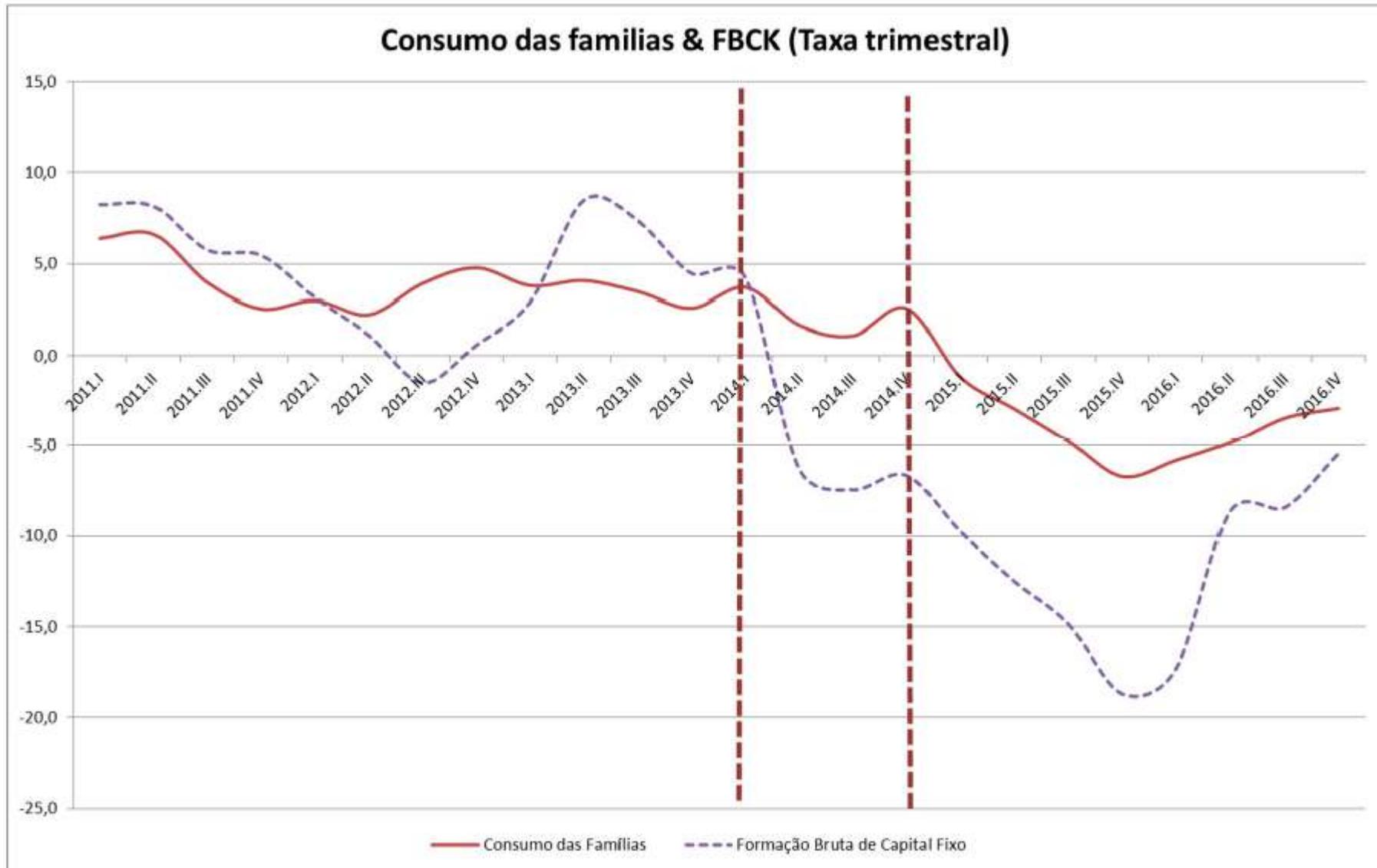
- The 2014 presidential race was marked by instability, unexpected movements and polarization
  - Economics was an important topic during debates, opposing the “inclusive” model to “unpopular adjustment”
  - The corruption scandal and general political instability added uncertainty
- After the victory, the evaluation of the threats and the policy options were, in my opinion, a big mistake (at least in economic grounds)
  - On the external front, risks of “downgrade” and “capital flight” were wrong and exaggerated. The external constraints were different from past episodes!
  - On the fiscal front, despite the need for rebalancing, the endogenous dynamic of the flows (and stocks!) were ignored.
- Justified by the “confidence building tale”, the macro adjustment was built on four pillars: fiscal, monetary, exchange-rate, and public prices
  - An orthodox shock, with disturbing consequences

---

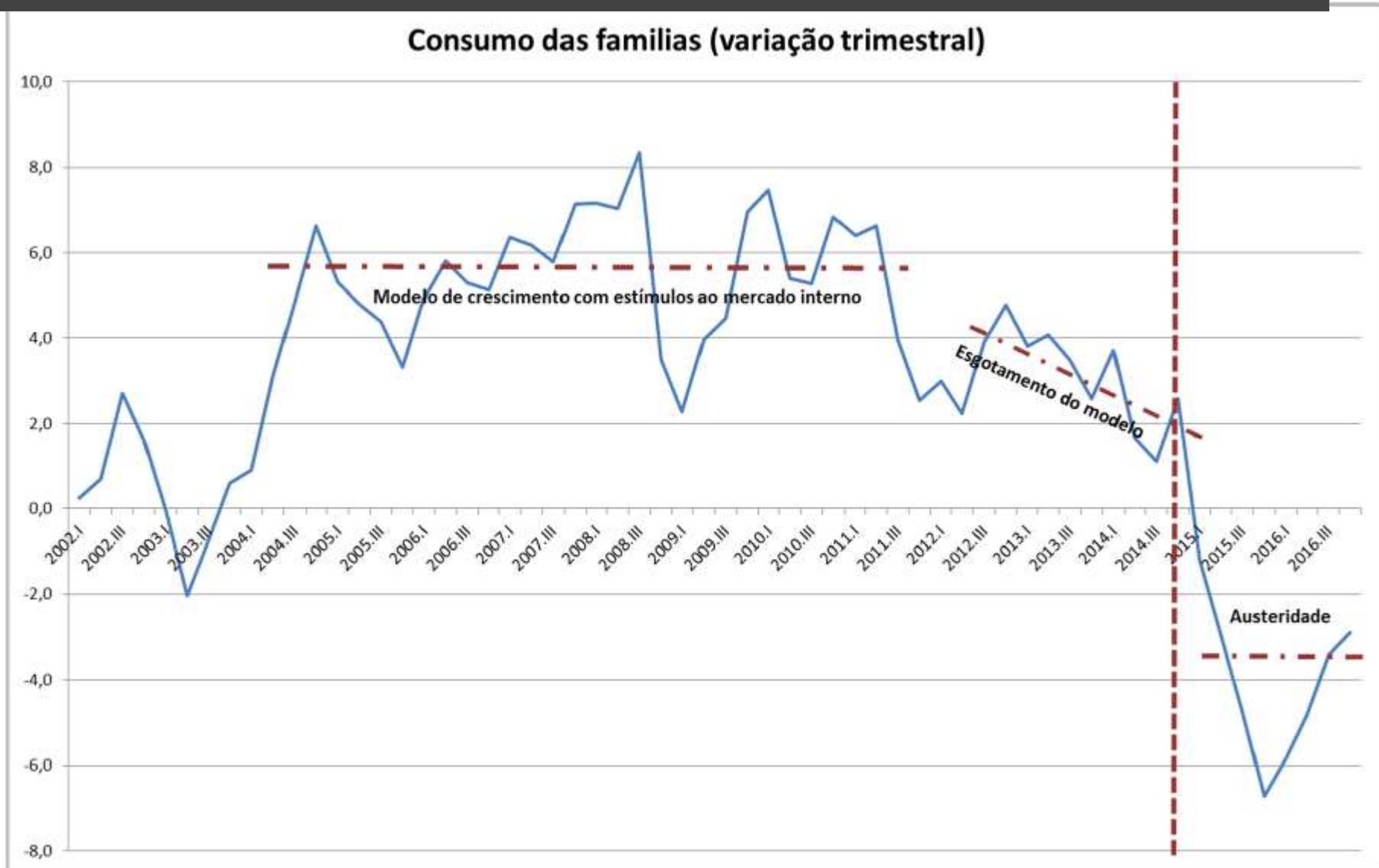
## 3. The Dilma II strategy: contents

- Fiscal: investment cuts and some tax recovery on the short term; some structural spending cuts on the long
  - Monetary: a new round of Selic increases, reaching the unbelievable level of 14.25%, during the worst recession in history
  - Exchange-rate: reduction in the intervention program, allowing a maxi-devaluation driven by domestic and external pressures
  - Regulated prices: “once and for all” correction in fuel, energy and other public services
-

# 3. Results: Consumption and Investment



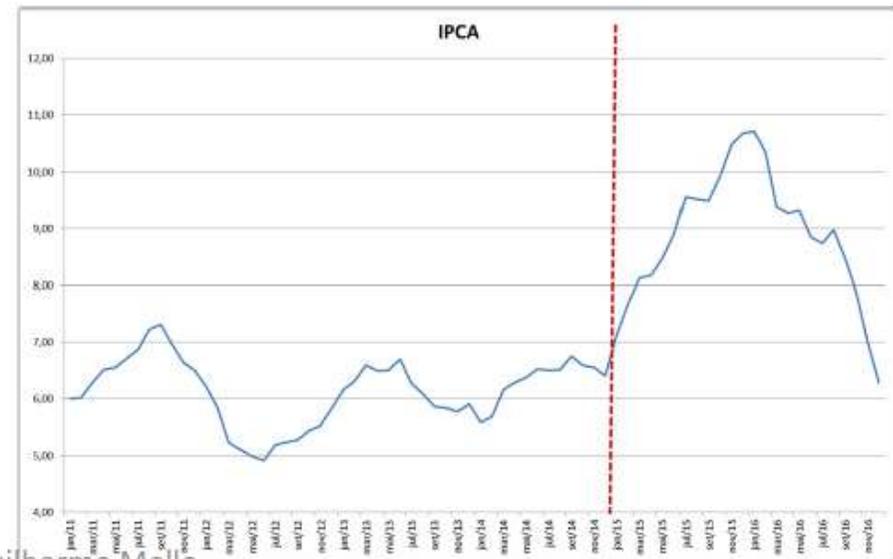
### 3. Results: Consumption



### 3. Results: Unemployment

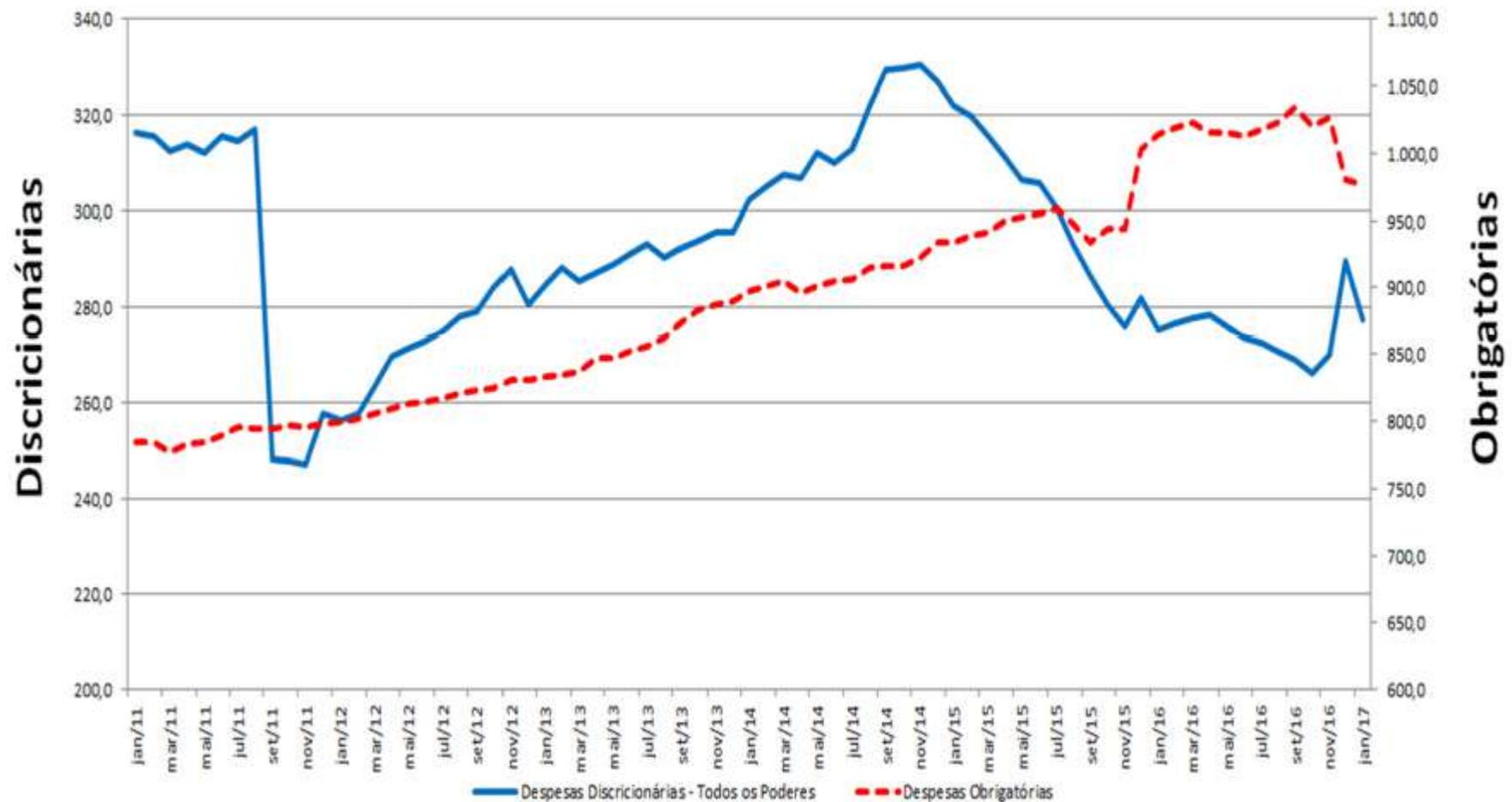


# 3. Results: Exchange rates, interest rates and inflation



### 3. Results: Public spendings

Despesas Primárias do Governo Central  
R\$ Bi (acum. 12 meses - Preços jan/2017)





# FOLHA DE S. PAULO

Desde 1921 UM JORNAL A SERVIÇO DO BRASIL folha.com.br  
 DIRETORES DE REDAÇÃO: OTAVIO FRIAS FERREIRO ANO 97 • QUINTA-FEIRA, 18 DE MAIO DE 2017 • Nº 10.147 EDIÇÃO SP/DF • CONCLUÍDA ÀS 02H31 • R\$ 4,00

## Áudio de conversa de Temer e empresário encurrala governo

★ FALA DO PRESIDENTE A SÓCIO DA JBS SUGERE AVAL A COMPRA DO SILÊNCIO DE EDUARDO CUNHA  
 ★ TEMER CONFIRMA O ENCONTRO, MAS AFIRMA QUE JAMAIS SOLICITOU RECURSOS AO EX-DEPUTADO

Michel Temer foi gravado por Joesley Batista, um dos sócios do frigorífico JBS, em uma reunião com a Polícia Federal em março de 2016. As conversas sugerem que o presidente teria avaliado a compra do silêncio do ex-deputado Eduardo Cunha (PMDB).  
 Temer teria ouvido de Joesley Batista, um empresário que estava dando a Cunha ao operador Luciano Furtado uma mensagem na prisão para que ambos ficassem em silêncio. De acordo com a denúncia, o presidente respondeu: "Tem que manter isso, viu?"  
 O peemedebista afirmou na noite desta quarta (17) a política entrevistado pela Folha ter ouvido o relato de Joesley sobre pagamento à família de Cunha. Mas negou, em nota, ter solicitado recursos para obter o silêncio do ex-deputado preso.  
 O encontro, divulgado pelo jornal "O Globo" e confirmado pela Folha, aconteceu no início de março deste ano. O empresário e seu irmão Wesley, dono da maior produtora de carne do mundo, negam acordo de delação premiada no Supremo.  
 Foi a primeira ação desse tipo para tentar obter fragmentos de delações na Lava Jato. Os relatos lançaram o governo em suas maiores crises. No Congresso e em protestos de rua, houve pedidos de renúncia do presidente e clamor por eleições diretas. Poder A3



### ÍNDICE LAVA JATO

#### Aécio Neves pediu R\$ 2 mi a Joesley, afirma executivo

O senador Aécio Neves (PSDB) foi gravado pedindo R\$ 2 milhões a Joesley Batista, filiado a executivos. O dinheiro teria sido entregue a seu primo, em ação filmada pela PF. Aécio disse que está tranquilo quanto à correção de seus atos e que sua relação com Joesley é pessoal. Poder A2

#### Ação espetacular, prevista em nova lei, é típica do cinema

Regras de possíveis eleições indiretas levantam dúvidas

aprova a Estados midade  
 aprova nesta projeto de saúde em cala-  
 nocência. O pro-  
 que que em dai-  
 a dívida com  
 n de bancos es-  
 anos. Um tre-  
 sário um apor-  
 tado. Mercado A17



Manifestante pede eleições diretas no país em ato contra Temer na avenida Paulista, em São Paulo, presidente enfrentou protestos e boicotes em Brasília. Poder A9

MARCUS MELO  
 No médio prazo, caso legítima Lava Jato e ajuda a pacificar país.  
 Poder A11

PAIMEL  
 Pressão sobre TSE e pedido de diretas são consequências.  
 Poder A6

BERNARDO MELLO FRANCO  
 Aliados já admitem o afastamento do peemedebista.  
 Poder A3

VINÍCIUS TORRES FREIRE  
 Dívida é como fazer transição sem risco e caos econômico.  
 Mercado A20



990  
 AXA 0%  
 VEJA NA PÁGINA 6  
 HYUNDAI  
 www.hyundai-motor.com.br  
 CAOA MONTADORA  
 CAOA AUTOMOTORES, SÃO PAULO/SP

---

## 4. Temer government 2016, 17, 18...

- Fueled by social and political unrest, political environment in Brazil turned into chaos since 2015
    - Government errors; opposition (and private sector) irresponsibility
  - A traumatic (and unfair) impeachment process in 2016
  - The Temer period (2016-18) was marked by institutional and political deterioration and deeper corruption scandals
    - A complete disaster, popularity levels below Dilma II numbers
  - In economic grounds, failure in short term numbers:
    - A very timid growth resumption, higher and persistent unemployment, worsening of public finances
    - Good numbers only in inflation and external accounts
-

## 4. What was the economic “mission” of the illegitimate government?

- In fact, short term results were not the most important
- Taking advantage of the political turmoil to alter (fast and radically) the structural basis of Brazilian economy
- Various simultaneous efforts, in a liberalizing “race”
  - Oil sector, public banks, energy enterprises, labor relations, public spending cap etc.
  - A reform in pension system was proposed, but unsuccessfully (political weakness of the government)
- The relation of all these efforts with growth was always presented as indirect
  - Confidence, private sector replacing State etc.
  - Given the structural and short term problems of Brazilian economy, from demand and supply sides, it would be very difficult to work!

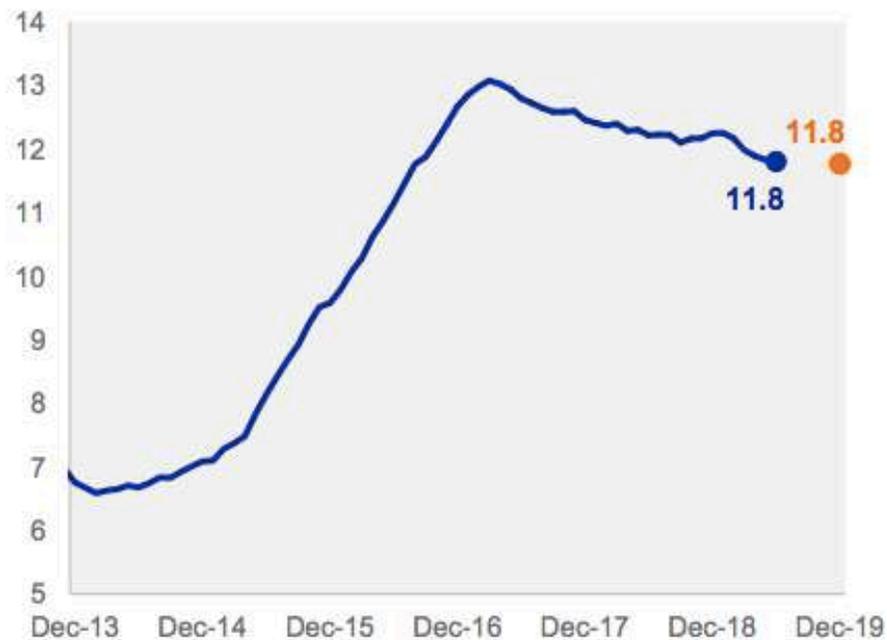
## 4. Recent numbers: GDP growth

**GDP growth (qoq)**

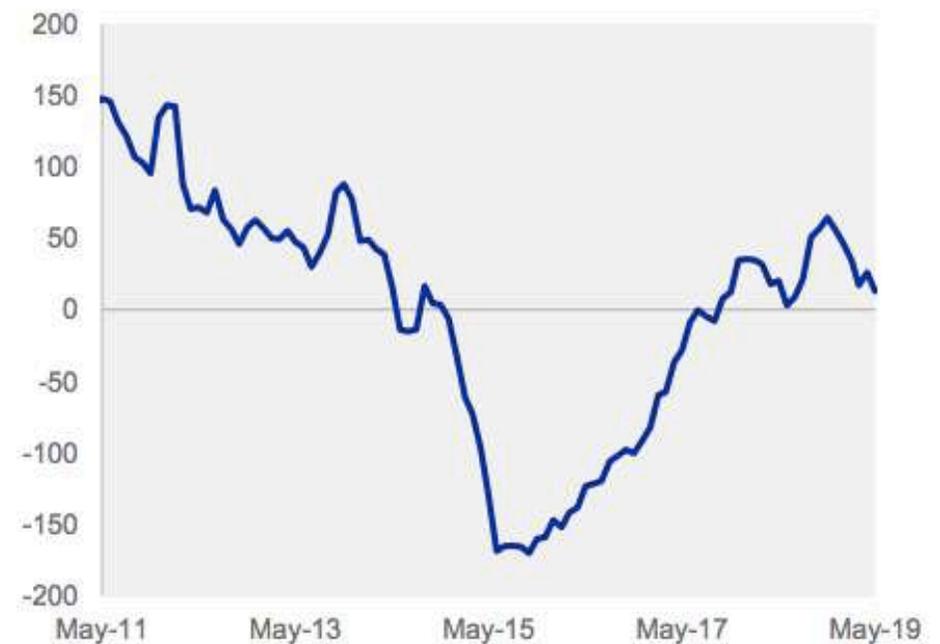


## 4. Recent numbers: Unemployment and job creation

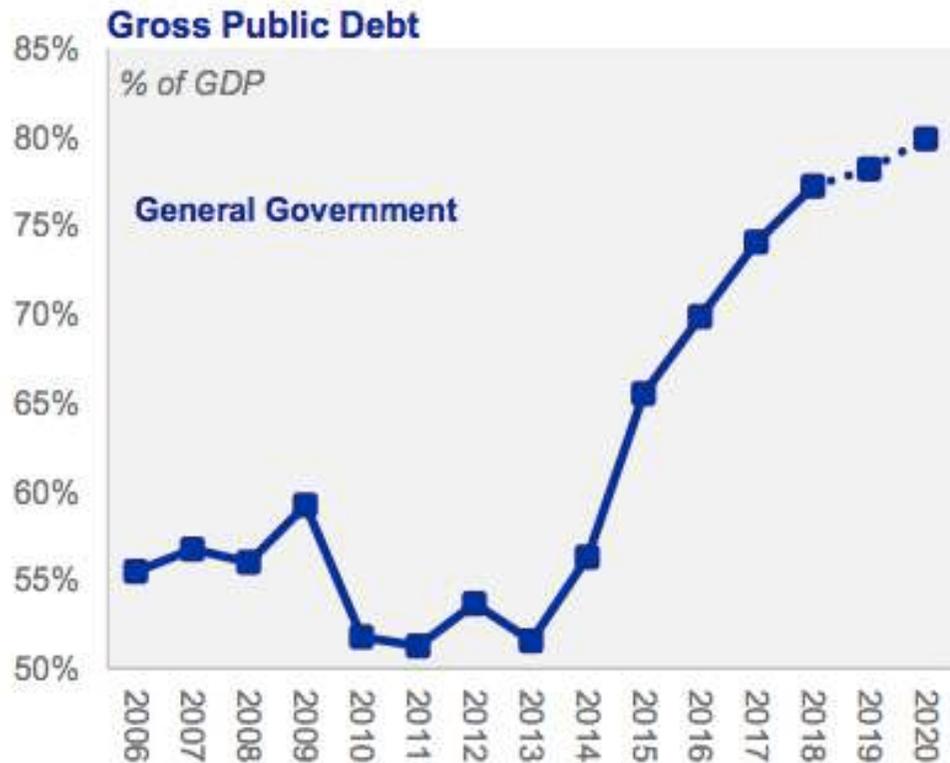
**Unemployment rate**  
*%, seasonally adjusted*



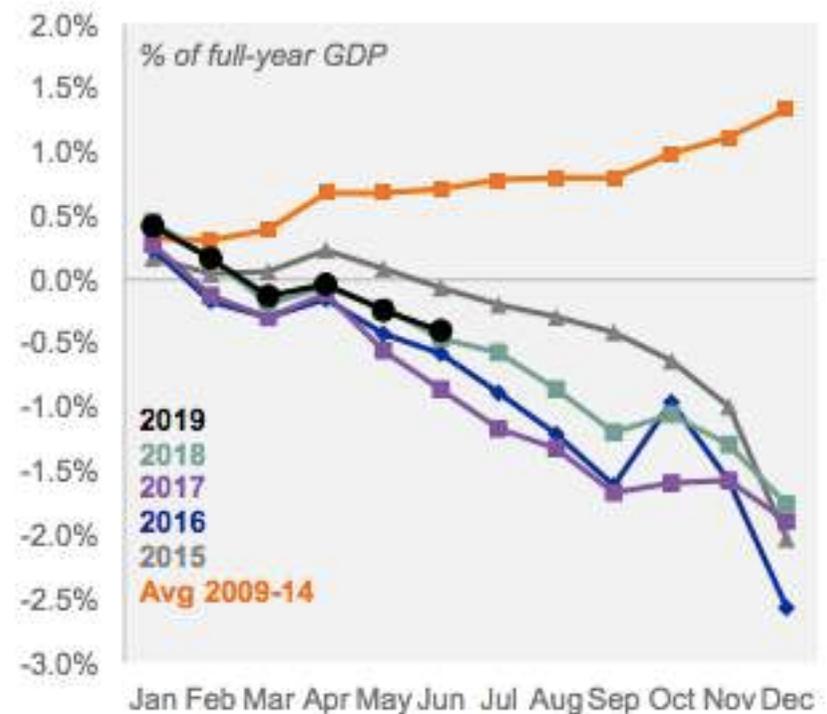
**Net Formal Job Creation (CAGED)**  
*3mma, thousands*



## 4. Recent numbers: public debt and primary surplus



Central government's primary result close to 2018



# 4. Recent numbers: inequality (Gini Index)

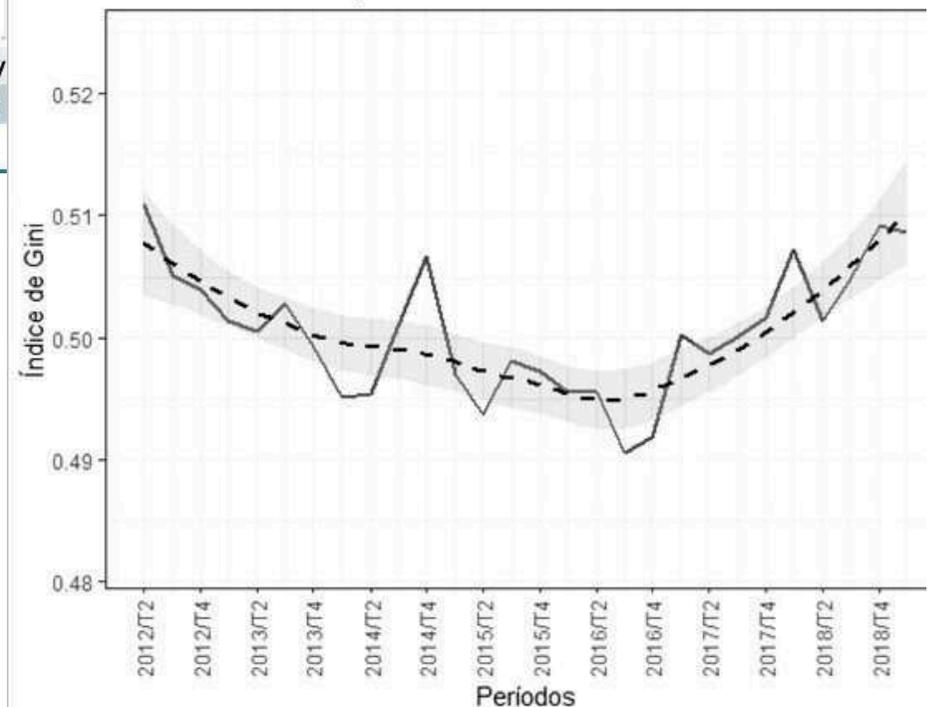
## Desigualdade crescente

Índice de Gini da renda do trabalho domiciliar per capita



Fonte: Ibre/FGV

Índice de Gini: Renda mensal habitual do trabalho principal  
Série trimestral. Brasil, 2012/T1-2018/T4



Source: IBGE: PNAD Contínua. Elaboração Própria



## 4. And what about Bolsonaro's economy?

- The election of an extreme-right leader in Brazil was an unexpected and very complex process
  - That, among many other factors, has clear links with the economic crisis and the political/institutional chaos
- In economic issues, the president was historically more guided by an old style nationalism, State interventionism, military dictatorship defense
- To be accepted by private (industry, financial and other services) sectors, he handed the economic program to a very liberal economist, a “Chicago boy” with no experience in public sector: Paulo Guedes
  - But the economy (despite the crisis and unemployment) was an absent topic in the turbulent 2018 electoral run

## 4. Bolsonaro's economy

- So far, the economic policy was almost inexistent, all efforts in a harsh pension system reform proposal
  - That, in a moderated version, is being approved in Congress
- Besides, ideas, proposals and some initiatives of an ultra-liberal, Pinochet-style agenda, much broader than Temer's
  - privatization (in large scale), everything on sale!
  - trade and financial opening, in a submissive foreign policy
  - destruction of state intervention mechanisms (public banks, earmarked credit, industrial policies etc.)

## 4. Bolsonaro's economy – final

- Probably, these reforms won't produce economic growth, but certainly will change dramatically the economy
  - The perspectives, from our 3 dimensions (macro, structural, social) are very negative.
    - A deeper vicious cycle with contractionist macro, social exclusion and structural regression, already in action (Verghnhanini and Biancarelli, 2019)
  - But full of business opportunities for different private sectors involved
    - What can boost some short term growth, financial asset bubbles etc.

---

Thanks, obrigado!

[andremb@unicamp.br](mailto:andremb@unicamp.br)

---