

Brazilian Growth Prospects in the Global Context

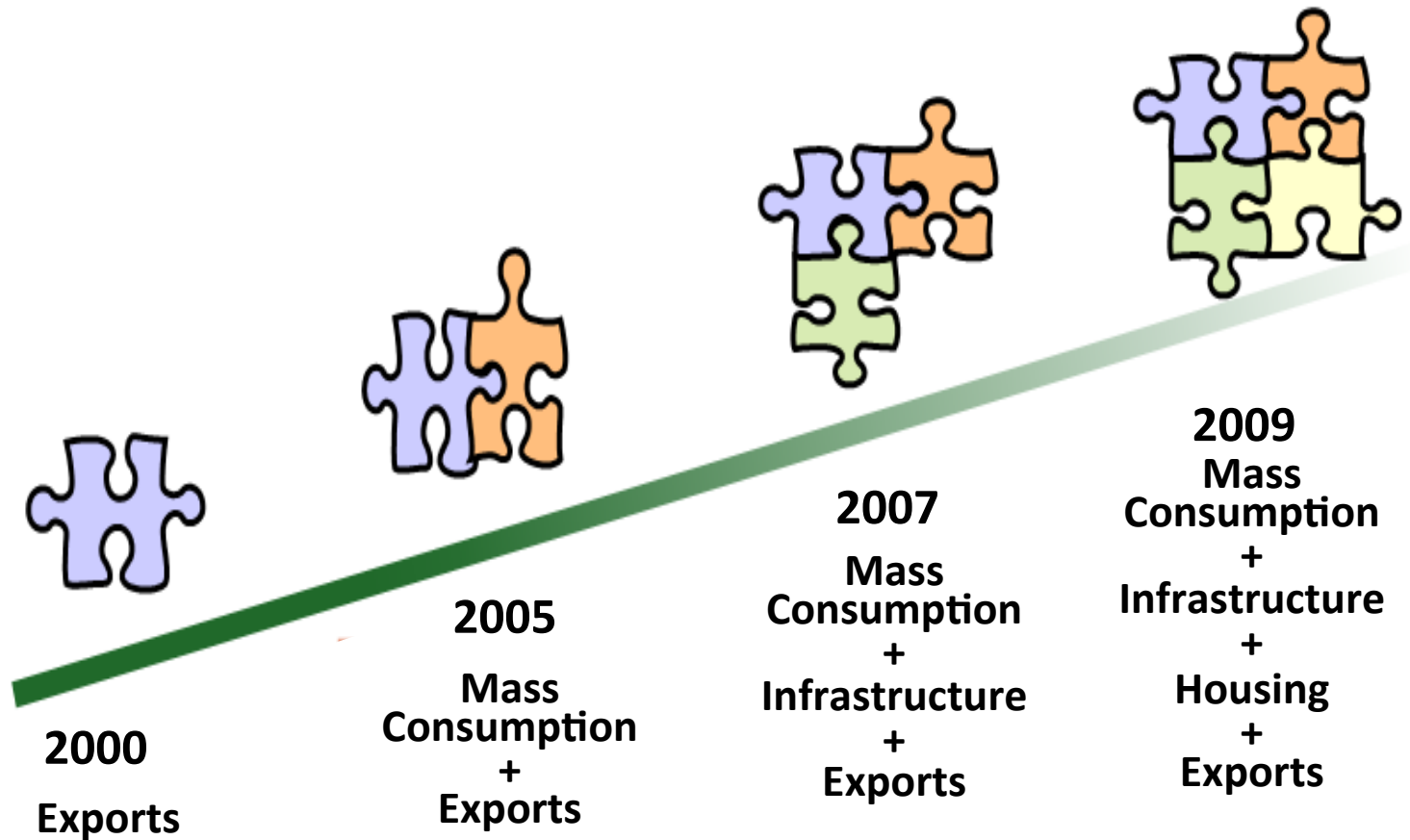
Esther Dweck

Chief Economist

Ministry of Planning, Budget and Management

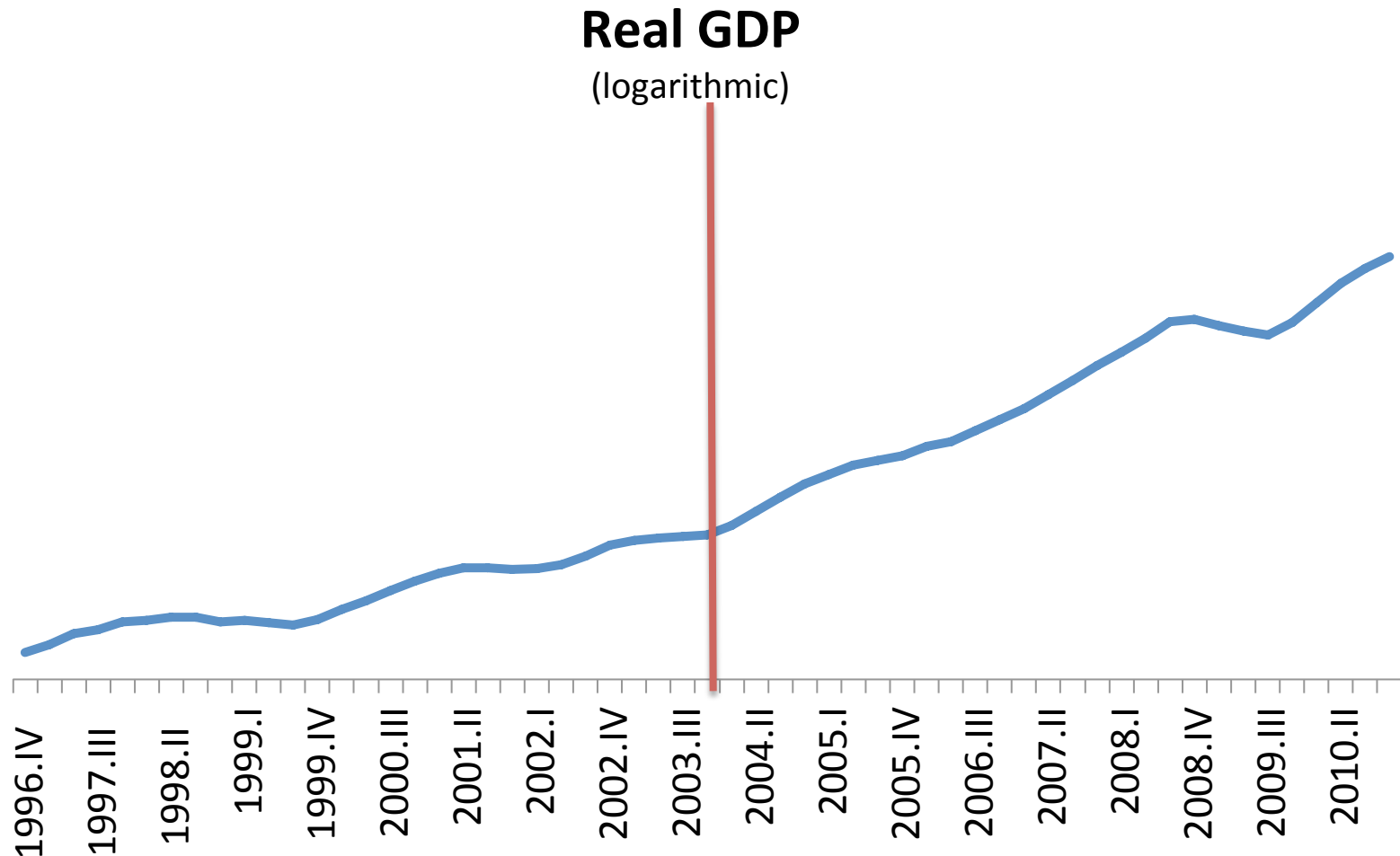
Brazilian Model

Domestic Demand-Led Growth



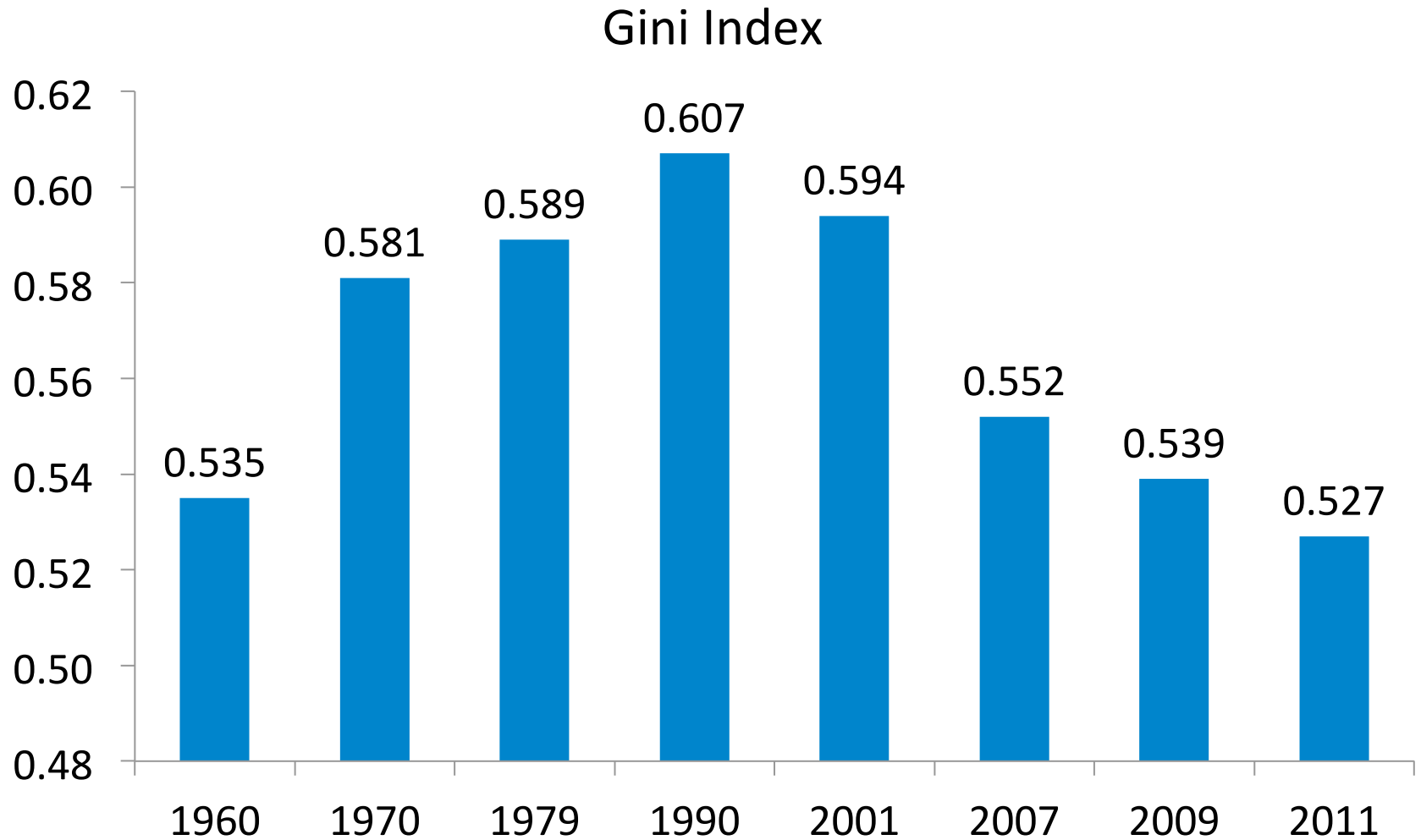
Faster Sustained Growth in 2004 -2010

As opposed to the “stop and go” of the previous period



Better Income Distribution

Inclusive Growth Strategy creating a virtuous circle



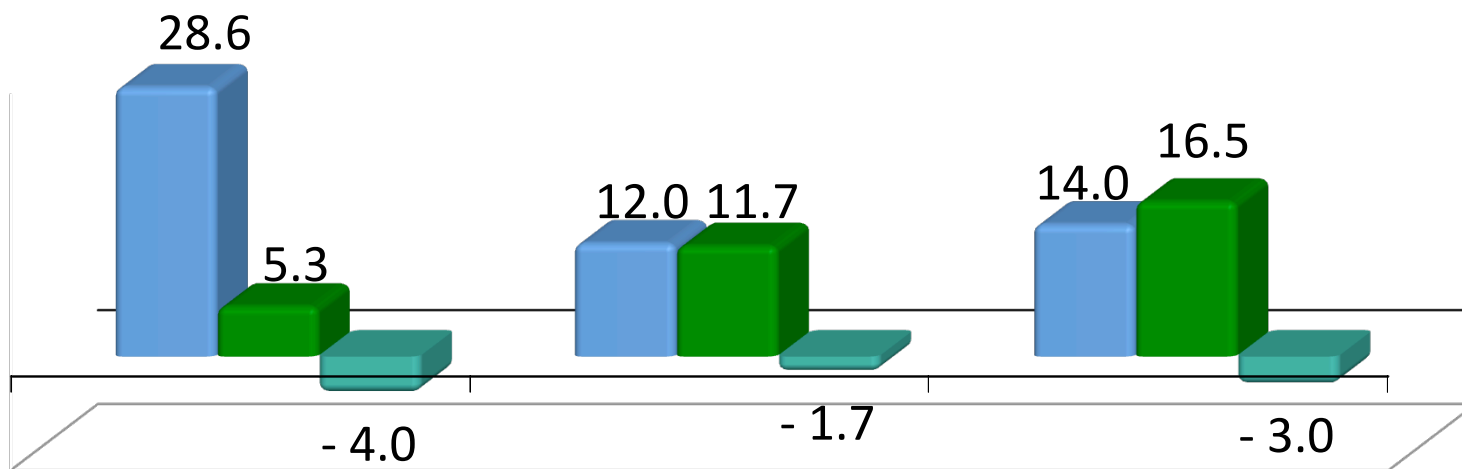
Reduced External Vulnerability

High level of international reserves guarantee stability to Brazilian external sector

External Vulnerability Indicators

(% of GDP)

■ Total External Debt



1998

International Crisis +
Fixed Exchange rate

2008

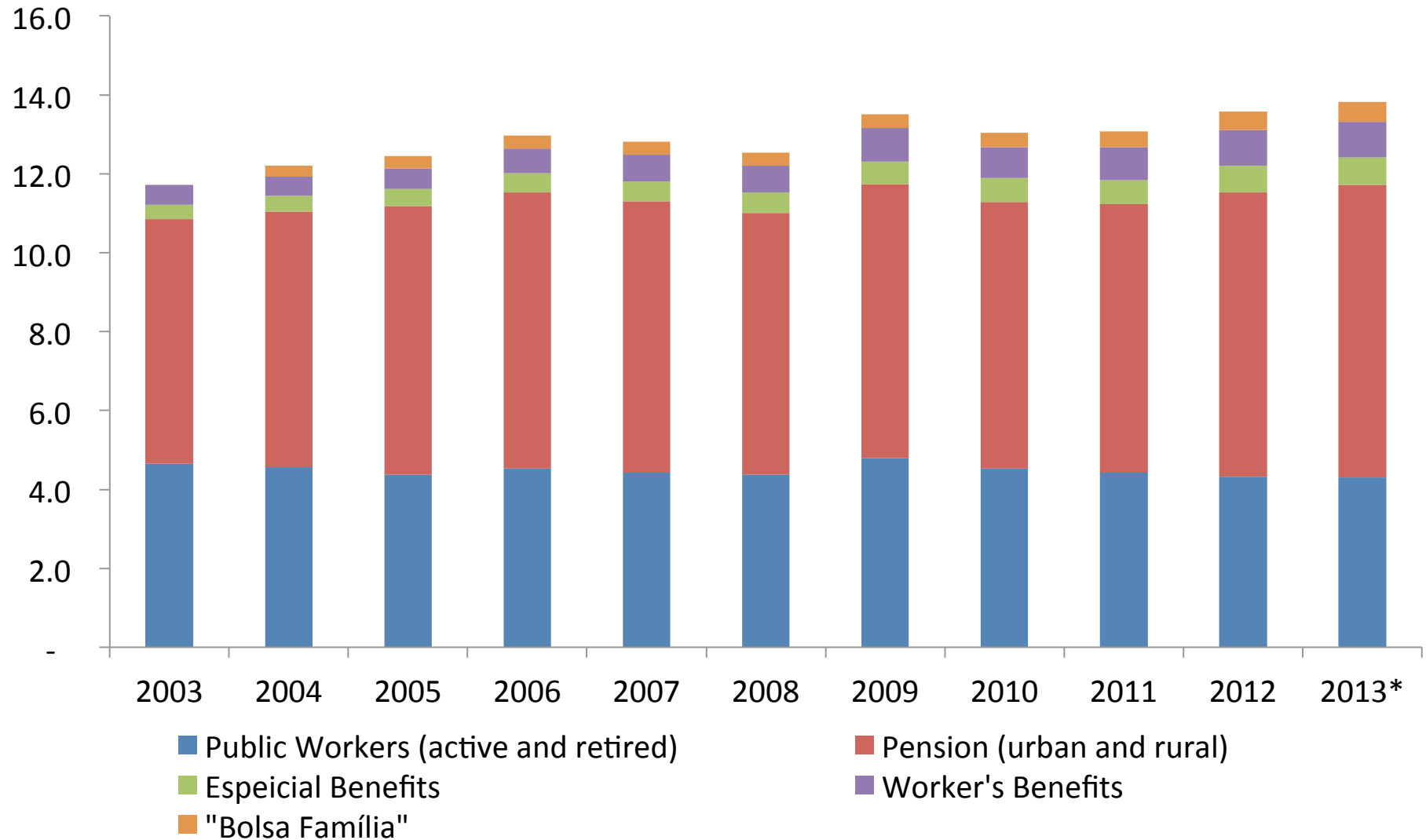
International Crisis
(*subprime*)

2013

Low-Growth World

Social Safety Nets

Tropical Welfare System

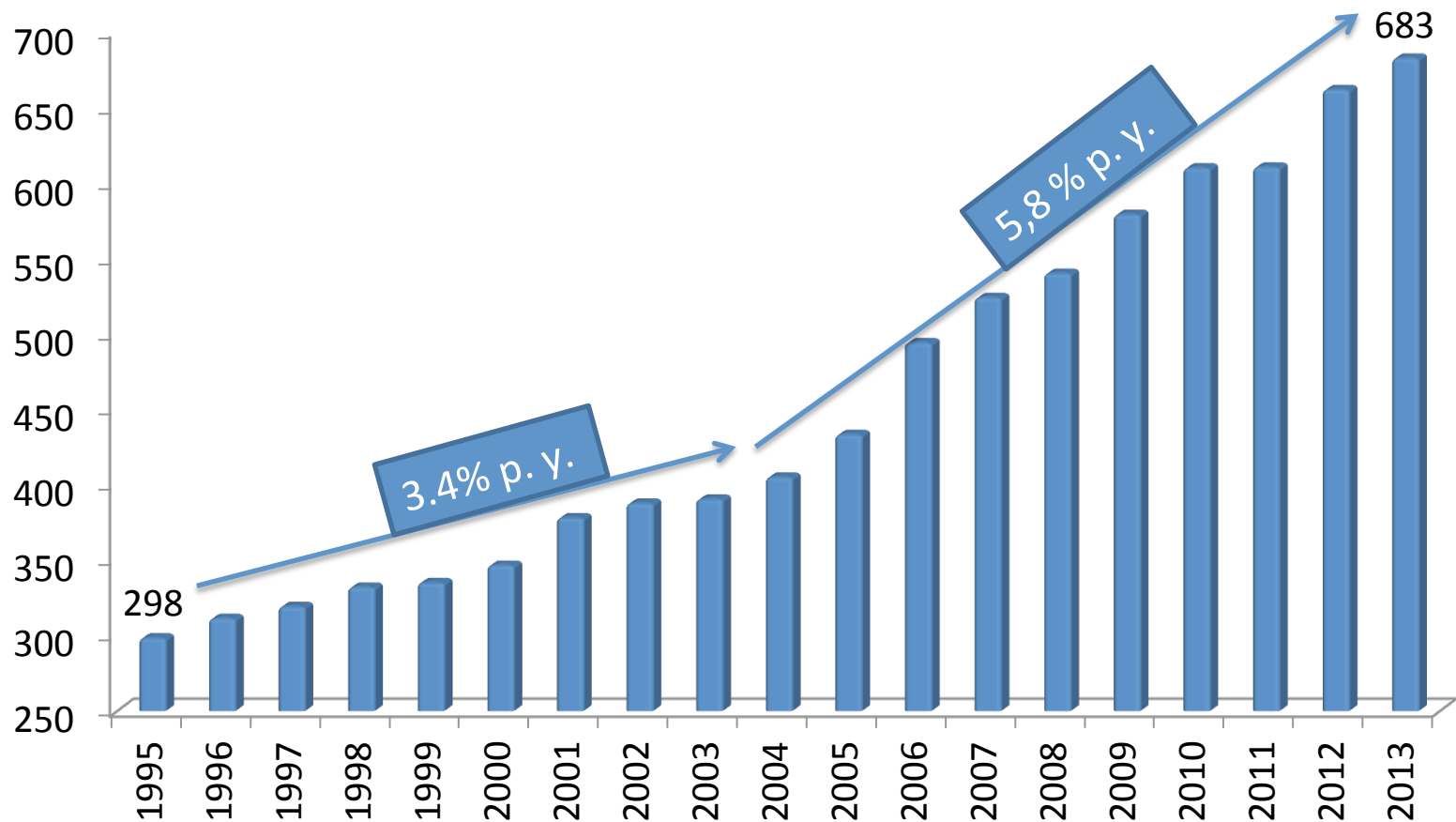


Increasing Minimum Wages

Impact on both formal and informal Sector

Real Minimum Wage, 1995 – 2013

(R\$ at Constant Prices of August 2013; deflator: INPC)

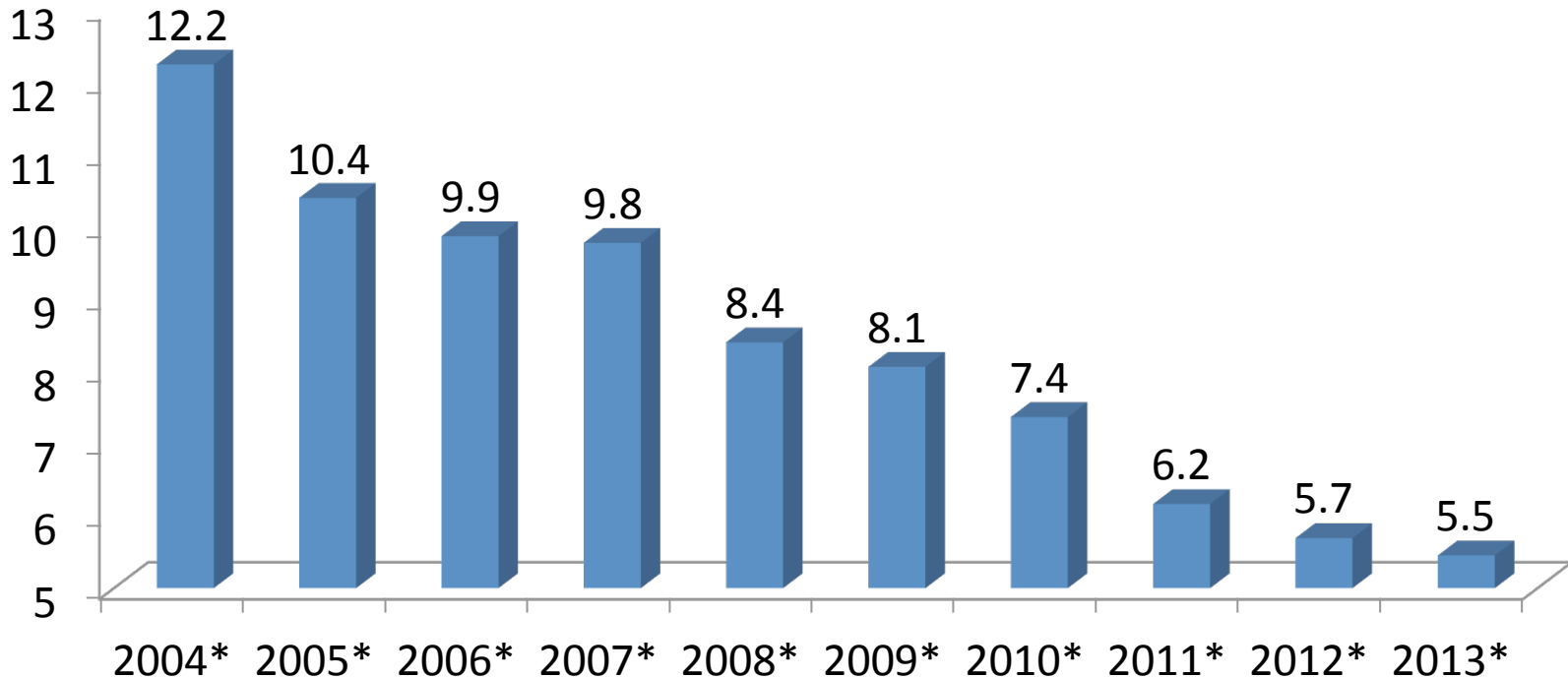


Strong Labor Markets

Virtuous Circles from raising wages

Unemployment Rate

(12 month moving average)



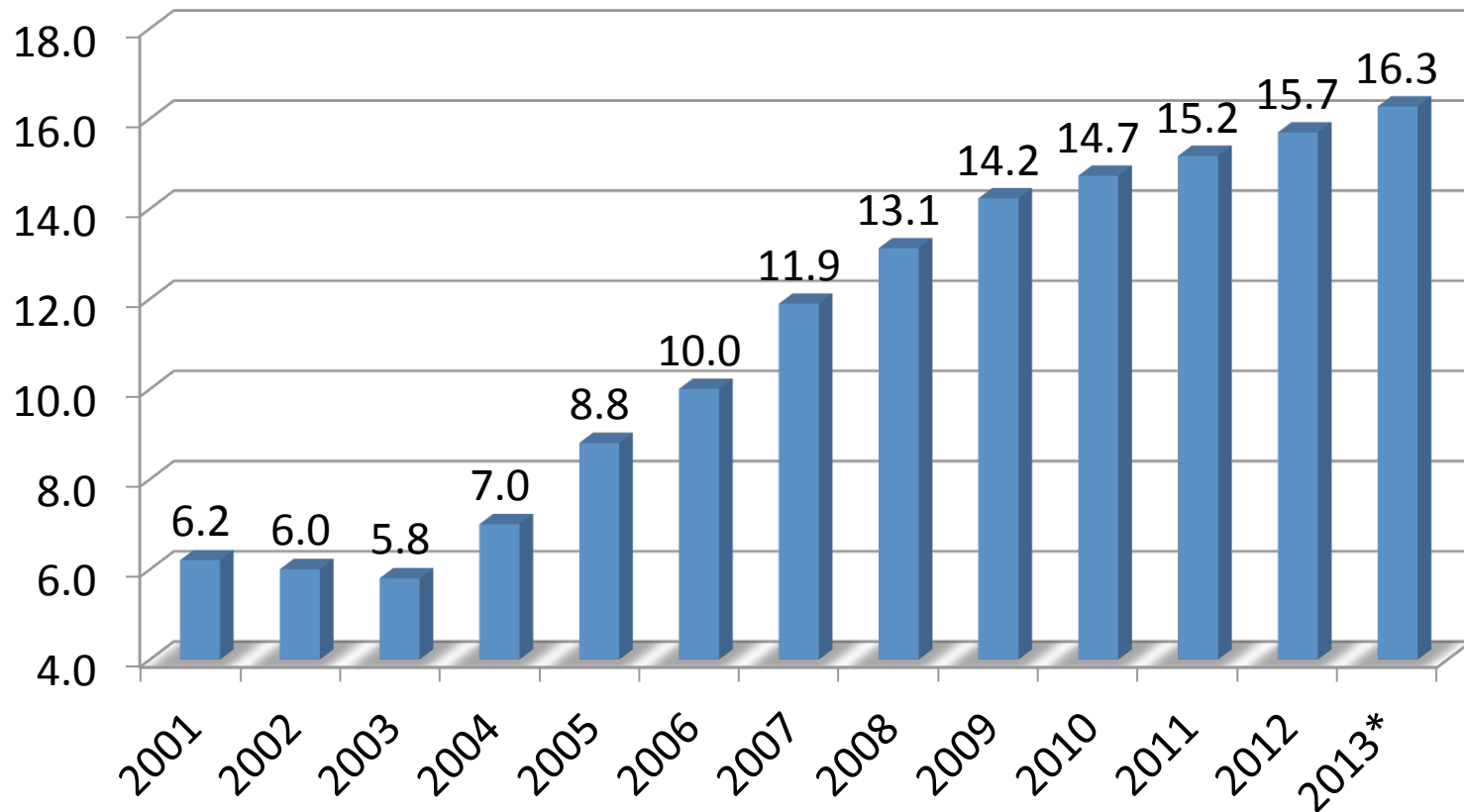
Source: IBGE.

* 12-month moving average ending in July of each year.

Solid Credit Increase to Households

Based on Increasing income and lower interest rates

Households Credit – except housing credit (% of GDP)



Source: BCB

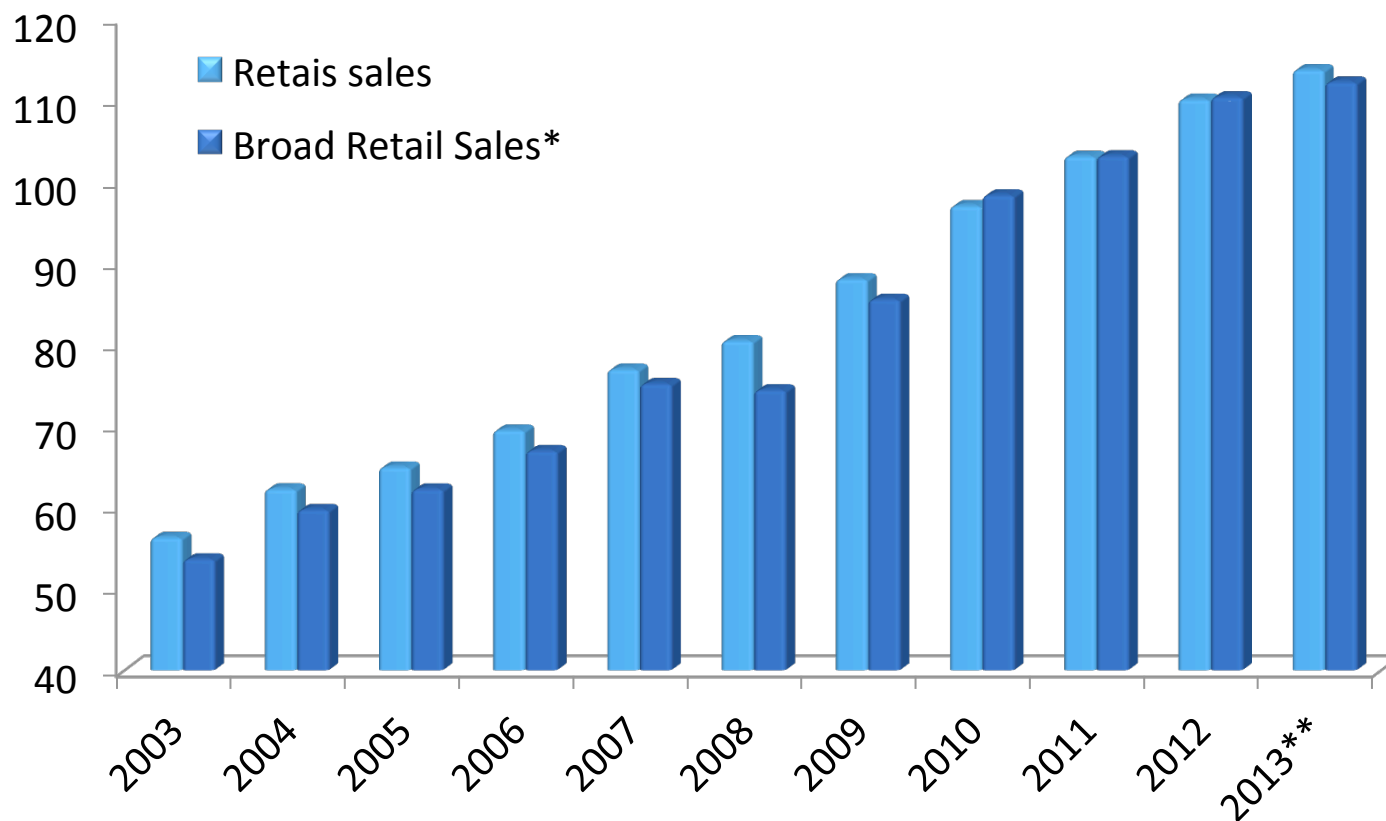
* BCB Forecast

Domestic Demand as an important engine

Strong job market and solid credit expansion are cornerstones

Retail Sales

(Seasonally adjusted index at December: 2011 = 100)



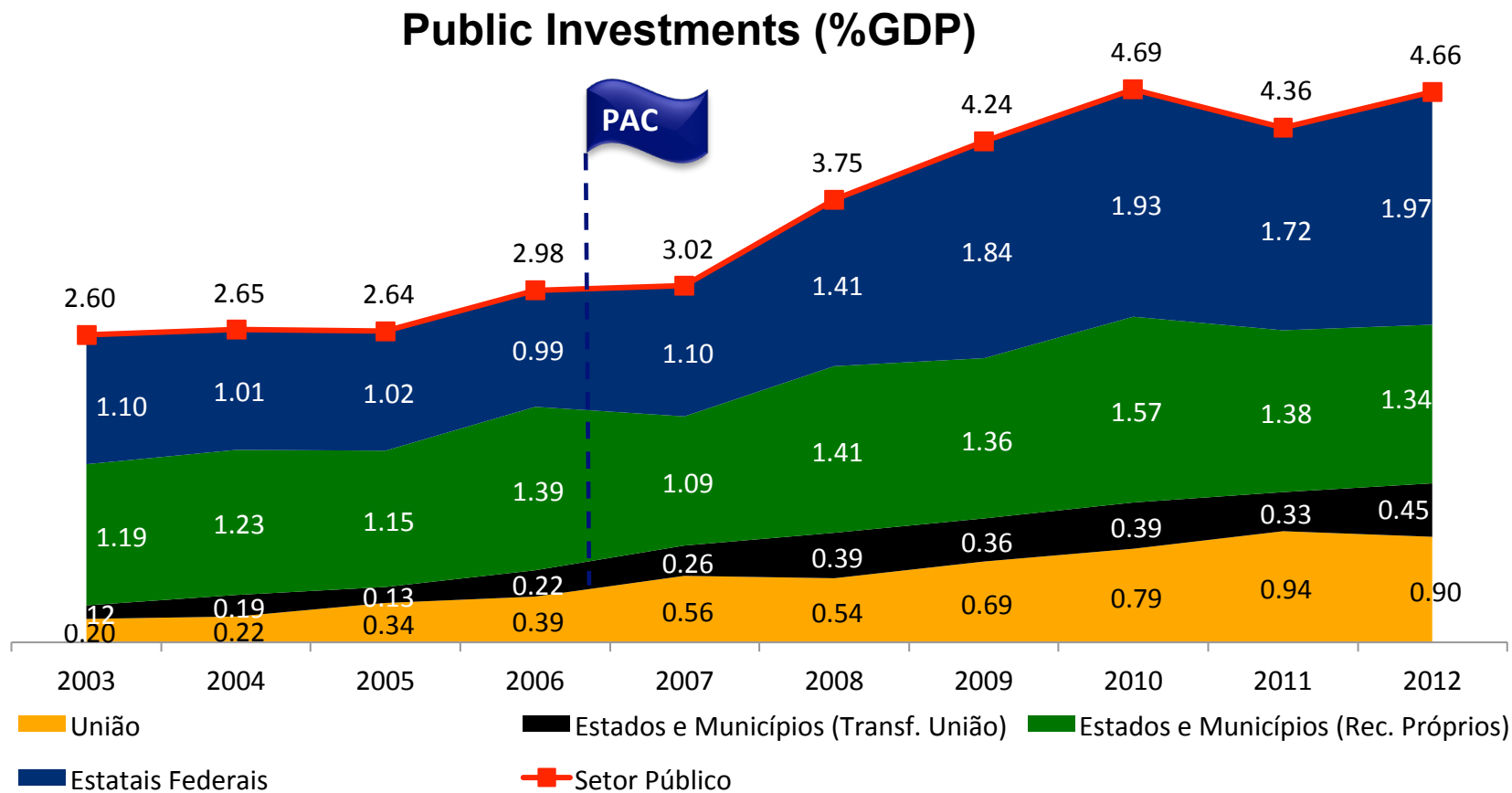
Source: IBGE.

* Includes vehicles and construction material.

** July

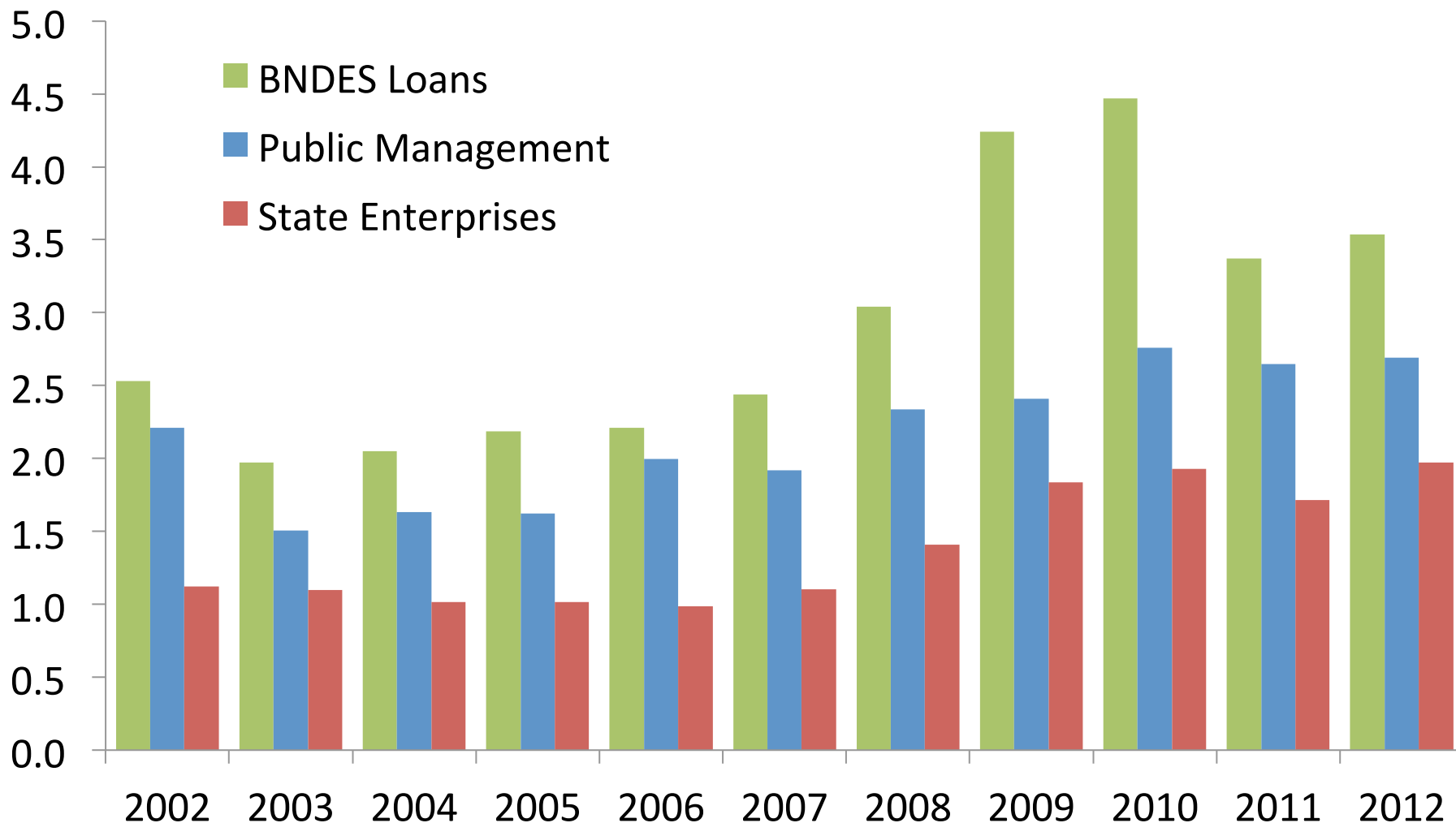
Expanding Public Investments

Reducing Bottlenecks – 52% increase in the share of GDP



Public Effort to increase Investments

Directly or through funding



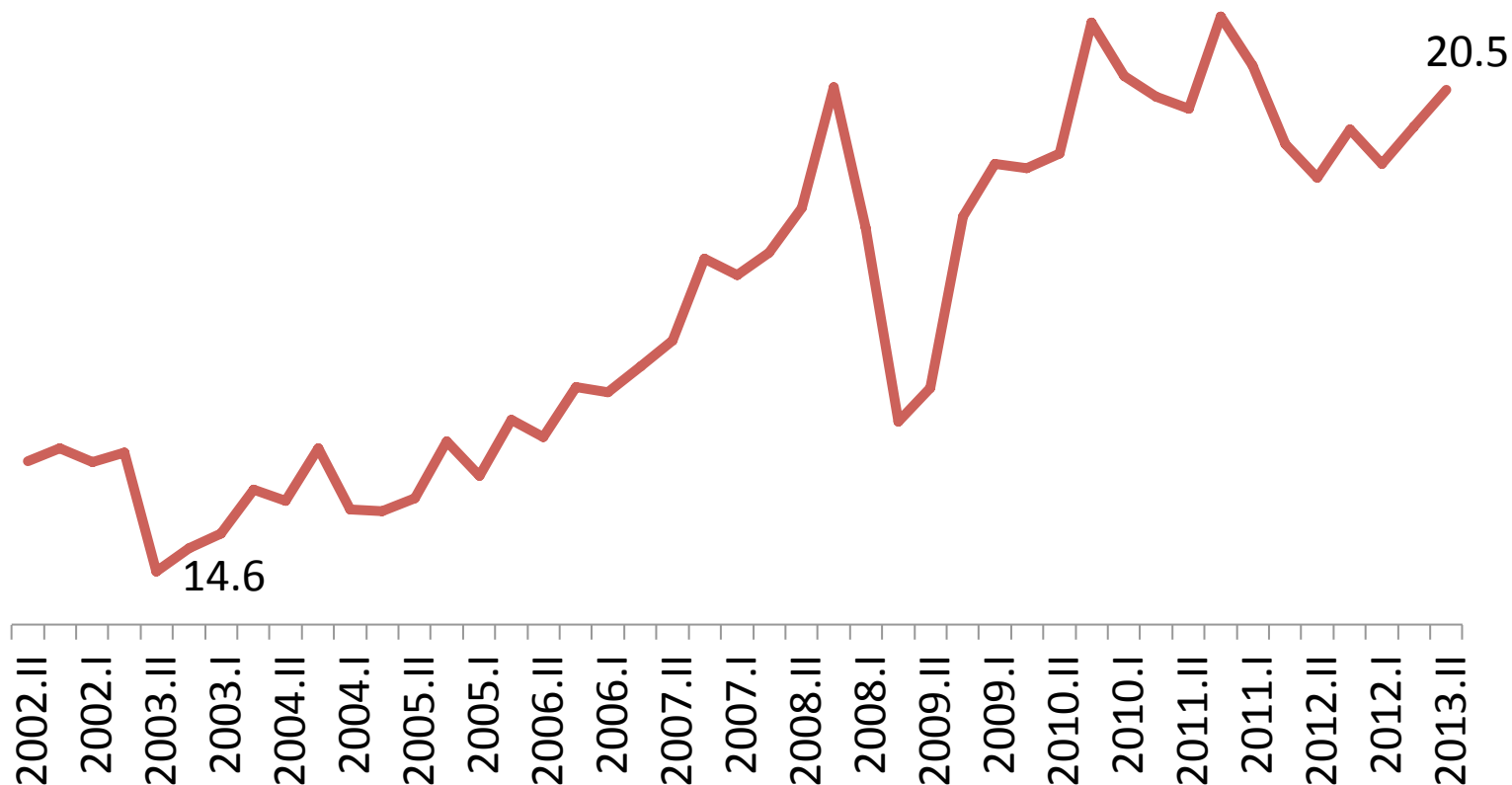
Source: STN/MF; IPEA; DEST/MP and BNDES.

Public Investments Crowding in effects

Increased economy's investment rate

Fixed Investment Rate

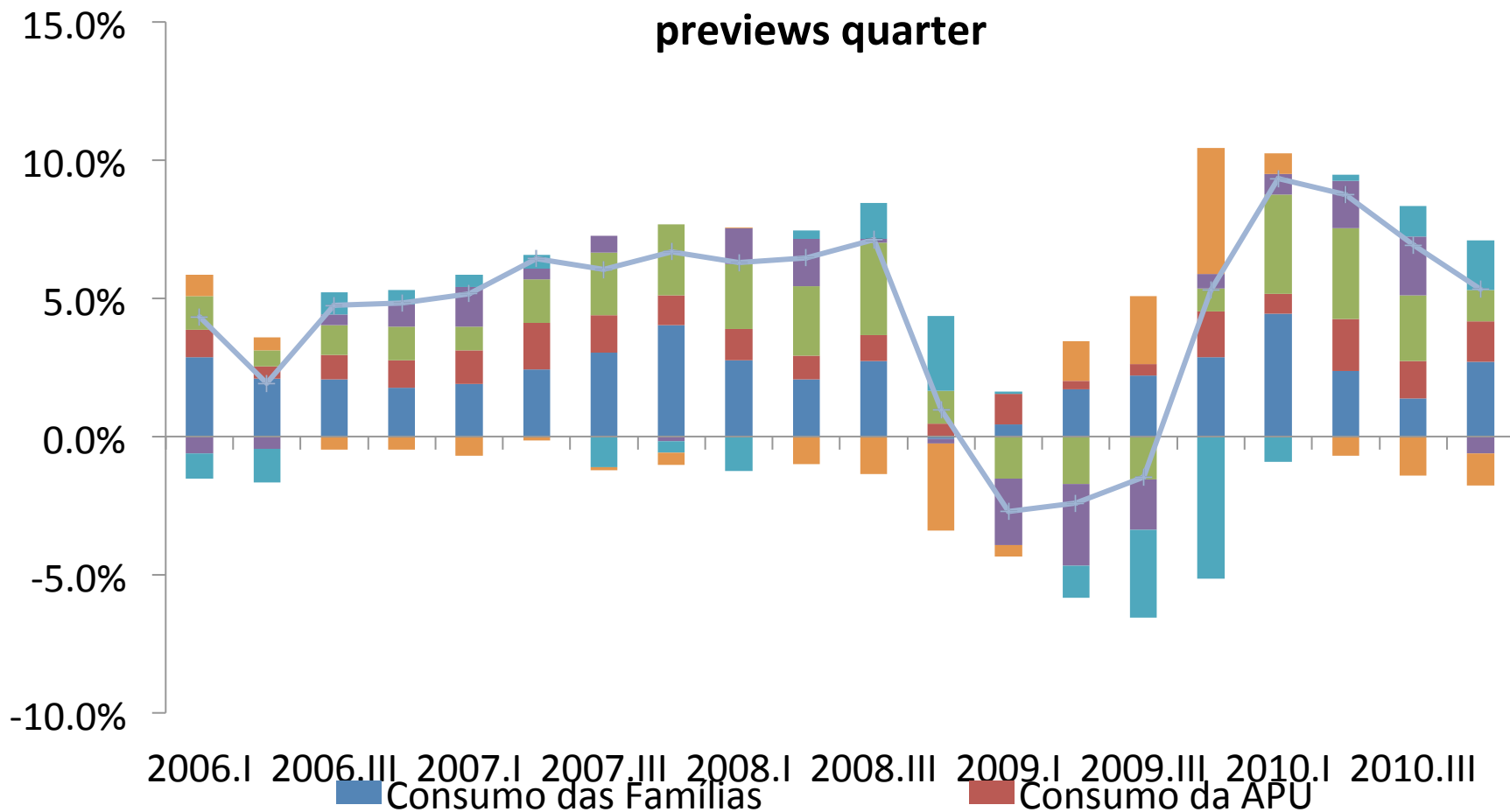
(at 1995 price; % GDP)



Investments as the main engine

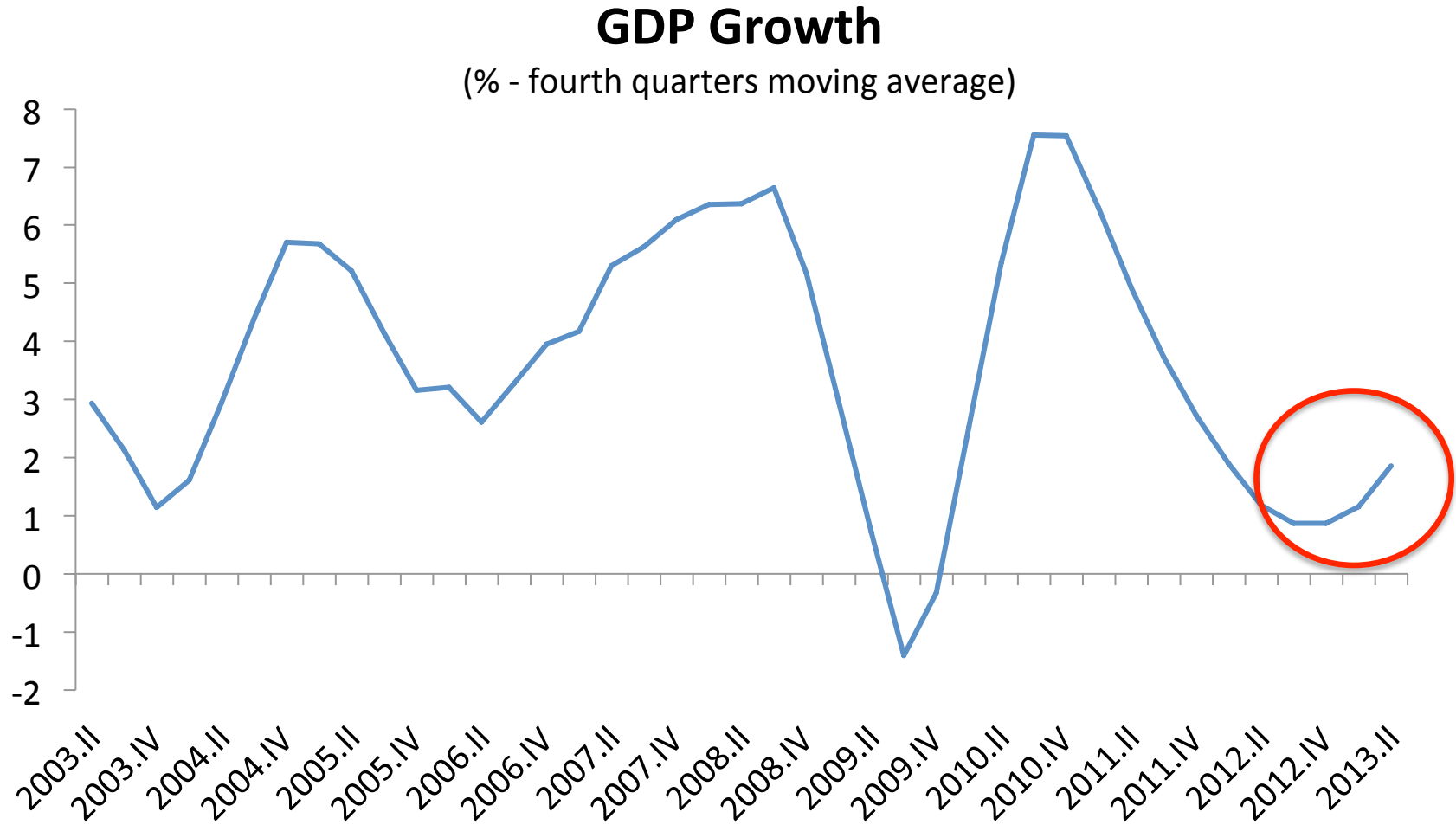
Its contribution to growth is almost the same as consumption

Decomposition of GDP – Demand Components previews quarter



Slow Down After Recovery 2011/2012

In line with the rest of the World



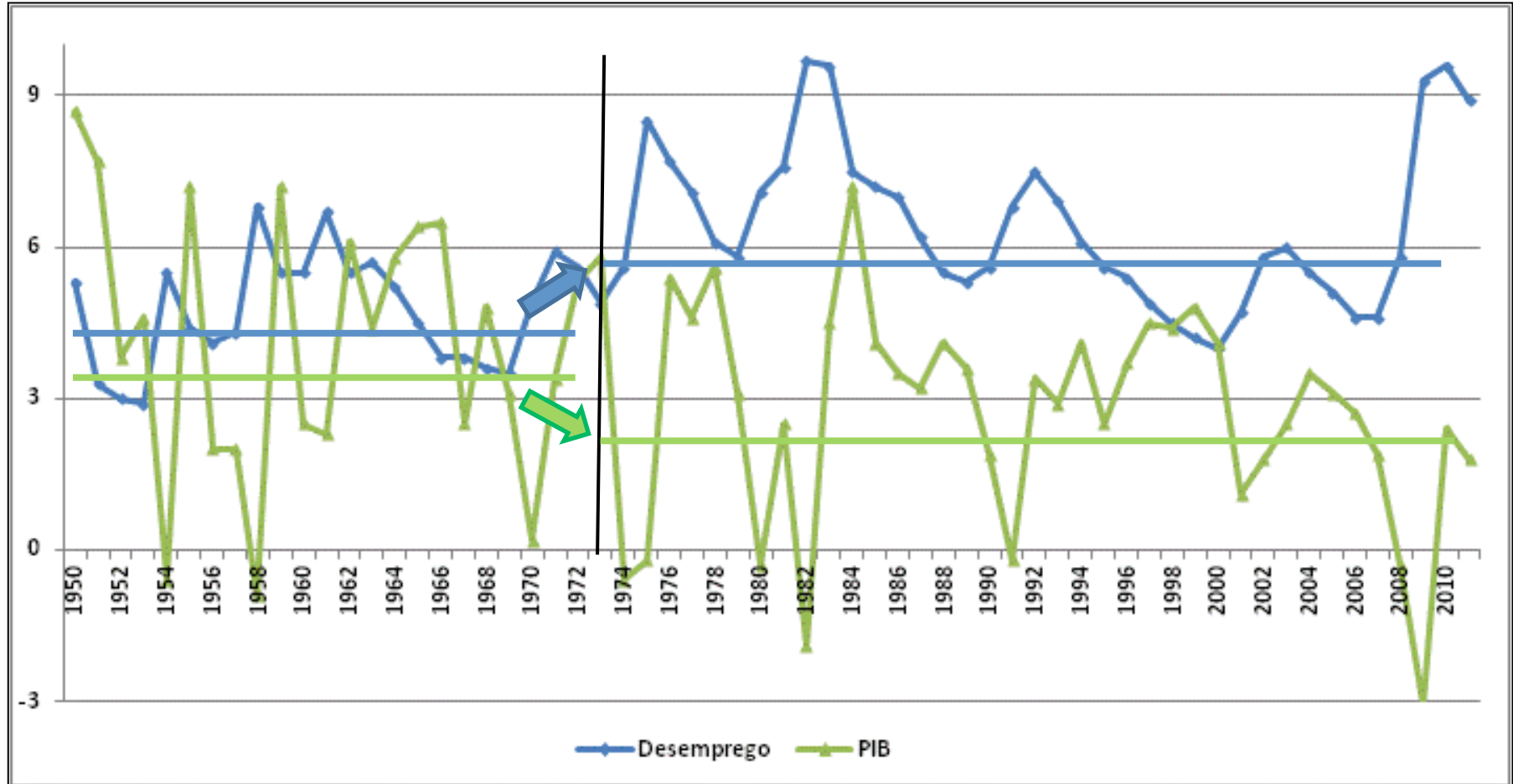
Slow Down is not the end of the Model

Brazil is already in the recovery part of the cycle

- There still is room to increase consumption based on income and credit increase
- Low unemployment rate is one of the engines, not a restriction that leads to inevitable inflationary pressures
- The causality goes from growth to productivity, which therefore is endogenously determined
- Infrastructure investments will continue to be a source of autonomous demand and the most important engine to growth
- Private investments in other sectors is endogenously determined and not related to “jurisdictional insecurity”

Low Unemployment is an engine to growth

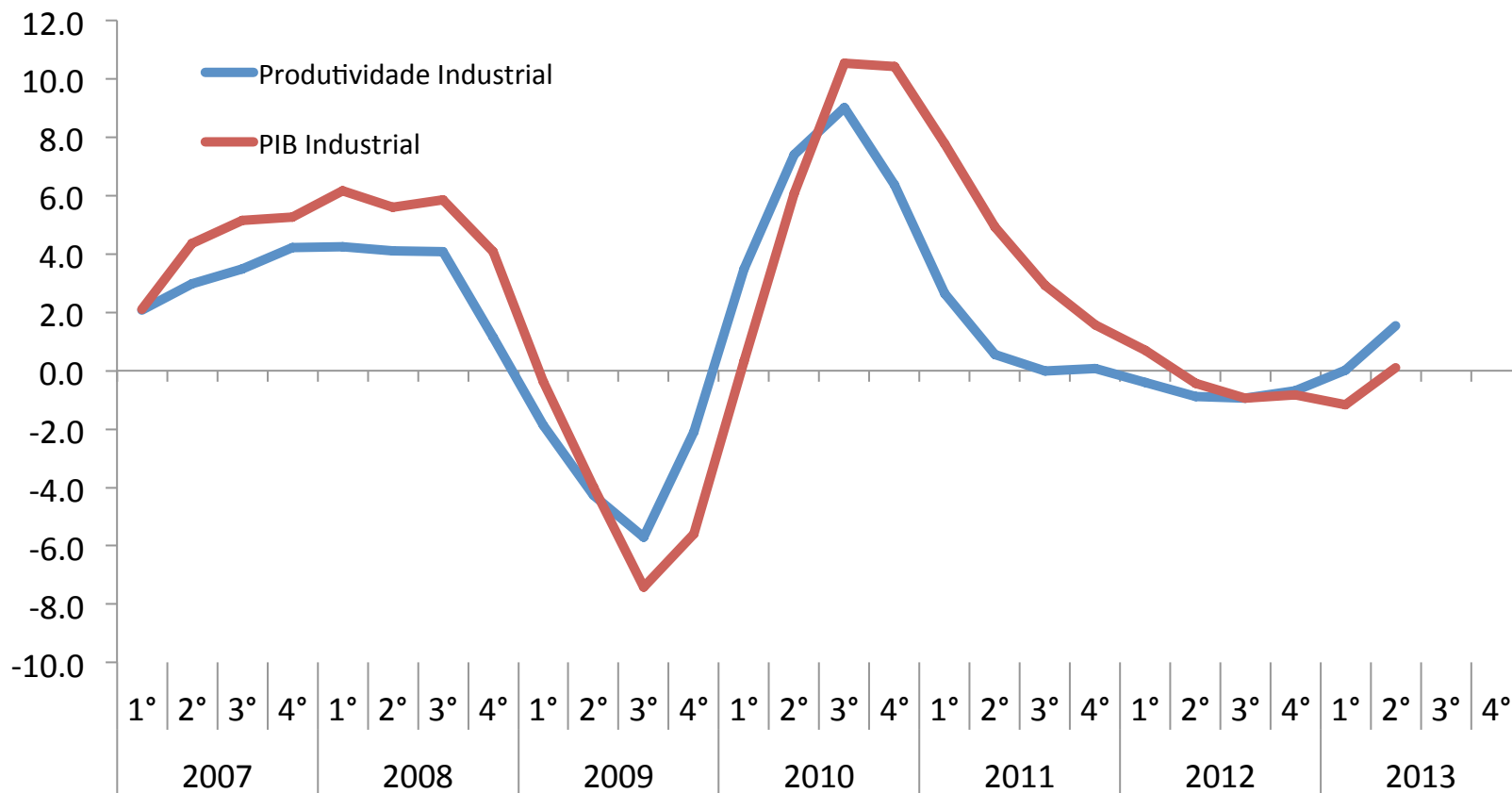
US during 1950-1973 low unemployment and high growth rate



Productivity is procyclical in the short term

In the Long Term is endogenous - Kaldor-Verdoorn Law

Produtividade Industrial x PIB industrial
(Variação acumulada em 4 trimestres)



Fonte: IBGE Elaboração: ASSEC/MP

Growth Strategy for the Next Years

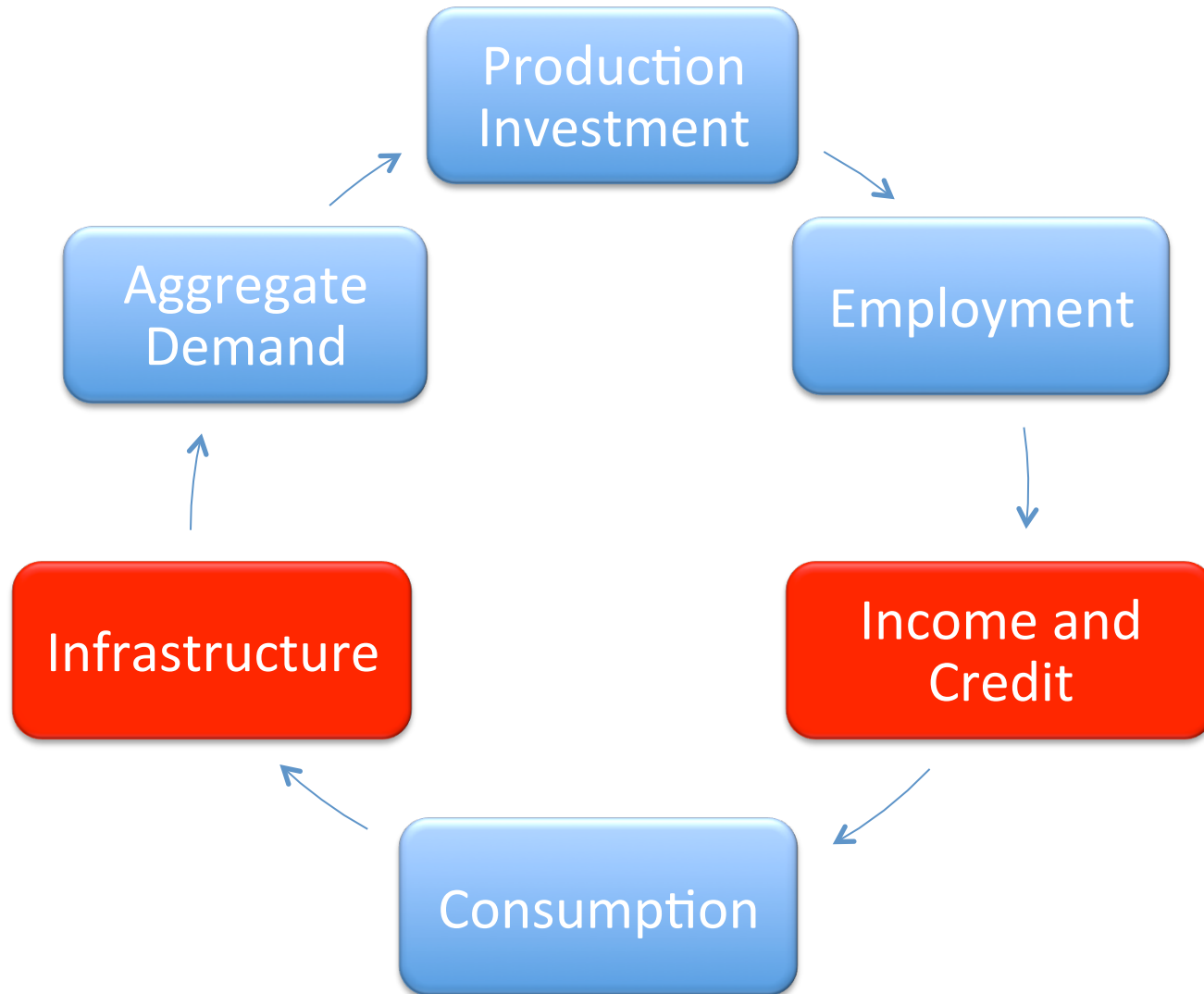
There are three main engines to growth:

- Internal domestic consumption based on income distribution and production
- Natural resources and its linkages to economy
- Infrastructure investments, both economic and social infrastructure through public investments and concessions

Increasing International Competitiveness

- Exchange Rate
- Infrastructure
- Tax reform – less regressive
- Reducing financial costs
- Energy cost
- Qualification of labor force
- Science and Technology

Growth Strategy for the Next Years

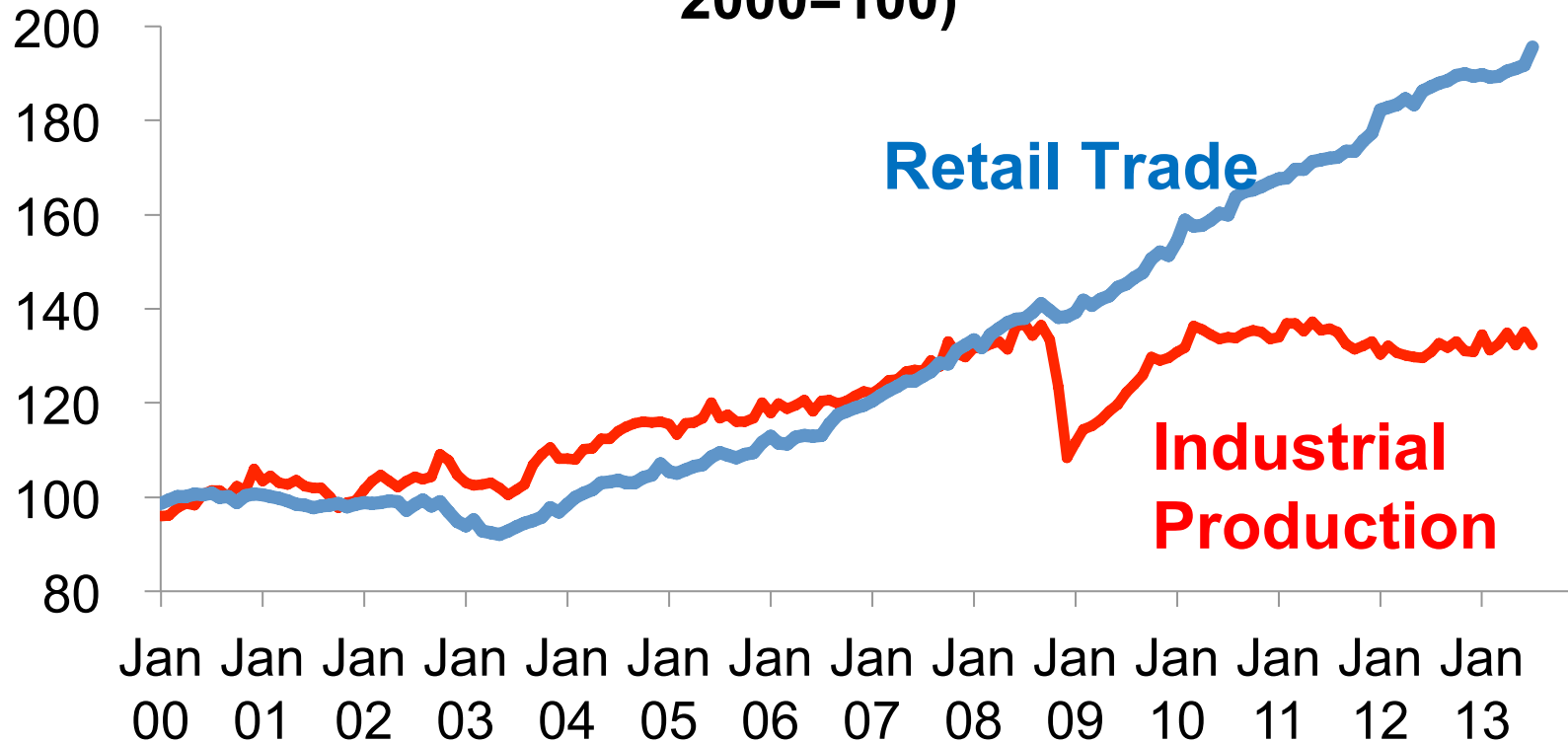


Challenges to this strategy

Leakage of Domestic Demand

Manufacturing has not recuperated its growth momentum

Industrial Production and Retail Trade (s.a. 2000=100)



Source: IBGE.

Global Imbalances

The Global Race to the Bottom

Important argument in UNCTAD TDR 2012 (ch. 4):

- There was an important change in strategy chosen by developed country enterprises :
 - **During the 1990s:** productivity growth and output expansion through investment in innovation
 - **During the 2000:** greater emphasis on becoming more competitive internationally through wage restraints and reduced employment opportunities, combined with attempts to boost profits through financial investments
 - This strategy was facilitated by the deregulation of financial markets and greater flexibility of the labor market

Global Imbalances

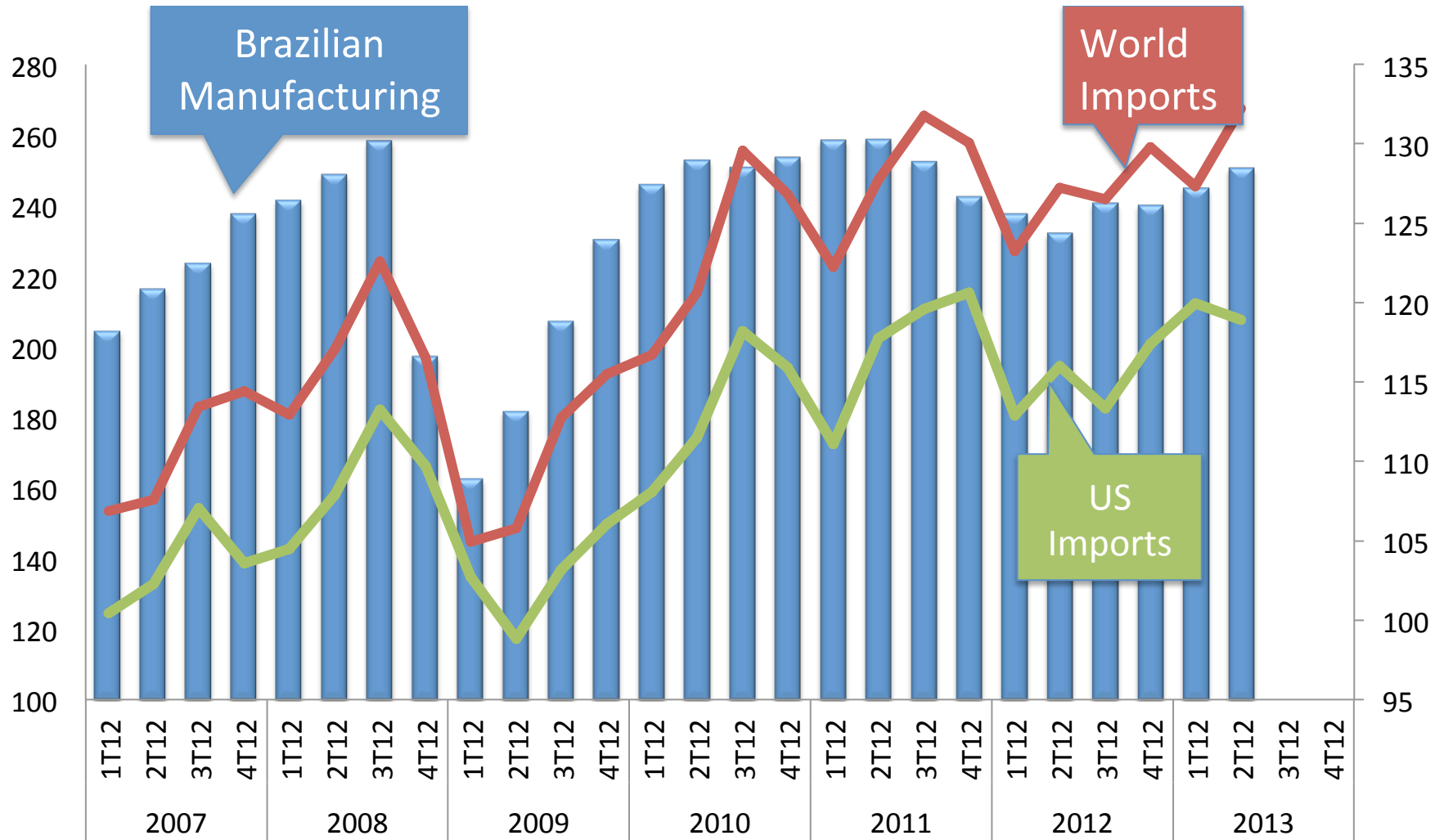
“deficient demand” in the global economy

Some authors (e.g. Bibow, 2008 and Blecker, 2011) argument:

- Economic conditions and policies in the surplus makes some sense if interpreted as reflecting “**deficient demand**” in the global economy
- The real issue is why consumption and investment have been systematically depressed in the surplus countries (Germany and Japan), relative to their national incomes.
- The core reason why consumption is repressed in most of the surplus countries is the phenomenon of wages lagging behind productivity (von Arnim, 2010; Cripps et al., 2011)

Slow Growth of International Trade

Increased Competition after the crisis has affected Brazilian Manufacturing



Reinventing Fiscal Policy

Rebalancing of Monetary and Fiscal Policy

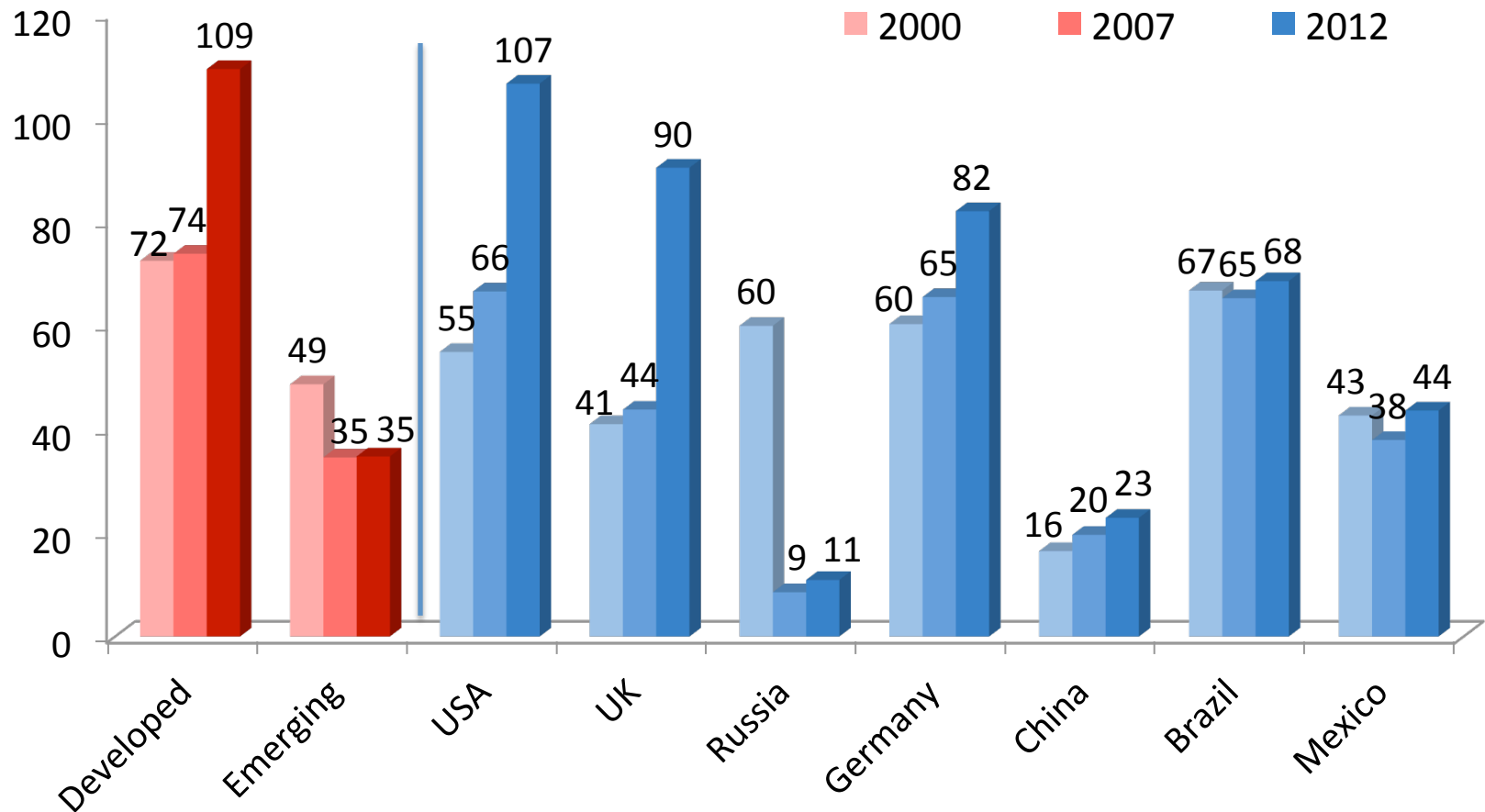
- Recent developments in macroeconomic policy, in terms of both theory and practice, have elevated monetary policy while downgrading fiscal policy
- Until the crisis fiscal policy had been downgraded that it was rarely mentioned
- During the crisis it was revived as part of “depression economics”, not as an important policy tool.
- IMF is discussing 2nd generation of Fiscal Policy

Crisis started at the Financial Private Sector

Increase in Debt/GDP ratio was only after the Crisis

General Government Gross Debt

(% of GDP)



Is China going to be a competitor or an engine to Developing World?

In order to be the global engine of growth it has to move from its export-growth model as an assembler who focuses on supplying consumers in industrialized countries.

Its entrance onto the global stage has introduced South–South competition to the traditional dynamic of North versus South (Palley, 2011).

How is it going to be in the future?

Brazilian Exports By Partners

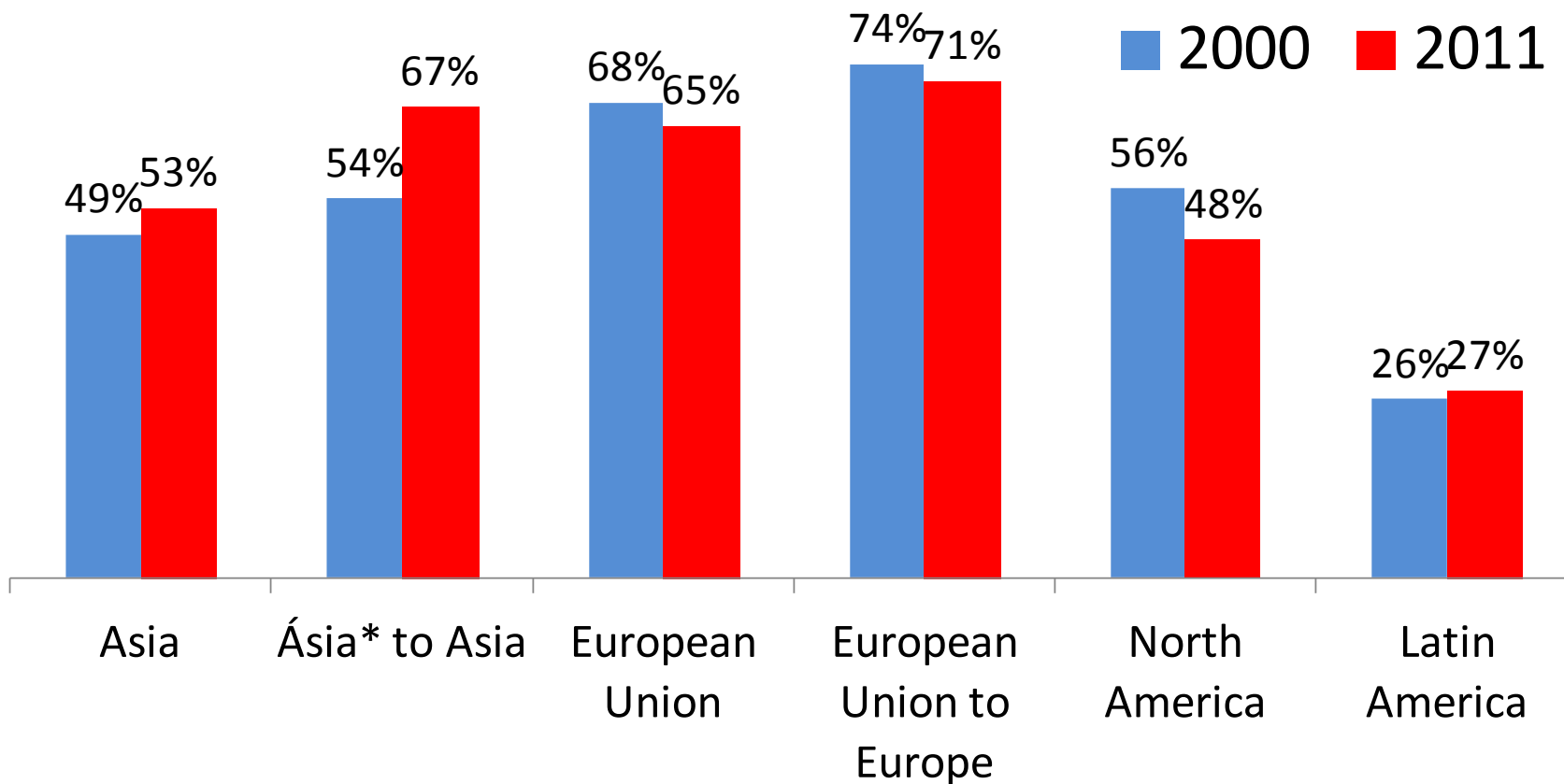
Manufacturing is mainly to Latin America and US

Regions	Primary Products	Semi manufactured	Manufactured
Asia	74%	15%	11%
European Union	50%	14%	36%
United States	30%	19%	51%
Middle East	65%	15%	20%
South and Central America	13%	4%	83%
Others	40%	21%	39%
Total	48%	14%	38%

Regional Integration

Latin America has the lowest degree of integration

Share of Exports to the same Region



(*) Hong Kong, China, Rep. of Korea, Singapore and Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Taipei, Chinese).

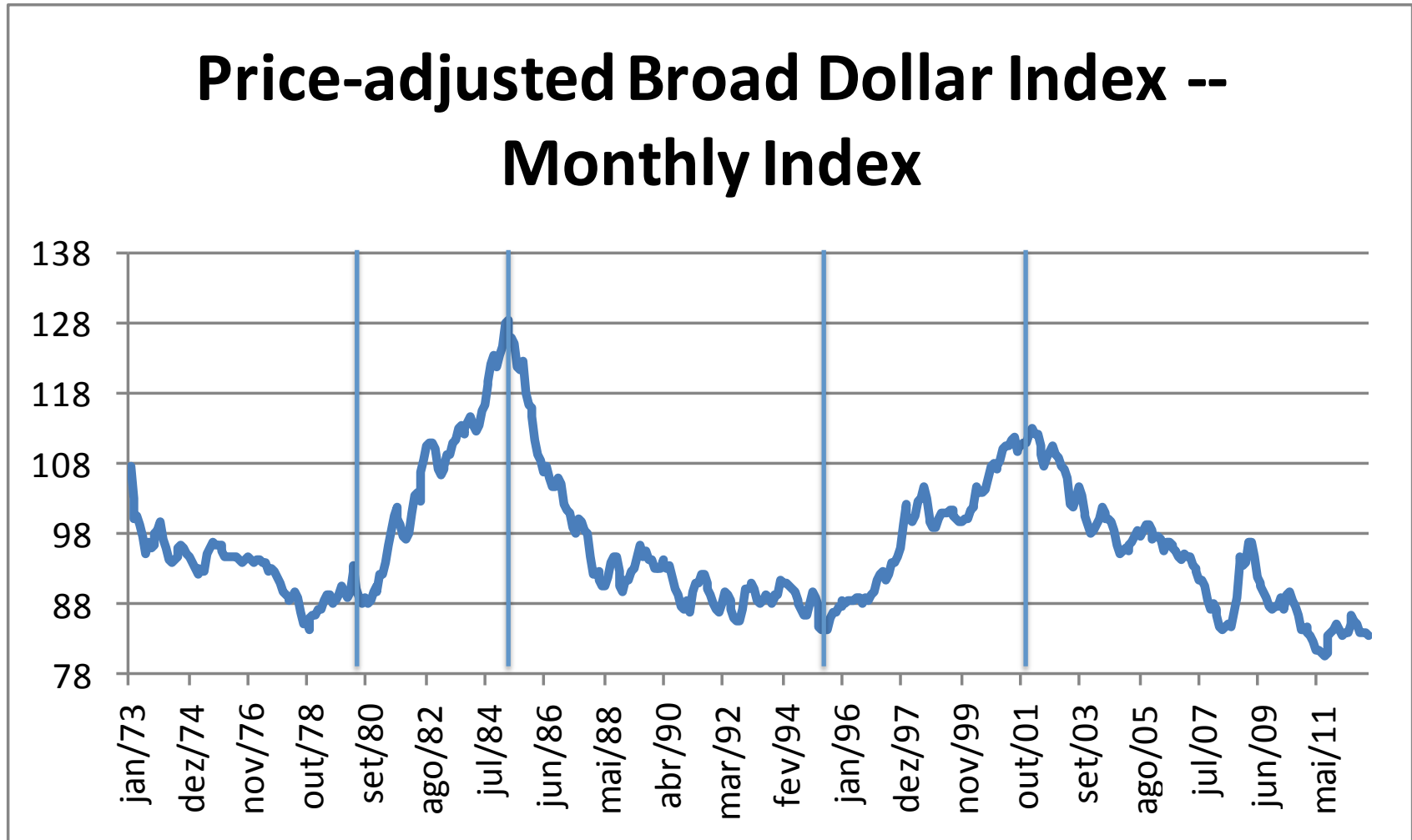
Fonte: WTO Elaboração: MP/Assec.

US Recovery: Blessing or Curse?

- Stimulus to the World Economy.
- However:
 - It is already acting as a competitor, not so complementary as in the 2000s
 - It will probably have impact across the World on (Schulmeister, 1998):
 - Interest Rates and Exchange Rates
 - Capital Flows
 - Commodity Prices

Current Monetary Standard

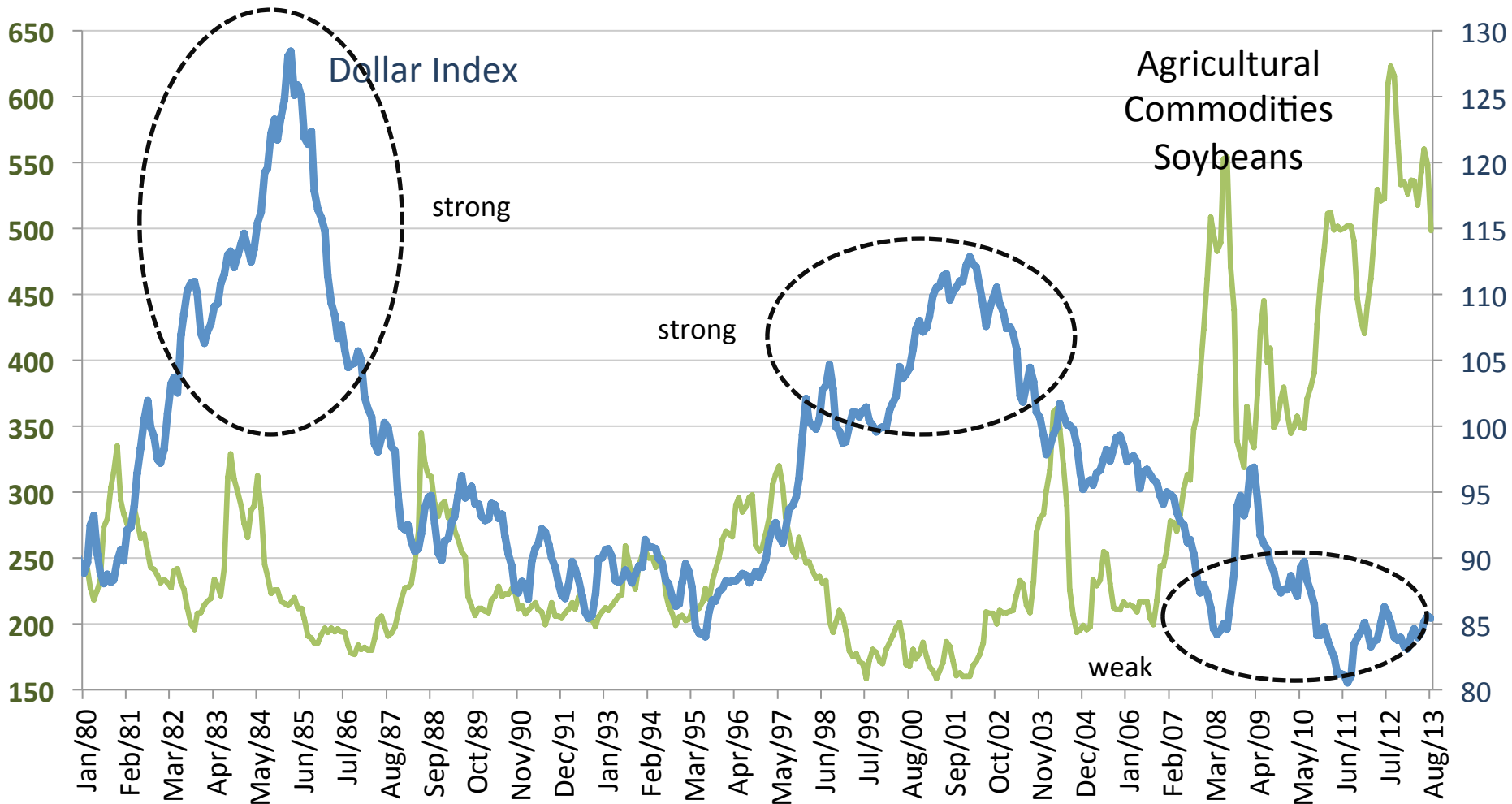
Double Role of the Dollar as national and international currency



Source: BEA

New Monetary Standard

Fluctuations of the dollar use to have a direct impact on commodities



Source: Fed and IMF.

New International Monetary Order

Maybe you should go back to the discussions in Bretton Woods

“the object of the new system must be to require the chief initiative from the creditors countries” (Keynes)

“nothing is more certain than that the movement of capital funds must be regulated; - which in itself will involve far-reaching departures from laissez faire arrangements” (Keynes)

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