

ANALYSIS

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## Economics in Practice- Country Analysis on example of **Brazil**



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## 2. Country Presentation

Brazil is South America's most influential country, a rising economic power and one of the world's biggest democracies.

As the 5<sup>th</sup> biggest country in the world, behind the United States, Brazil is divided in five administrative areas. The capital is Brasilia. The country spreads out on 2,731 miles (4,395 km) North – South and 2,684 miles (4,320 km) East – West, with a different climate in all five regions. Brazil has the most diverse and multicultural population in the world. Half of the 200 million people in the country are of a multi-racial background. The neighbour countries are all South American countries, except Chile and Ecuador. BRIC is an acronym, which refers to four countries: Brazil, Russia, India and China. This countries have similar economic advancement. The most important and largest cities are Sao Paulo, Rio de Janeiro, Salvador, Brasilia and so on.



## 2. Economic System

Brazil's economy is the largest one in Latin America and the second-largest in the entire Western Hemisphere. Brazil has a free market economy, organized along capitalist lines, which feature an exchange of goods, services and commodities internally and with other nations (trade, monetary, investment, banking and labor freedom). The industry sector contributes a quarter of the GDP (see table below).

Brazil has natural resources and diversified economy. Brazil has benefited greatly from its mineral wealth. Brazil is one of the main producers of the aluminium and coal. Brazil's oil reserves make Brazil one of the top five oil exporters. Moreover the country is increasingly asserting itself in the textile, aeronautics, pharmacy, automobile, steel and chemical industry sectors. The key aspects which boost the economic growth are manufacturing, cars, aircrafts, textiles, food, construction and other goods. In the year 2017, the performances of the agriculture were the main source for economic growth. Car production grew by more than 25% in 2017. The main sector in Brazil is a service sector, making up 73% of the GDP. In recent years, the country has embarked on the production of

high added-value services, especially in the fields of aeronautics and telecommunications.

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
<b>Employment By Sector</b> (in % of Total Employment)	10.3	20.8	68.8
<b>Value Added</b> (in % of GDP)	4.6	18.5	63.1
<b>Value Added</b> (Annual % Change)	13.0	0.0	-2.6

Source: <https://en.portal.santandertrade.com/analyse-markets/brazil/economic-political-outline> ( 10.12.2018)

### 3. System Of Government

Brazil has been a democratic federal republic since 1985 with presidential system, where a head of government leads an executive branch that is separate from the legislative branch - the head of state is President Michel Temer (middle), he replaced Dilma Rousseff (right). However the Brazilians have voted a new President Jair Bolsonaro (left). The President and Vice-president are elected by universal suffrage to a four year term. The federal government exercises the central government, which is divided into three branches: executive, legislative and judicial. The municipalities (administrative divisions of the Brazilian states) are minor federal units of the Federative Republic of Brazil. Currently, Brazil has 5,570 municipalities. About two dozen political parties are represented in the Brazilian National Congress. Parties typically group together to form coalition governments. The two prominent coalitions are the Worker's Party (PT) and the Social Democratic Party (PMDB). Brazil is also main political force in Latin America.



<sup>1</sup> <https://foreignpolicy.com/2018/11/01/bolsonaro-cant-destroy-brazilian-democracy/>

<sup>2</sup> Source: <http://norwaytoday.info/news/brazilian-president-temer-norway/>

<sup>3</sup> Compare: [https://de.wikipedia.org/wiki/Dilma\\_Rousseff](https://de.wikipedia.org/wiki/Dilma_Rousseff)

#### 4. GDP of Brazil

Brazilian Gross Domestic Product (GDP) is the most important measure for the performance of the economy. Brazil has a GDP of \$3.2 trillion and a nominal GDP of \$2.0 trillion. The actual change of the GDP is 1.0%. However this figure has been developing through the years and was in some years negative. The diagram below shows the development of GDP over 14 years. The country recorded the lowest GDP growth rate of -3.7% (in 2015) and -4.0% (in 2016). In the 10 years before the global economic crisis (from 2002 to 2008), Brazil's GDP grew 3.4% on average per year. Brazil has been undergoing a recession since 2014 (before which it was the sixth largest economy in the world). The forecast for 2016 in 2014 was a growing GDP, however in reality this was not the case: the GDP in 2016 was, as said above, a decrease of 4%. In comparison to the GDP of the other BRIC countries India, Russia and China, Brazil was ranked second in 2017. The forecast for the next years projects an increase of the GDP.

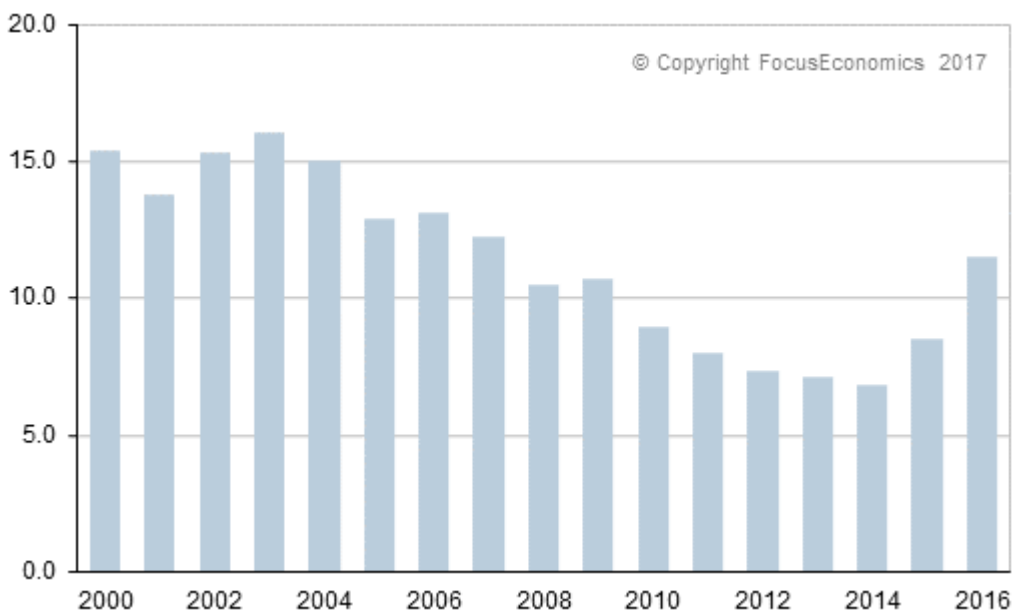
The country's exports have been decreasing in key markets such as China and India.



Source: <https://411w15.econ.lsa.umich.edu/wp-content/uploads/2015/02/3.png> (10.12.2018)

## 5. Unemployment rate

Currently the unemployment rate is roughly 12%. This figure is nearly four times bigger than that in Germany. The unemployment rate in 2000 was relatively high, from 2004 to 2014 the unemployment rate declined by 7%. From 2014 to today the unemployment rate has been rising. One reason is the strength law “Consolidation of the Labor Laws”, which has unrealistic measures to protect workers. The other reason is the inflation rate. The annual inflation rate rose by 4.56% in October. The wages stagnated. The main reason for its high inflation rate, was the increase in prices of food and fuel. A steady decrease in unemployment in the last two quarters of 2017, contributed to an improvement in household consumption.



Source: <https://www.focus-economics.com/country-indicator/brazil/unemployment>  
(05.12.2018)

## 6. Distribution of Income and Wealth

Economic inequality in Brazil has reached extreme levels, despite being one of the largest economies in the world. There are a small number of rich elites and a large number of poor. However, the last decades have seen incredible progress across Brazil. The country has been able to reduce inequality, taking millions of people out of poverty and thereby raising the base of the social pyramid. Bolsa Família in Brazil is a countermeasure for people, who live in poverty and have low standard of living. This program was initiated in 2003, it provides cash transfer from 35 to 135 reais ( 7.92€ to 30.55€) a month. This supports low-income families for their children, education and health care. Through this program the poverty rate has been decreased by 25%. Approximately 16% of the Brazilian population lives below the poverty line. The Bolsa Família contributed a wage increase.

But despite this evolution, the pace has been very slow and the Latin American giant is still listed as one of the most unequal countries on the planet.

## 7. Price stability

The high inflation rates are the main problems in Brazil. The food inflation has a big percentage as well. The production prices are seven times higher than those in Germany. This has a negative influence on the currency. The GDP- Deflator has same impact on the economy as the inflation rate. According to the table below the last figure of GDP-Deflator was 3.80% the GDP-Deflator in Germany amount to 1.80% in the year 2018. Well the GDP-Deflator is not very high, therefore there is no big influence on this stability.

The highest inflation rate per month in Brazil was 82.39% - compared to this figure of the highest inflation rate in Germany: 2.65%. Brazil is ranked as the 23rd largest export economy in the world. In the table below you can see that the Consumer Price Index has been decreased from 5103.69 Index Points ( previous and at the same time highest rate) to 5092.97 Index Points. The high costs of food, medical care, transportation etc. are caused by high inflation rates and decrease of currency value.

The export prices are higher than import prices. [For example, in 2016 Brazil exported a total of 191 billion dollars and imported a total of 140 billion dollars. This was resulting in a positive trade balance of 50.47 billion dollars.](#)

[The top export products of Brazil are soybeans, iron ore, poultry meat, raw sugar and crude petroleum.](#)

[The top import products are vehicle parts, packaged medicaments, telephones and cars.](#)

[The top export destinations are China, the United States, Argentina, the Netherlands, and Germany.](#)

[The top import countries are the United States, China, Germany, Argentina and South Korea.](#)

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services. The last change was 13.79%, this is very big change in comparison with that in Germany (3.05%), this proves the unstable prices.

Brazil Prices	Last	Previous	Highest	Lowest	Unit	
<u>Inflation Rate</u>	4.05	4.56	6821.31	1.65	percent	[+]
<u>Inflation Rate Mom</u>	-0.21	0.45	82.39	-0.51	percent	[+]
<u>Consumer Price Index<sup>4</sup></u>	5092.97	5103.69	5103.69	0.00	Index	[+]

<sup>4</sup> The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care

<u>Core Inflation Rate</u>	3.55	3.79	9.45	2.69	percent	[+]
<u>GDP Deflator</u>	3.80	8.30	2736.97	3.80	percent	[+]
<u>Producer Prices</u>	760.60	773.77	773.77	0.00	Index	[+]
<u>Export Prices</u>	133.54	129.58	187.34	65.75	Index	[+]
<u>Import Prices</u>	120.67	121.60	145.42	59.42	Index	[+]
<u>Food Inflation</u>	4.13	3.34	5266.83	-2.30	percent	[+]
<u>Producer Prices Change</u>	13.70	12.00	6719.66	-4.77	percent	[+]
<u>CPI Housing Utilities</u>	8801.52	8864.46	8864.46	0.00	Index	[+]
<u>CPI Transportation</u>	4929.41	4966.16	4966.16	0.00	Index	[+]

Source: [https://tradingeconomics.com/brazil/inflation-cpi\(10.12.2018\)](https://tradingeconomics.com/brazil/inflation-cpi(10.12.2018))



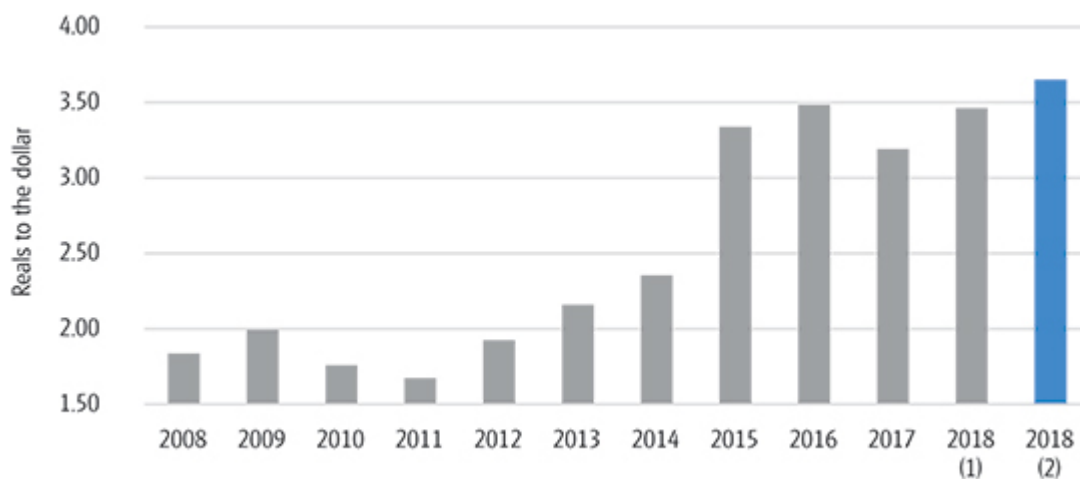
## 8. Government debt

The highest government rate in Brazil was in 2017 with 74% of its GDP. This figure has been developing from 2011, when the GDP was roughly 51%. There is a criticism on new president Michel Temer. Since the ex president Dilma Rouseff left the office, the economy of industries and businesses have stagnated. The new president invests more in infrastructure and economies in order to equalize the lack of its economy, consequently there are a lot of government debt. In the last seven years 85% of the government debt has been financed domestically. According to the forecast in 2020, the government debt would rise to 90% . Therefore, it presents a big problem for Brazil's progress and prosperity.

## 9. Exchange rate

Brazil's currency is Real. The banking industry is well regulated, in consequence of the low financing dependency of the external wholesales. The system is also not dollarized.

The diagram below shows the development of the average exchange rates of BRL to USD in the last decade. In 2008 the figure was something under 2.00. However, this figure has been more than doubled in last decade. The year 2018 (first quarter) testified the highest level of exchange rate in last 10 years. The statistics from 05.12.2018 (see chart) proved this fact. The increase of exchange rate affect the Brazilians importers. For example in the year 2015, the oil prices fell ( Brazil exports oil to other countries), as the dollar strengthened. Consequently the Brazilian companies cut the production and jobs. The value of Brazilian currency (the Real) fell. Therefore the exchange rate is very important for Brazilian economy. Generally, weaker currency in Brazil raised the prices of imports and increased inflation.



Source: <http://www.internationaltaxreview.com/Article/3834748/Brazilian-real-devaluation-will-influence-2018-transfer-pricing-adjustments.html>

<b>Brazilian Real</b>	<b>1.00 BRL</b>	<b>inv. 1.00 BRL</b>
US Dollar	0.257795	3.879048
Euro	0.227460	4.396368
British Pound	0.202511	4.938002

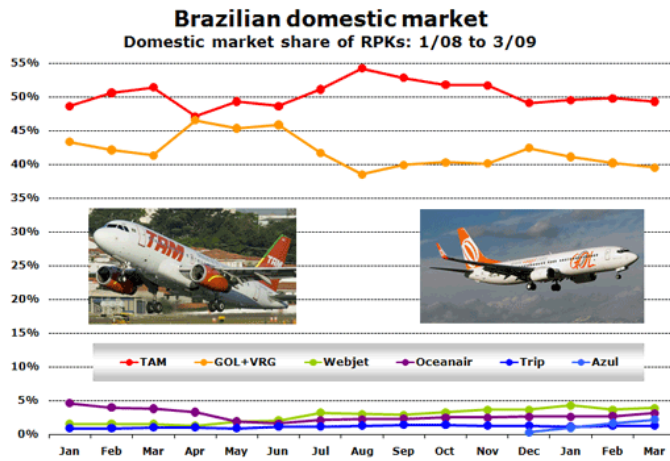
Source: <https://www.x-rates.com/table/?from=BRL&amount=1> (05.12.2018)



## 10. Size and importance of the domestic Market

Brazil has a large domestic market. There are 3.9 million registered companies. The most powerful companies in Brazil are the airline services like Azul, WebJet etc. There is also a strong car industry, electrical utilities, agricultural research and so on. The largest sector is commerce sector with 39%, one percent less than the second largest branch (services: telecommunication, internet, insurance and so on), the rest are agriculture (the main products comprise of coffee, rice, corn, soybeans, sugarcane, cocoa, various citrus fruits and beef), construction and industry (the main industries within the sector include automobiles, petrochemicals, machinery, electronics, cement, textiles, food, mining and tourism). Hydroelectricity is a major focal point for Brazil, which remains one of the world's leading producers of such power. Brazil led in the creation of Mercosur (South American regional economic organization), Banco del Sur (Bank of the South-monetary organisation) and the Group of 20, or G-20 coalition (trade alliance between Brazil, India and South Africa).

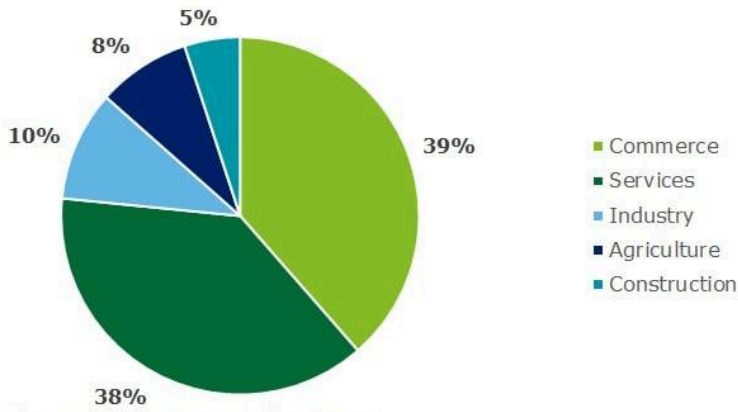
<sup>5</sup> Source: <https://www.cnbc.com/id/100357723>



Source:

<https://www.anna.aero/wp-content/uploads/2009/05/cht-br-dom-share-2008-09.png>

Number of Companies by Sector - 2016  
% share



Source: [https://www2.deloitte.com/content/dam/Deloitte/br/Images/promo\\_images/doing-business-brazil/number-companies-sector-2.jp](https://www2.deloitte.com/content/dam/Deloitte/br/Images/promo_images/doing-business-brazil/number-companies-sector-2.jp)

## 11. The three indicators

Brazil has a high Human Development Index. According to the table below from 2013-2014, Russia ranks highest in the countries, Brazil is the next one with the Human Development Index worth of 0.755, in the world is Russia in 50th place, Brazil in 75th place. In the year 2017 Brazil dropped from rank 75th to 79th.

### BRICS RANKINGS

A point of concern for India, despite satisfactory growth trends, is the perceptible rise in inequality in access to education, health and living standards.

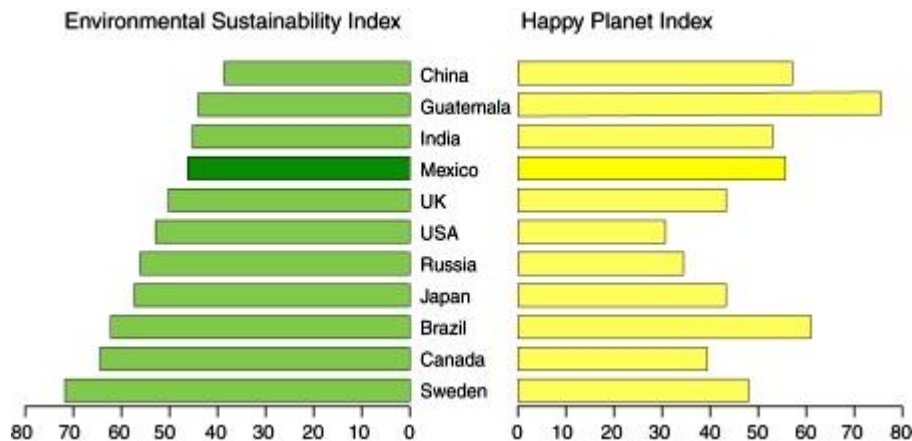
HDI RANK			Human Development Index (HDI)
2013	2014		
74	75 ▼	 Brazil	0.755
50	50 ↔	 Russia	0.798
131	130 ▲	 India	0.609
93	90 ▲	 China	0.727
117	116 ▲	 South Africa	0.666

Source: UNDP report

Source:

<http://kmhouseindia.blogspot.com/2015/12/india-ranks-130th-out-of-188-nations-in.html>

The Happy Planet Index is an indicator which measures the life expectancy, happiness, health and footprint, Brazil ranks 16th. Because of its low footprint. The developed countries such as the USA have a large ecological footprint and a correspondingly low figure on the Happy Planet Index. The environmental situation in Brazil is generally acceptable, in comparison with other developed countries.



Source: <http://geo-mexico.com/?p=9329> (16.12.2018)

## 12. interest rates

The interest rate of Brazil changes a lot. The interest rate of Brazil was 15.12% at the beginning of 1999. Then it went up to 45% in March of 1999. From then on the interest rate went down to 12% in 2007 and to a record low of 6.5% in March of 2018. between 2007 and 2018 there were also times where the interest rate was a little increasing or went a little down, but it wasn't much higher or lower. The reason behind the lower interest rates, is that they want to help to increase the exports and to revitalize the economy of Brazil. The lower interest rates leads to a deflationary situation. Because of this situation, the prices are becoming lower and this is good for the export. <sup>6</sup>

Brazil - Key rates	
Date	Key rates
03/21/2018	6.50%
02/07/2018	6.75%
12/06/2017	7.00%
10/25/2017	7.50%
09/06/2017	8.25%
07/26/2017	9.25%
05/31/2017	10.25%
04/12/2017	11.25%
02/22/2017	12.25%
01/11/2017	13.00%
11/30/2016	13.75%
10/19/2016	14.00%

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<sup>6</sup> <https://countryeconomy.com/key-rates/brazil>

### **13. Conclusion**

To conclude Brazil is a developing country, because of the low standard of living. The classification into developing country is based on the low rank of HDI (Human Development Index). Brazil's economy is the world's ninth largest economy in terms of nominal GDP. Brazil has also stable democratic political system. However, politicians often change parties, which has led to weak party discipline.

The government debt makes up 74% of the GDP. This is one indicator for a weak economy. In order to equalize the costs, the country need more sources of income. Therefore, the value-added-tax increase. Furthermore there are many problems such as the unemployment rate. The country continues to face social issues and has one of the highest levels of inequality in the world, or the gap between the rich and poor people. There are also high disparities between the regions. These are all consequences caused by the process of globalisation and its disadvantages. Brazil has many resources, developed sectors and with new President there is hope for better economic future.

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Enzo's work review :

Very good analysis but the share of work is unbalanced, I would have liked you to write a little bit more !

Economic facts and explanations : B

Economic analysis : B

English : A

Efforts to cooperate : A

Mrs MESTRE : Enzo's grade 16/20

