

Brazil loses commodities boom with deficits, inflation and risk Bolsonaro – 05/06/2022 – Mercado

[Clique aqui para ver a notícia no site](#)

The soaring prices of products exported by Brazil are not benefiting the economy as much as in the last commodity boom, from the early 2000s until the middle of the last decade. At the time, there was an acceleration of economic growth and a fall in the dollar, which helped keep inflation relatively under control, increased national income and brought down the extreme poverty rate – from 27.5% of the population in 2001 to 8.4% in 2014. This time, although the prices of agricultural and mineral products have soared, there is an environment of global inflation, which has made imports more expensive, especially fuel and fertilizers, in addition to consumer goods and machinery and equipment. This reduced the amount of products Brazil could import with the dollars from its exports — worsening the terms of trade, as this relationship is called. Another fundamental difference is that, in the 2000s and until 2013, Brazil kept its public accounts adjusted, with annual primary surpluses to pay interest on the public debt and reduce state indebtedness. With less risk of insolvency, the country attracted billions of dollars in speculative and productive investments, pushing down the price of the American currency. Between 2000 and 2014, the average value of the dollar was R\$2.30. With the stronger real in that period, Brazil raised its terms of trade and imported more, including machinery and equipment to increase production and productivity in the economy. Primary surpluses gained strength in the second FHC administration (1999-2002) and were maintained in Lula's two terms (2003-2010). But they would be abandoned in the last year of Dilma Rousseff's first term, in 2014, when the economy would plunge into a strong recession that subtracted 6.8% of GDP in the 2015/2016 biennium. In the last eight years, marked by mediocre growth, deficits and high public debt, 2021 was the only one in which Brazil registered a primary surplus, equivalent to 0.75% of GDP. As a comparison, during the Lula government, this saving to reduce public debt reached 3.7% of GDP in the 2004/2005 biennium. At the moment, despite the still high level of commodity prices, the precarious fiscal situation and the approach of a polarized election, with threats of coup by President Jair Bolsonaro (PL), have contributed negatively, keeping the country off the radar of investors. The so-called Brazil risk, one of the solvency measures of public accounts, remains systematically above the emerging market average, helping to keep the dollar at a high level. With the prospect of raising interest rates in the United States to contain inflation, the trend is for the dollar to strengthen more in almost all the world – as US government bonds become more attractive to investors. "There is a temptation to look for similarities between the current commodity cycle and the previous one. But it is comparing bananas with oranges. Not only is the Brazilian fiscal situation completely different, but the world has changed", says the former president of the Central Bank, Affonso Celso shepherd. "Unlike the 2000s, many countries are raising interest rates to contain inflation; and China is no longer growing between 8% and 12% a year. Many even predict that commodities will decline in 2023. For Brazil, the economic slowdown won't be small." For Livio Ribeiro, a researcher at Ibre-FGV and a partner at the BRCG consultancy, the best moment of the current commodities cycle is already behind us, taking into account the terms of trade that are more favorable to Brazil. "They [termos de troca] remained high until July 2021 and worsened at the end of last year and beginning of 2022, when there was a brutal acceleration in imported prices, especially fuel and raw materials for fertilizers." As Brazil still imports many industrial goods, the disorganization of global production chains during the pandemic also reinforced the increase in prices of products purchased on the international market. Despite the good relationship between what Brazil could import and the result of exports in 2021, the dollar remained above R\$5 for almost the entire year, a period in which Bolsonaro intensified attacks on institutions. According to BRCG data, most of the devaluation of the real last year was a consequence of internal factors. This year, it is the international scenario of high interest rates that puts pressure on the currency. "Usually, in a positive cycle for commodities, there is a strong appreciation of the real, with positive impacts on income. But that was not what we saw last year, a period of great political instability. This year, we have a polarized electoral cycle approaching, which doesn't help", says Marcelo Neri, director of FGV Social. After the sharp drop in the extreme poverty rate calculated by FGV Social in the previous commodity boom, the indicator closed 2021 at 13% (well above the 8.4% floor in 2014). There are currently 27.5 million people in the country living on less than R\$ 290 a month (R\$ 9.60 a day). Although the impact of the current commodity cycle is not as favorable as the previous one due to internal (fiscal and political situation) and external (global inflation and high interest rates) reasons, it has had a positive impact on federal and state tax revenue. The problem, in the opinion of Sérgio Vale, chief economist at MB Associados, is that many states have been increasing permanent expenditures, as in the case of readjustments for civil servants, with the result of extra revenue that may decrease in the future. "We already see a deceleration in metallic commodities, and prices in general tend to accommodate with the decrease in activity in the United States and Europe from the current high interest rates", says Vale. In Brazil, according to MB Associados' projections, GDP is expected to grow 1.1% this year and slow to 0.5% in 2023 — also pulling collections down. For Silvia Matos, coordinator of Ibre-FGV's Macro Bulletin, the increase in revenue with the rise in commodities has an "anesthetic effect" that masks the precariousness of public accounts in many states and the federal government. "The side effects of more spending are now being pushed forward. Whoever is reviewing the 2022 GDP up is also putting the 2023 down. The hangover could start as early as the second half of the year," he says. In this sense, Brazil would be repeating the behavior of the previous cycle: instead of using part of the additional money to settle the bills, it creates new expenses that it may not be able to pay in the future.

