

# Economic Crisis in Brazil

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## Introduction

### General Situation:

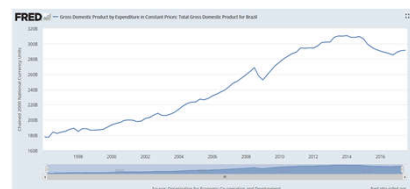
Brazil, the world eighth largest economy both by its nominal GDP and purchasing power parity, has been facing economic crisis since 2015. At the beginning of 2017, the 1.4% increase of its GDP marks an end to the recession, but there is still a long way for the country to go to solve the underlying problems.

### More facts and data:

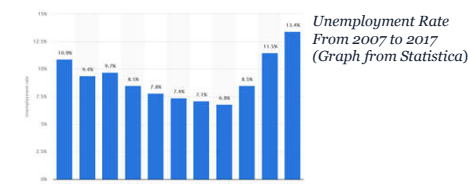
Currently, there are 12.9 million unemployed people in Brazil. The unemployment rate is 12.6%, 76% higher than two years ago.

As a result of recession, the government revenue decreases from taxes, and the deficit reached 1.7 billion dollars in the first quarter of 2016. However, the government expense has not stopped growing.

GDP by expenditure from 1996 to 2017 (Graph from Federal Reserve Bank of St. Louis)



Brazil: Unemployment rate from 2007 to 2017



Unemployment Rate From 2007 to 2017 (Graph from Statistica)

## Aim

### 1. Identify possible factors that play a role in the Brazil economic crisis

Based on preliminary research and my experience in Brazil, the factors I figured out are: lack of education of local people regarding related financial knowledge, high taxes, bureaucracy, lack of infrastructure, inflation pressure, appreciated exchange rate, and lack of continuous inflow of capital.

My focus would be bureaucracy, lack of education, and high interest rate.

### 2. List viable solutions on the basis of research and the content we learned during the trip

## Factors that Play a Role in the Crisis

### Bureaucracy

In PUC-Sao Paulo, we discussed how we can support the new fintechs to start and stimulate the economy. Nevertheless, no matter what ideas or thoughts we came up with, we could not escape from the broad framework, which is the bureaucratic problems of the country. They create incredible obstacles to new startups.

According to the statistics offered by the World Bank, Brazil ranked 125<sup>th</sup> out of 183 areas in regard of the ease to start a new business in 2017. In addition, based on BBC reports, it takes 13 procedures and 119 days of work on average to start a business in Brazil.

Economy *	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity
Brazil		125	176	170

World Bank Statistics in 2017

### Lack of Education of Related Knowledge

According to the data presented by Nubank as well as PUC-Sao Paulo, only 49% of the population in Brazil today have bank accounts. Mobile banking takes up only 21% among all bank-related transactions. In comparison, 85% of consumers selected banking apps to pay bills or access to checking account in Canada during 2016.

The low utilization of banking technology reveals people's insufficient understanding and familiarity of financial tools, as well as lack of trust in the economic status quo.



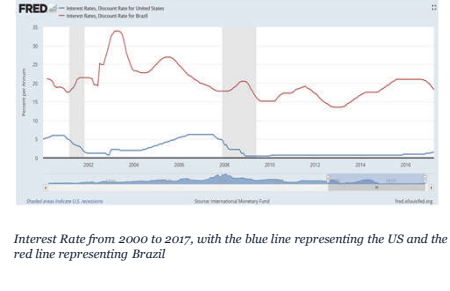
It becomes a vicious circle that less consumer as well as investor confidence leads to less economic growth, and economic stagnancy decreases confidence. Education can step in to help with the people's side.

### High Interest Rate

In 2016, about 7.6% of Brazil GDP went to interest payments on the debt. The country has the fourth highest interest rate in the world. High interest rate motivates consumers to save more instead of spending, and contributes to wealth disparity in general.

In addition, the regression analysis reveals a strong negative relationship between interest rate and real GDP of Brazil.

	Coefficient	Standard Error	t Stat	P-value
Intercept	3446775	210549.3256	16.370394	4.67368E-10
interest rate	-80793	13367.97892	-4.5478605	0.000547474



Interest Rate from 2000 to 2017, with the blue line representing the US and the red line representing Brazil

## Possible Solutions Based on Knowledge Gained from the Trip

### Support New and Existing Startups

During the trip, we visited Cubo-Itau, a hub for technological co-working and a breeding ground for startups. It allows founders of startups to cooperate as a community and get access to financial support or investors. Organization such as this can be helpful for the country to exit recession.



### Enhance Education

More government expenditure should go to the propaganda of benefits of financial tools such as mobile banking, and the spread of proper usage of these tools. Especially with the ending of the recession and 1.4% increase in GDP during 2017, it is a great chance to persuade people to expect future economic growth as well as decrease in unemployment rate.

### Lower the Interest Rate

At the end of 2017, the Central Bank in Brazil cut the benchmark Selic rate by 50 basis points to 7%. Based on the fact that Brazil has been facing crisis for almost three years, this lowering of interest rate can encourage more consumer expenditure, bolster corporate investments, and help the country to gain momentum for the growth again.

## Conclusion

At the time when I determined the topic, the reasons of Brazil recession that I could come up with were basic and shallow, including political corruption, business cycle, and change in global market. The trip to Brazil helped me greatly in rethinking the content of my topic, especially in regard of how these factors lead to the recession and what improvements are possible for current situation.

I chose three main ideas that impressed me most during the trip as the focus of this poster:

1. Bureaucracy, which creates obstacles to startups and news stimulus to the economy. More support should be offered for startups like fintechs to overcome the barriers.
2. Lack of related education. Education enables people to gain back confidence in the economy and therefore consume more, and get used to convenient financial tools.
3. High interest rate, which impedes consumption as well as investment, and increases disparity. Lowering the interest rate can facilitate economic growth.

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