

The Cause and Solution of Brazil's Recession

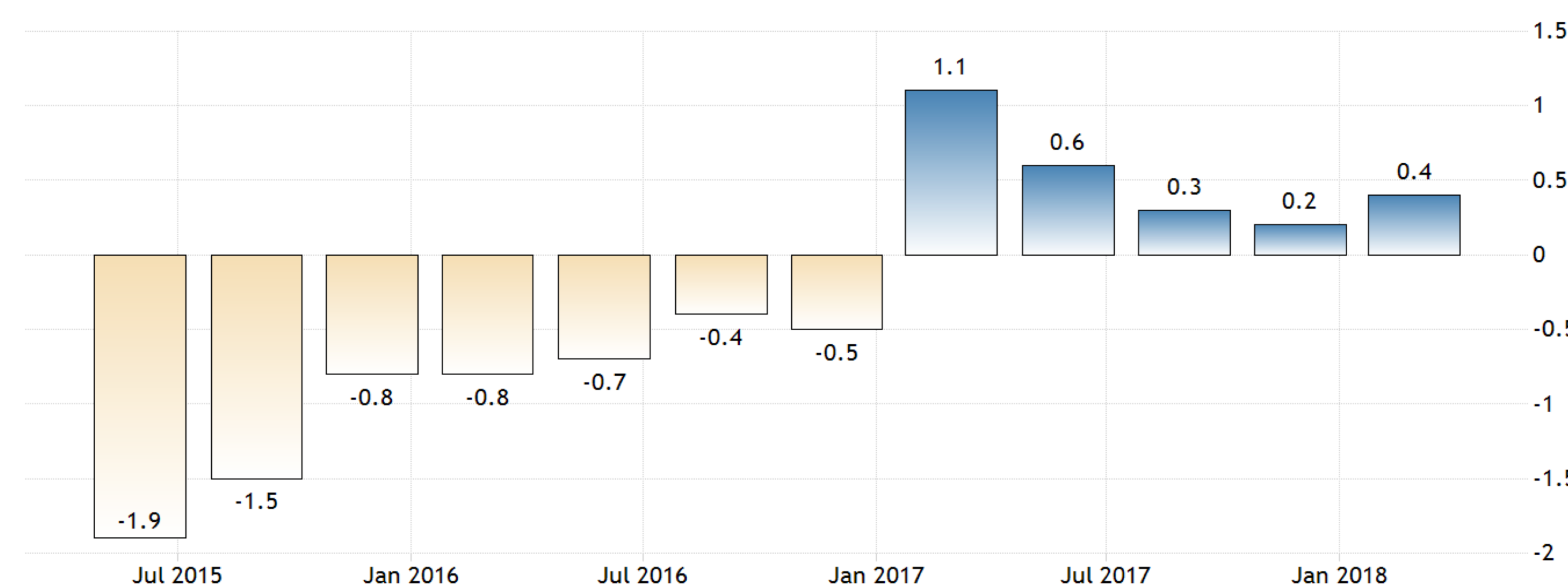
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INTRODUCTION

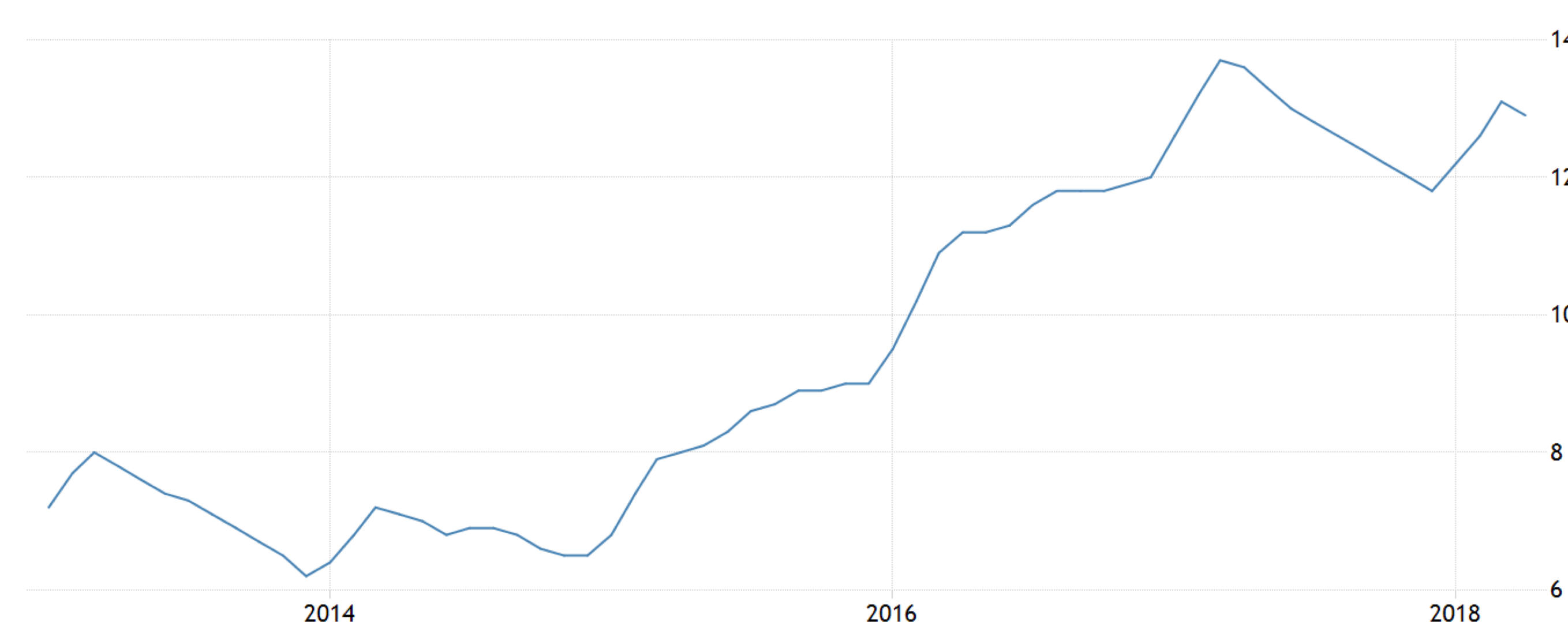
Brazil has been suffering a recession since 2015. The worst period was 2015-2016 that Brazil suffered a serious economic break down, and the country's economy shrank by 1.7%(Backman, 2015). Meanwhile, the unemployment increased dramatically during the recession. According to the BBC(2017), this was the worst economic decline since recording began. Starting from 2017, Brazil has been slightly recovering from it, but the unemployment rate still remains high.

BRAZIL GDP GROWTH RATE



SOURCE: TRADINGECONOMICS.COM | INSTITUTO BRASILEIRO DE GEOGRAFIA E ESTATÍSTICA (IBGE)

BRAZIL UNEMPLOYMENT RATE



SOURCE: TRADINGECONOMICS.COM | INSTITUTO BRASILEIRO DE GEOGRAFIA E ESTATÍSTICA (IBGE)

AIM

In this study, I will analyse what caused such a bad recession in Brazil and find the solution of it.

METHODS

Data Collection

1. TheGlobalEconomy.com

Comparison Analysis

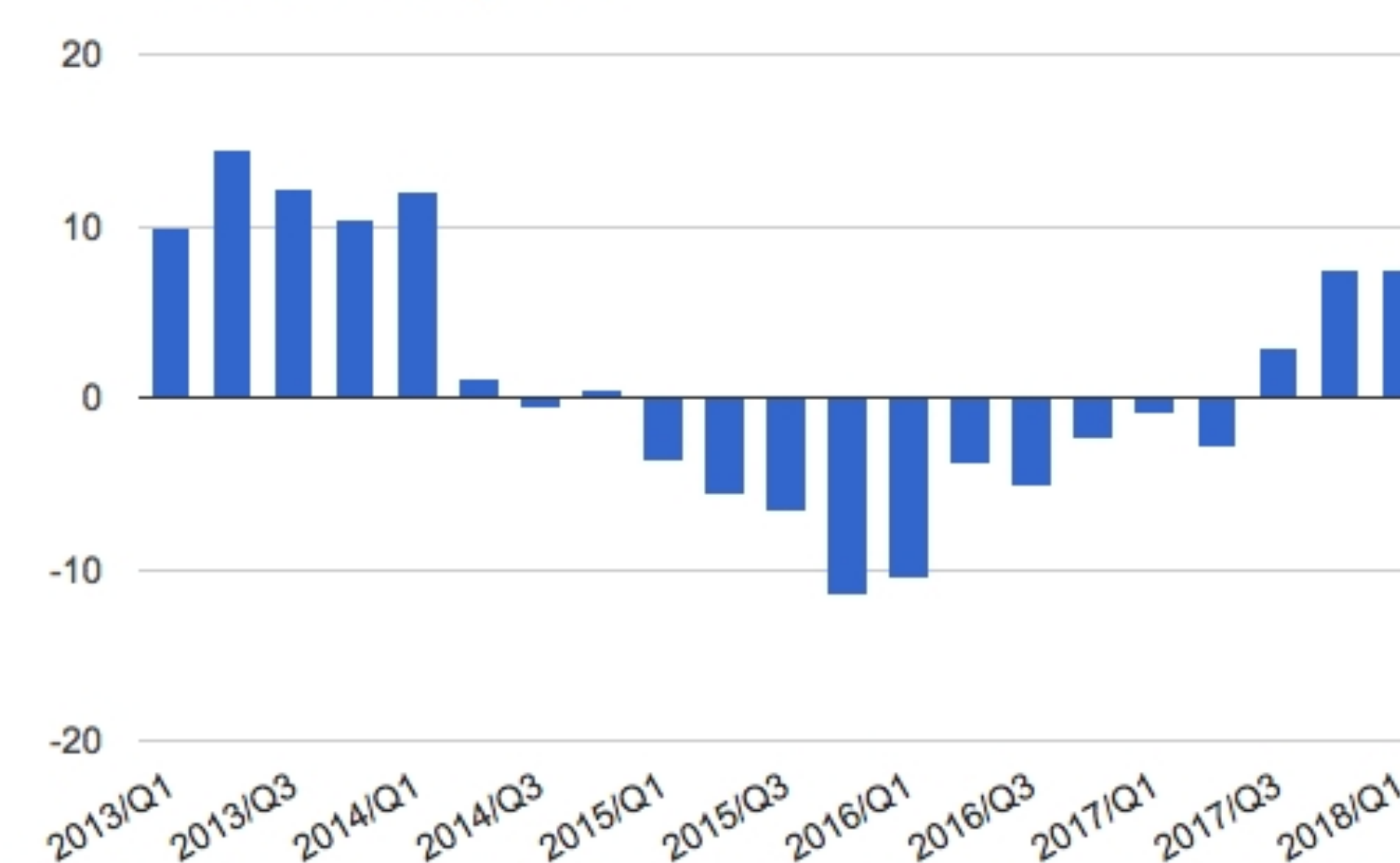
1. Using the data to compare different components of GDP's growth rate.
2. Choose the most significant component that contributes to the decreasing of GDP, analyses how the component impact the economy, and how to improve it.

RESULTS

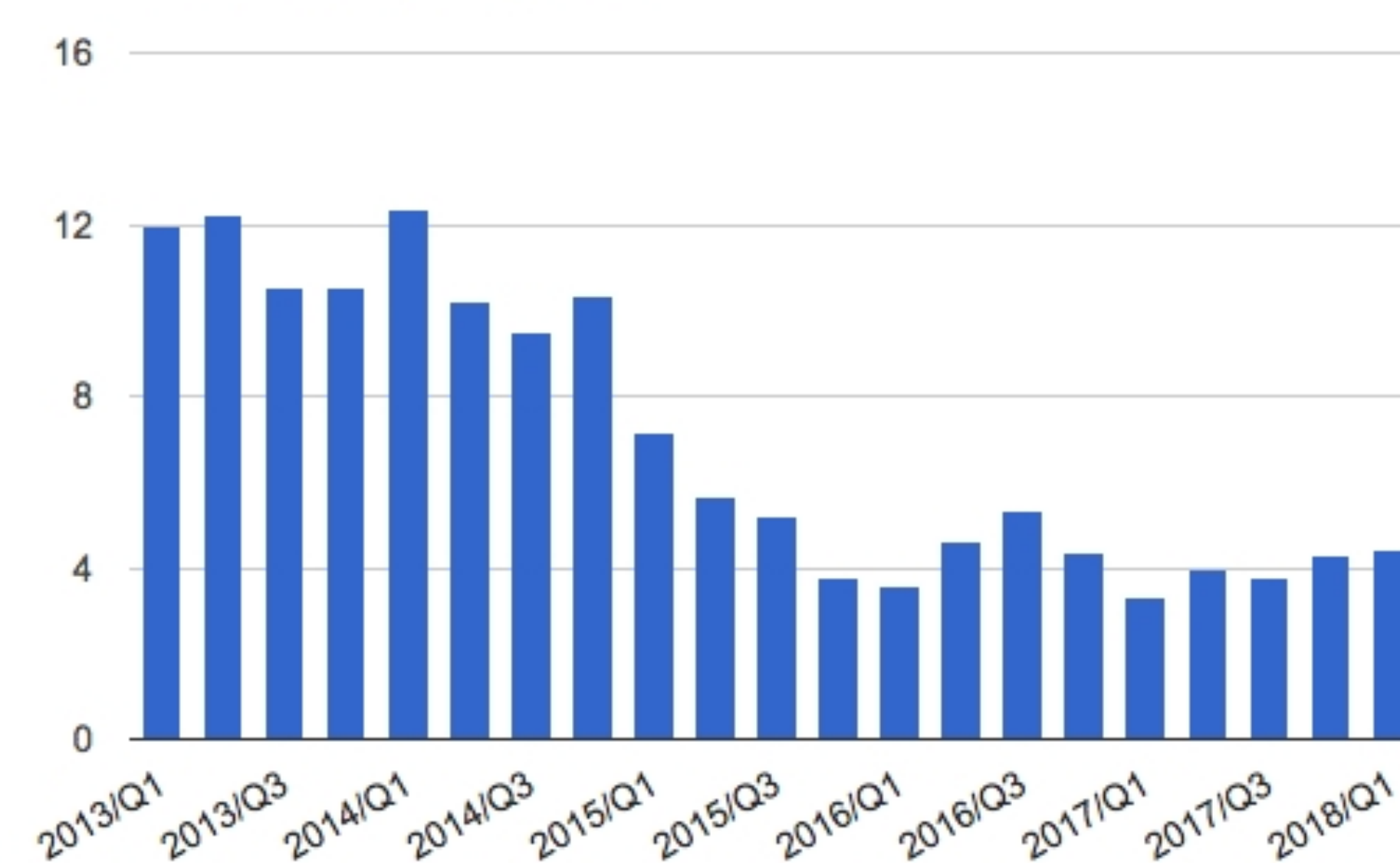
Lack of Investments

One main issue of which caused the recession is the lack of investment in Brazil. Through 2014 to 2016, private consumption, public spending and exports were increasing as a ratio of GDP, while the fixed investment dropped by 5% of GDP which contributing to the contraction of in GDP(Coutino, 2017). We can see that in the following graphs. During the recession, the rate of investment was decreasing, the rate of exports slightly decreased in 2014 but there was a large increase in 2015 which could conclude as an increase of exports during the recession, and the rate of consumption was increasing with a slower speed.

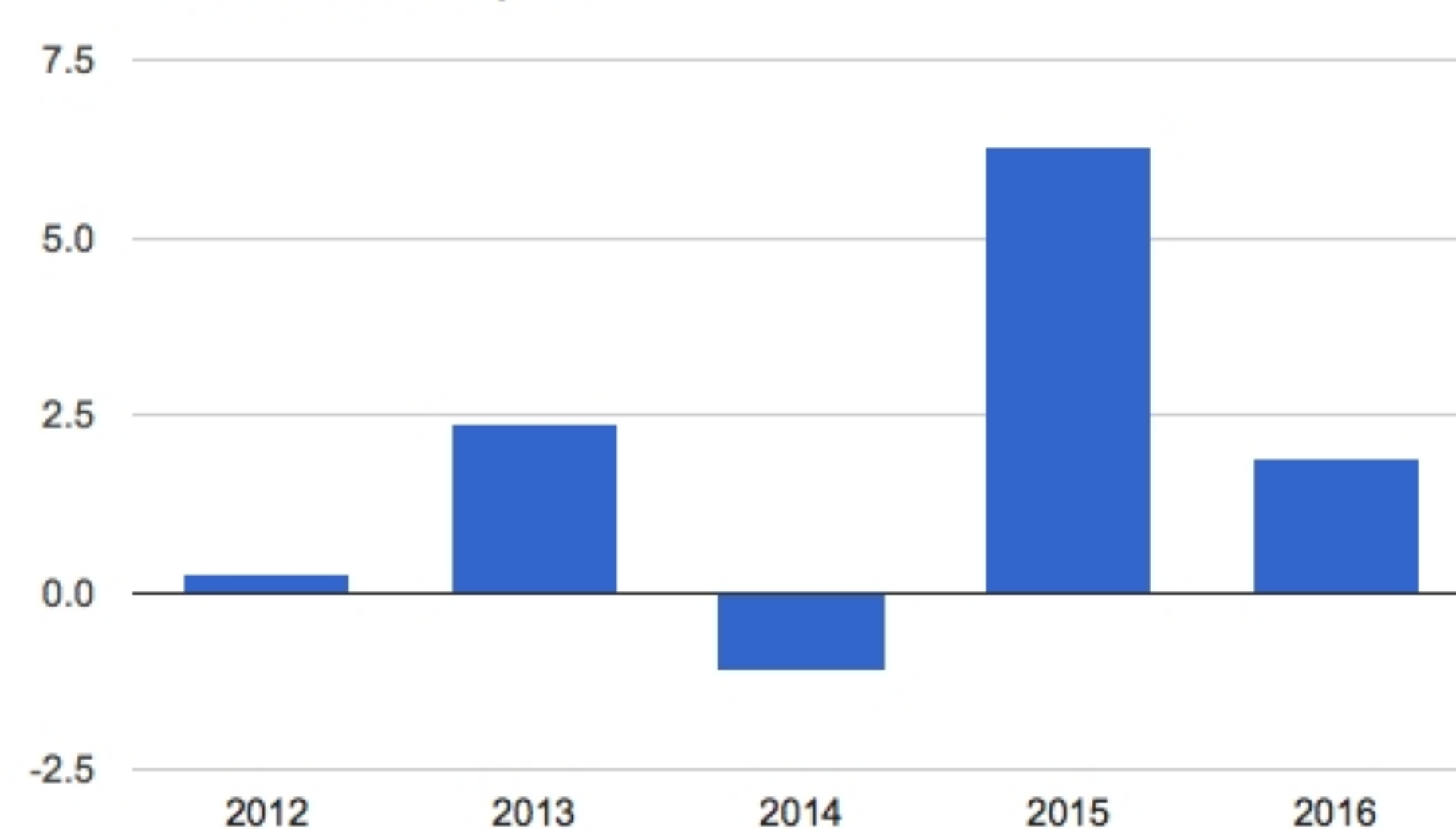
Brazil - Investment growth



Brazil - Consumption growth



Brazil - Growth of exports



Source: TheGlobalEconomy.com, The World Bank

INVESTORS' PROBLEM

An investment-driven recession is not a traditional result for Brazil. However, there are several reasons for it. The major issue is investors lack confidence. Firstly, the political environment is unsteady and investors cannot predict the future. For the risk adverse investors, they prefer to avoid the risk of investment from political change. Secondly, there are some financial instruments that attract investors to rather save money than risk it.

According to Patrick Gillespie, under the term of President Dilma Rousseff, Brazil's government was massively corrupt. In 2016, Brazil's congress began impeachment trials against her for her crime of messing with Brazil's fiscal budget(2016).

After the impeachment of President Dilma Rousseff, interim President Michel Temer came up with several proposals, such as limiting government spending, which was praised by a lot of economists in Brazil. But there is still a long road ahead, experts said(Coutino, 2017).

CONCLUSIONS

Brazil suffered a bad recession starting from 2015, and now is recovering slowly from it. The main cause of the negative economic growth was the lack of investments, in other words, investors did not have faith in the economy, which can be traced back to corruptive government and unsteady political environment.

After the presidential impeachment and a few more reforms of government, Investors started to gain confidence again.

Along with the increase of investors' confidence, there are certainly more things that the government should do to help the recovery of recession. The fiscal and monetary adjustment is necessary to correct macroeconomic imbalance(Coutino, 2017).

REFERENCE

1. Coutino, A. (2017). Brazil's Two-Year Recession: A Result of Disinvestment. [online] Available at: <https://www.economy.com/dismal/analysis/todays-economy/294249/Brazils-TwoYear-Recession-A-Result-of-Disinvestment/> [Accessed 9 Jun. 2018].
2. Gillespie, P. (2016). Brazil impeaches president just as recession deepens. [online] CNNMoney. Available at: <http://money.cnn.com/2016/08/31/news/economy/brazil-recession-gdp/> [Accessed 9 Jun. 2018].

