



Latin America: From Recovery to Slowdown

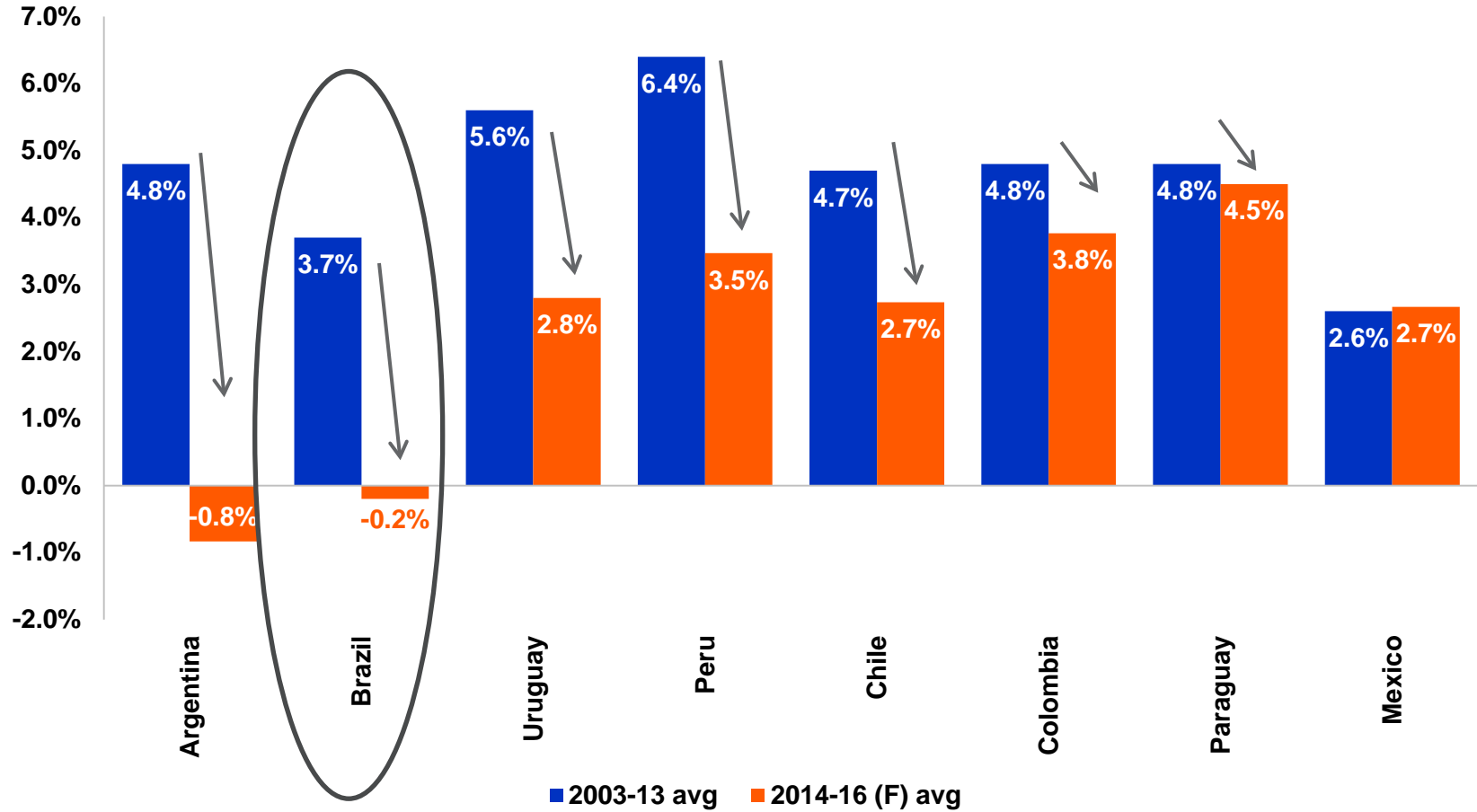
Ilan Goldfajn

Chief Economist and Partner at Itaú Unibanco

- **The party is over in Latin America.**
- **Brazil is decelerating faster, for domestic reasons.**
- **Government popularity has plummeted in Brazil. What changed since the elections in October?**
- **Where do we go from here? The adjustment season has begun. Scenarios for Dilma II.**

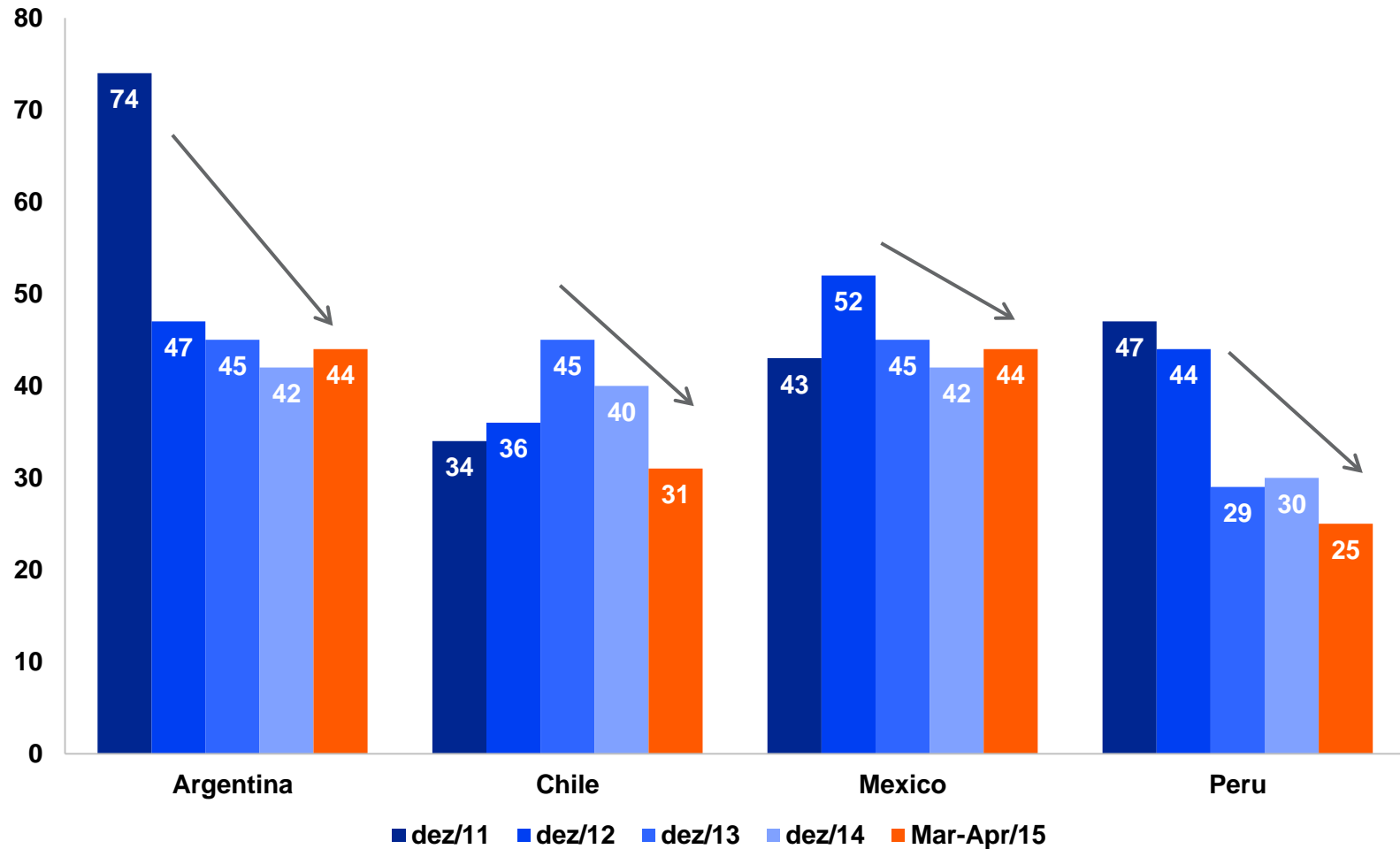
The Party Is Over in Latin America

Past growth rates vs. forecasts



So Government Approval Ratings Are Falling Across the Region

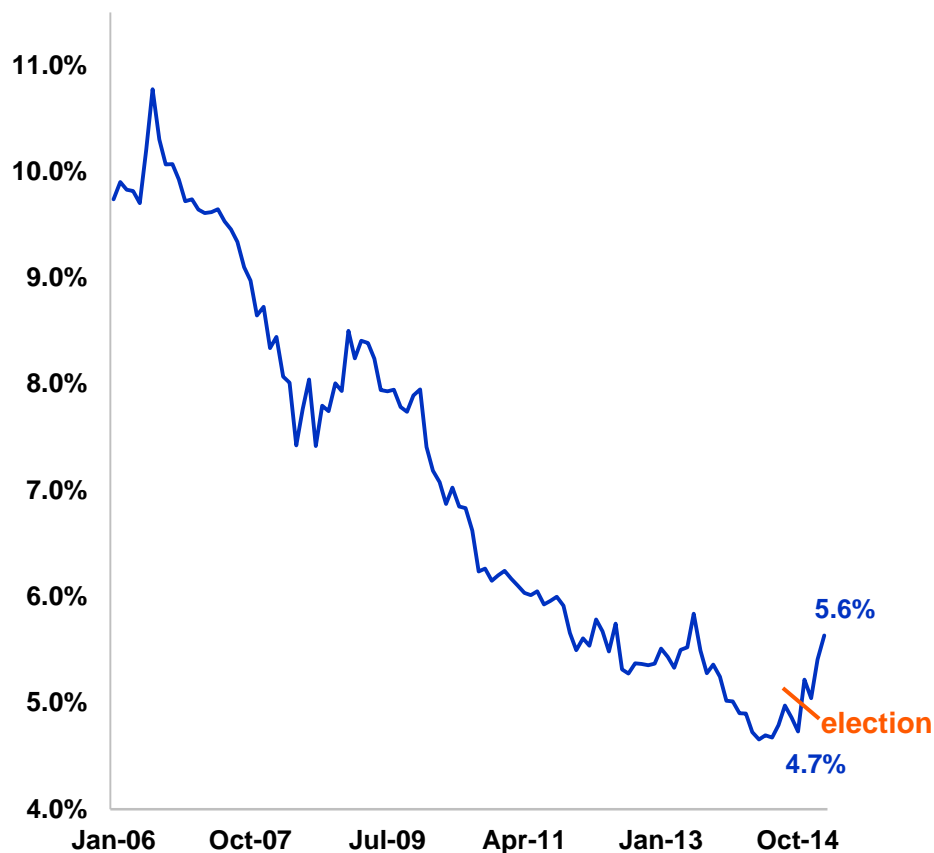
Government approval ratings (%)



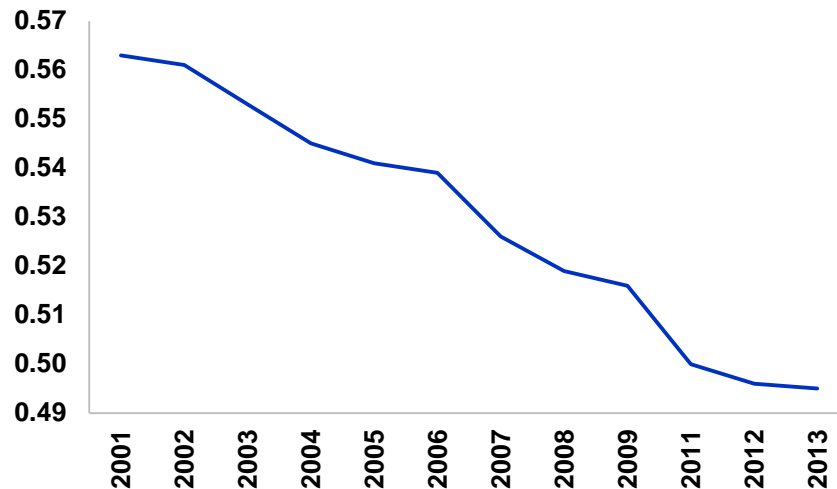
Why Has Dilma Won Reelection? Low Unemployment and Income Distribution

Unemployment rate

Seasonally adjusted

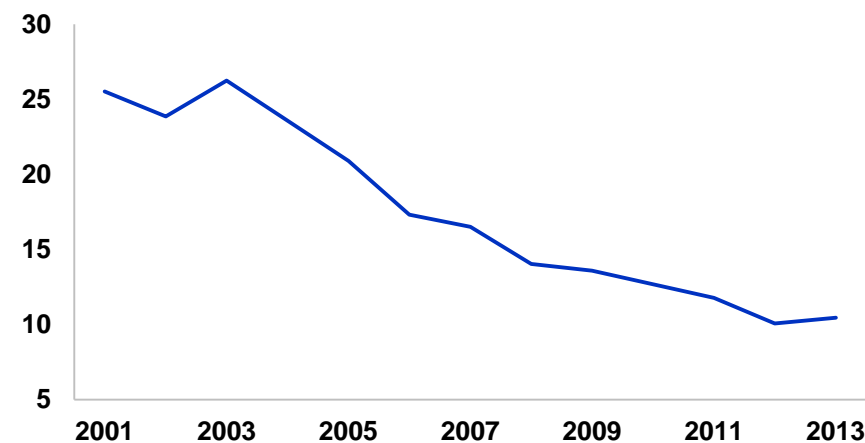


GINI index



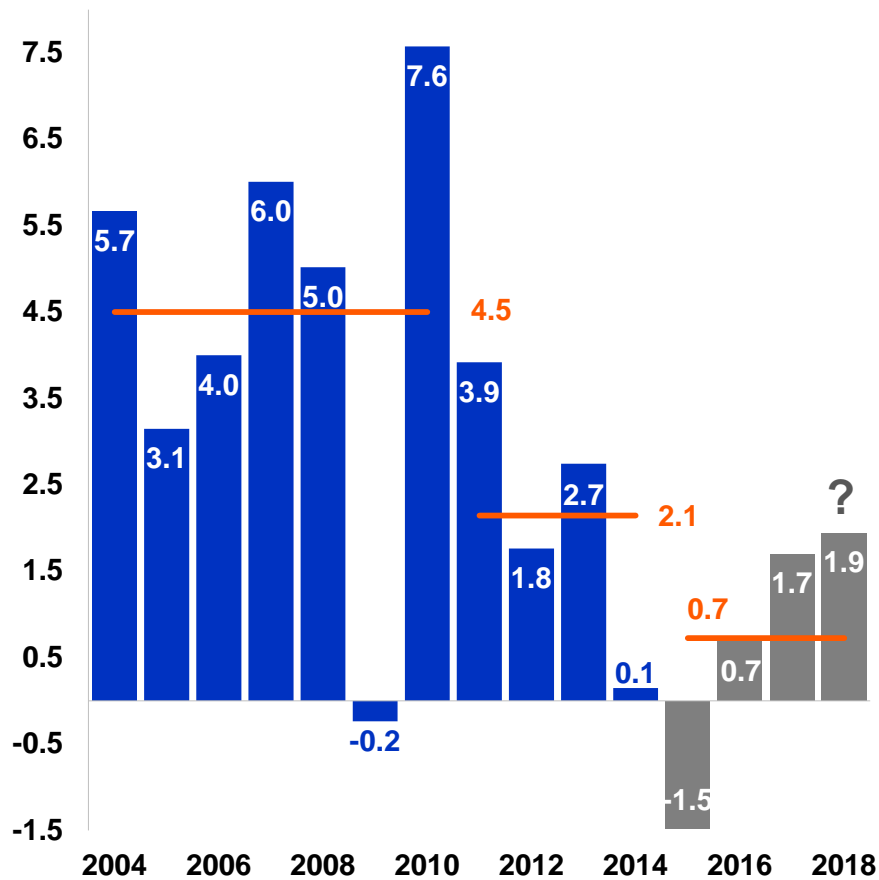
Misery*

In millions of people

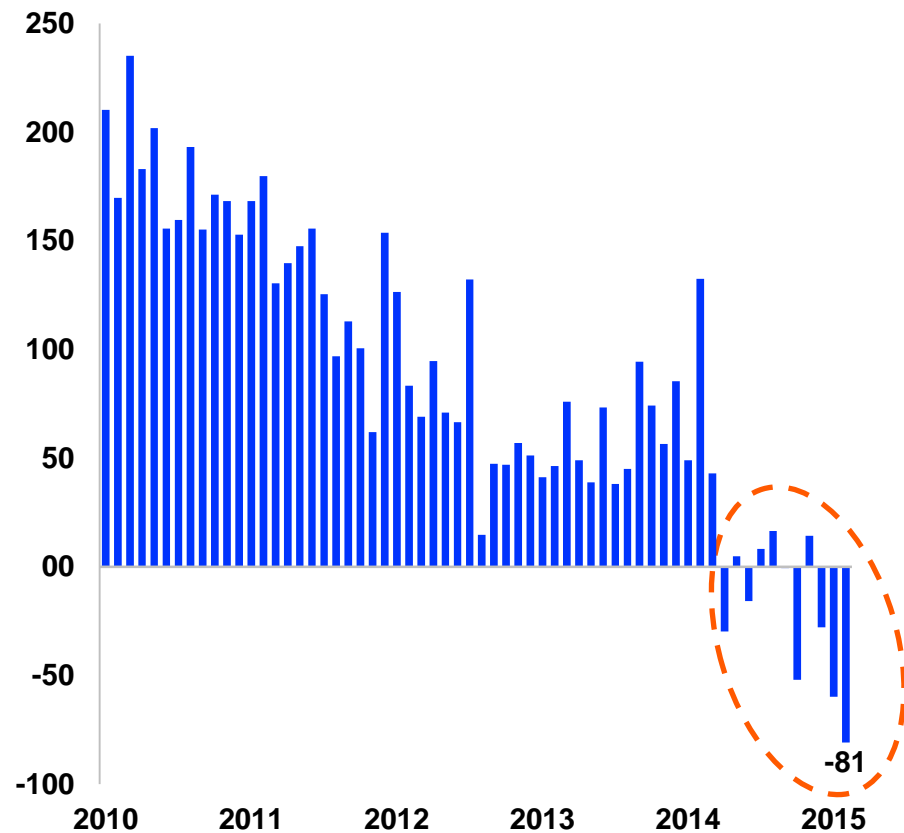


But there Is a Need for Changes

Real GDP growth (%)



Formal Job Creation
Thousands, Seasonally Adjusted



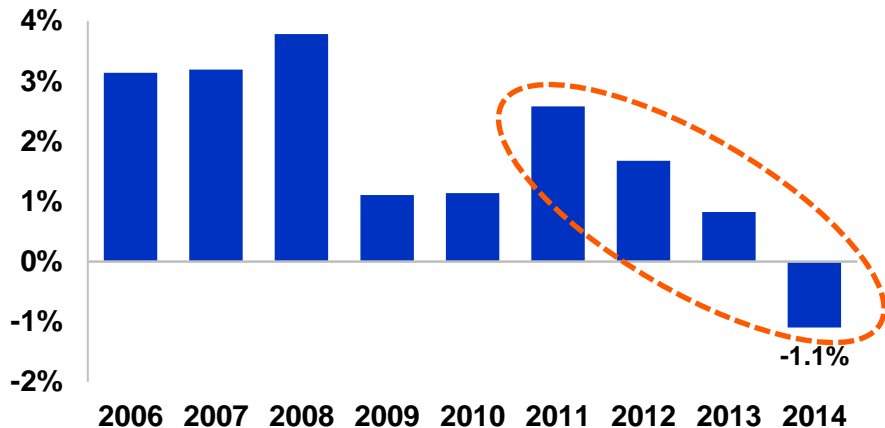
“In economics, things take longer to happen than you think they will, and then they happen faster than you thought they could”

(R. Dornbusch)

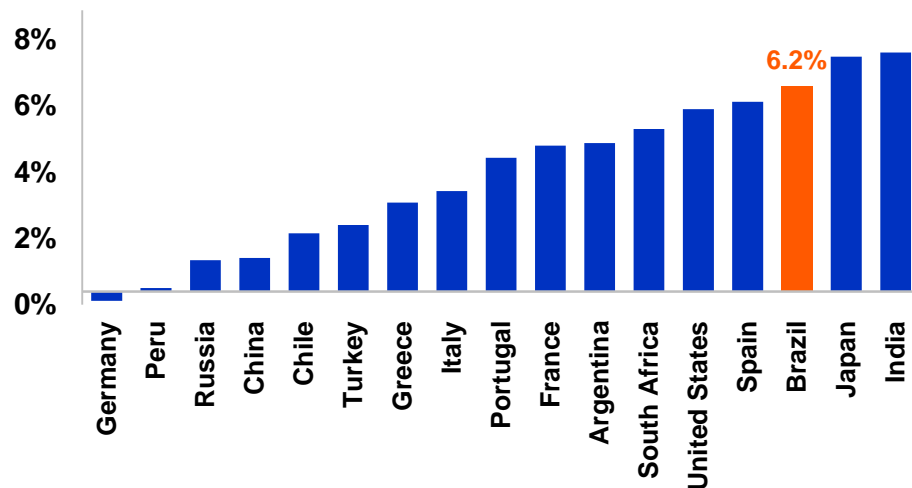
- The current crisis is a result of:
 - I. End of the global *boom* and of the commodity cycle.
 - II. Long-term “structural” issues.
 - III. Inadequate economic policy reaction to the new reality.

Fiscal Deterioration Puts Debt Sustainability at Risk

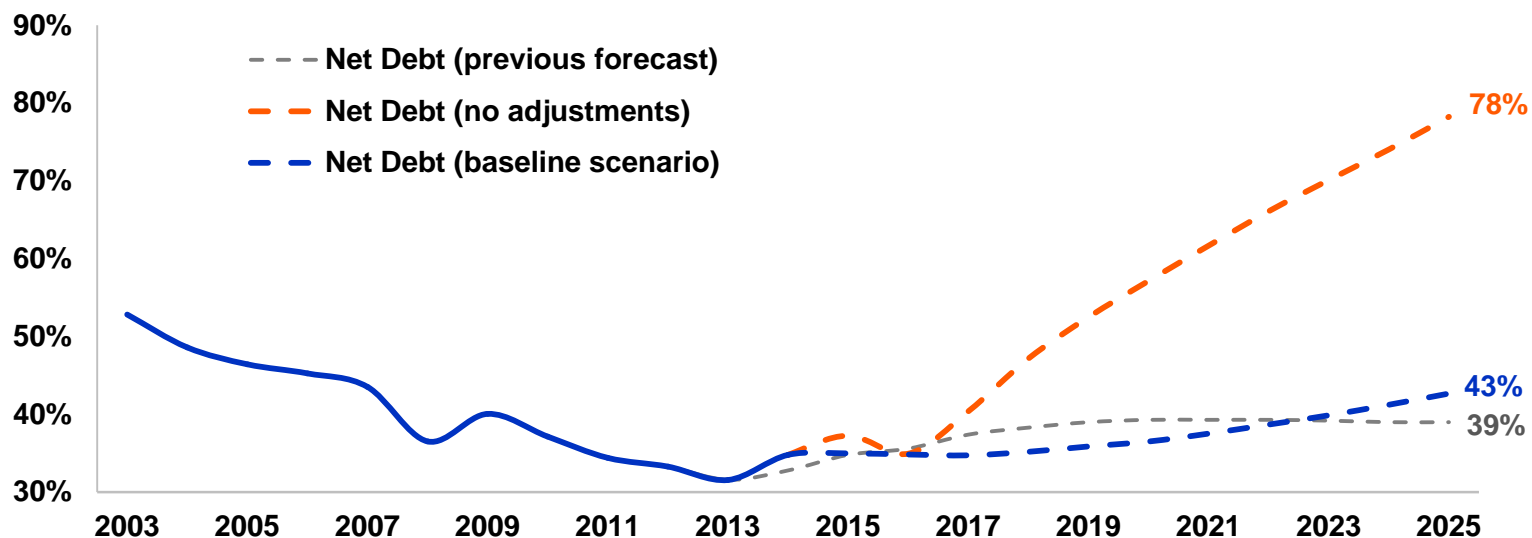
Recurrent Primary Surplus
% of GDP



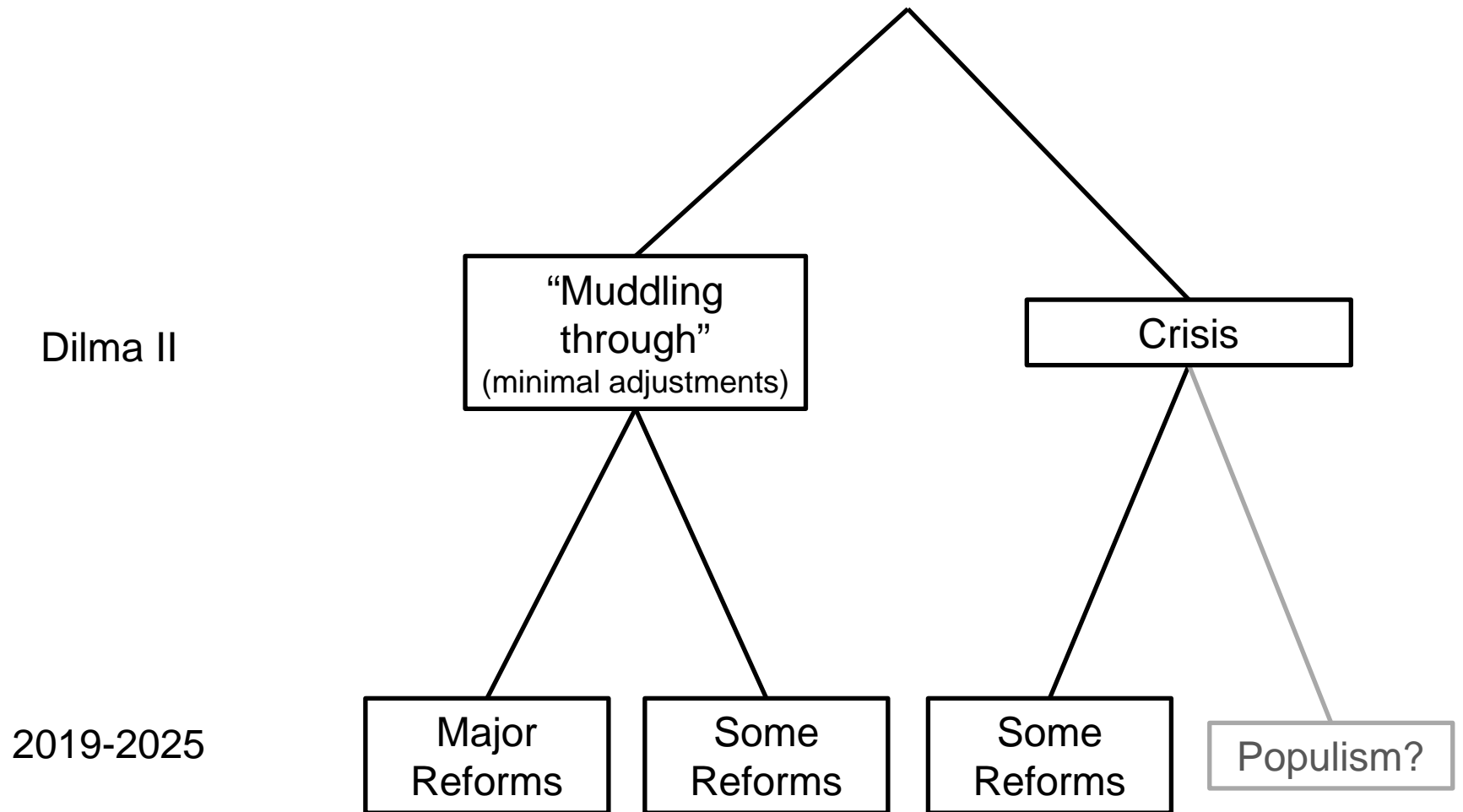
General Government Nominal Deficit
% of GDP



Net Debt (% of GDP)



What to Expect in the Next Years?



Five major adjustments are starting in 2015.

✓ **Not really reforms, but rather fixes:**

- I. Fiscal**
- II. Quasi-fiscal**
- III. Balance of payments**
- IV. Regulated prices**
- V. Inflation targeting**

The Current Account Needs to Adjust: What Is the Equilibrium Level?

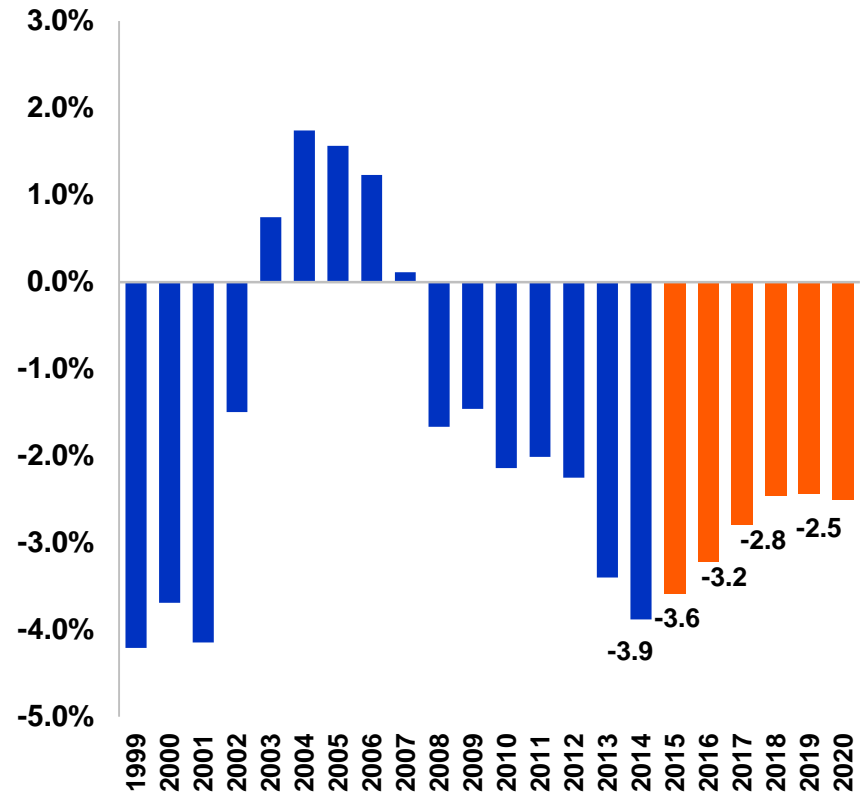
C/A Convergence Under Different BRL Scenarios

Basic Scenario			
	2015	2016	2017
BRL (year-end)	3.10	3.40	3.60
Current account deficit	3.6%	3.2%	2.8%

Convergence in 2017			
	2015	2016	2017
BRL (year-end)	3.40	3.60	3.70
Current account deficit	3.5%	2.9%	2.5%

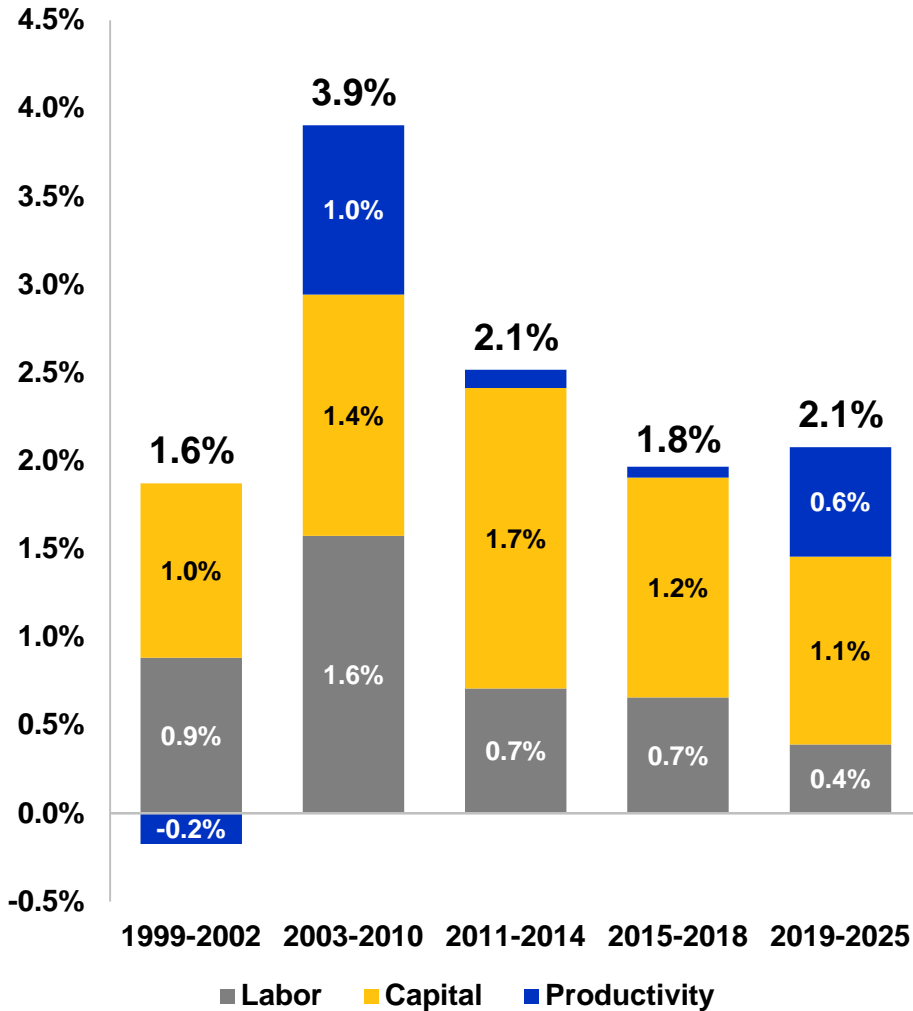
Convergence in 2016		
	2015	2016
BRL (year-end)	3.60	3.80
Current account deficit	3.4%	2.5%

Current Account % of GDP

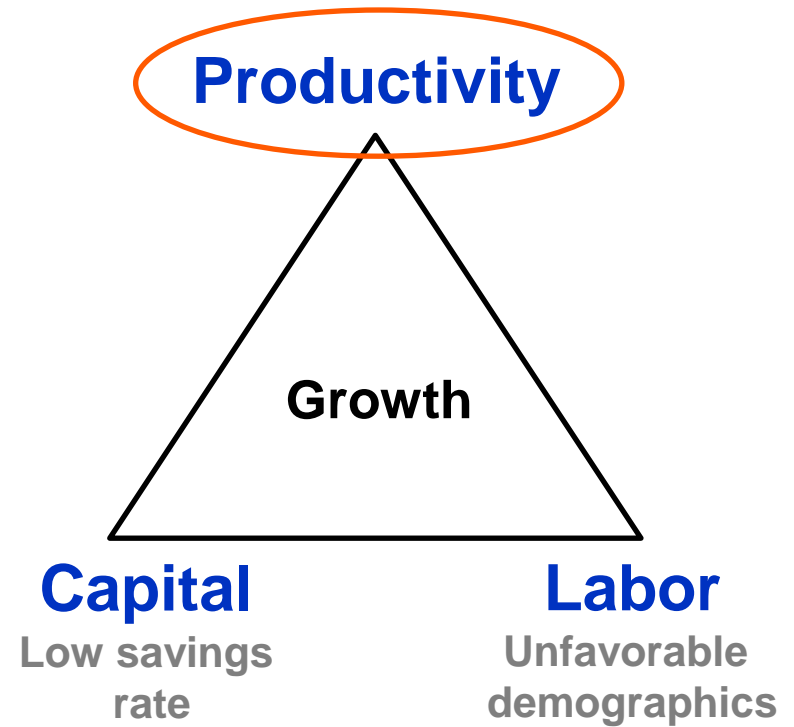


Looking Further Ahead: How to Recover Growth in Brazil?

Potential GDP growth breakdown



How to increase the potential GDP?

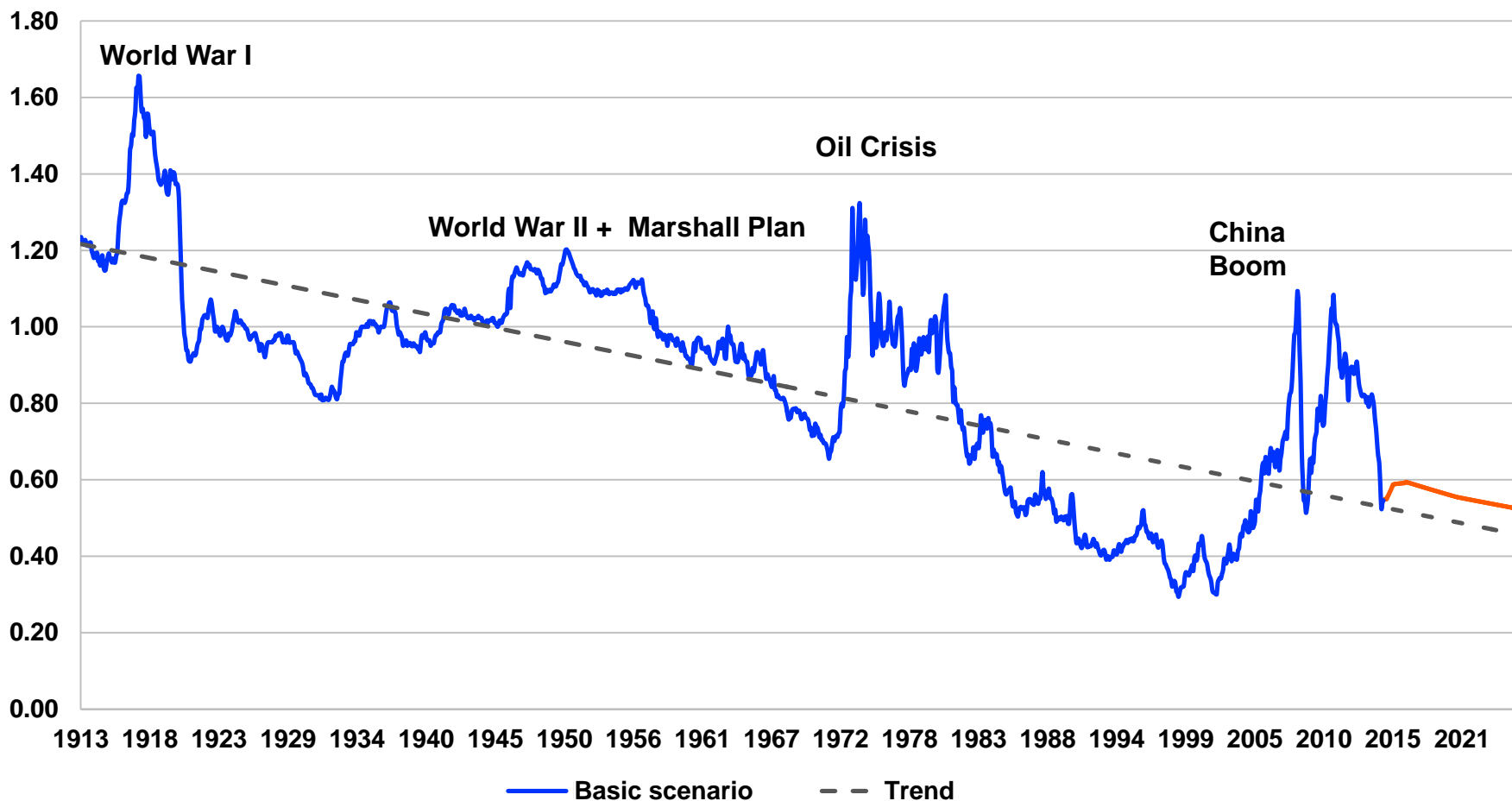


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Appendix

Commodity Prices to Remain Relatively Low

Commodity Prices – deflated by the U.S. CPI



Commodity Prices and Investment Correlated in Latin America

Export prices vs. investment growth

