

# 6th Workshop on New Developmentalism

**Stagnation of the Brazilian economy, peripheral financialization, and climate transition: Is there a way to resume growth?**

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## Road map of the presentation

- 1- Stagnation of the Brazilian economy and peripheral financialization
  - Stagnation and the accelerated process of deindustrialization are deeply connected with the financialization process of the Brazilian economy
- 2- Recent evolution of the Brazilian economy
- 3- Can the Ecological Transformation Plan be a way to resume growth?

Financialization is the modus operandi of modern market economies

- Financialization on the periphery of capitalism: has different characteristics and drivers than those observed in central economies,
  - The main distinctive feature is the importance of the international dimension in explaining financialization.
- Specificities of peripheral economies:
  - subordinate position in the international monetary and financial system, which
  - narrows policy space and turns them more vulnerable to external financial and trade shocks
- The Brazilian economy is an example of a peripheral economy financially integrated in an asymmetrical monetary and financial world

## Two distinctive characteristics of peripheral financialization

- 1- Peripheral economies financially integrated are “ business cycle takers”;
- 2- the connection between monetary policy and exchange rate movements is largely explained by the international liquidity cycle:
  - a) the autonomy to set the interest rate to control aggregate demand is constrained to accommodate changes in the direction of capital flows using the interest rate differential.
  - b) under the ITR, the increase in the interest rate differential attracts foreign capital, an exchange rate appreciation is expected, which, helps to cool off inflationary pressures.
  - c) Fiscal space is limited in peripheral economies that operate with high interest rates.

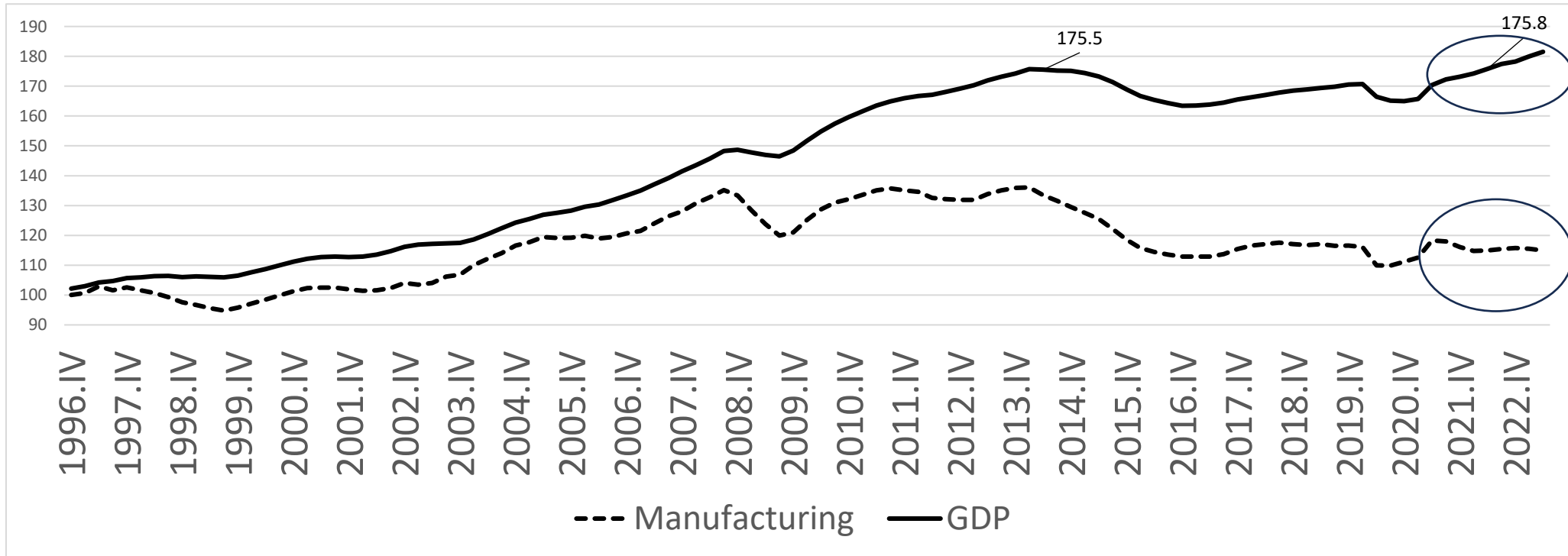
Financialization of peripheral developing economies and structural change might result in a regression in the productive matrix.

- Keeping a high level of real interest rate, either to control inflation and/or to attract capital, imply a non-competitive real exchange rate, which leads to a low growth performance and **regressive structural change**, that means, deindustrialization.
- Structural change implies heavy investment in capital formation.
- But the subordinated insertion does not provide favourable conditions to productive investment, because of
  - the pro-cyclical character of capital flows that enhances external vulnerability.
  - And economic policy autonomy is limited

## The stagnation of the Brazilian economy

### Index of real GDP and Manufacturing Value Added: 1996=100

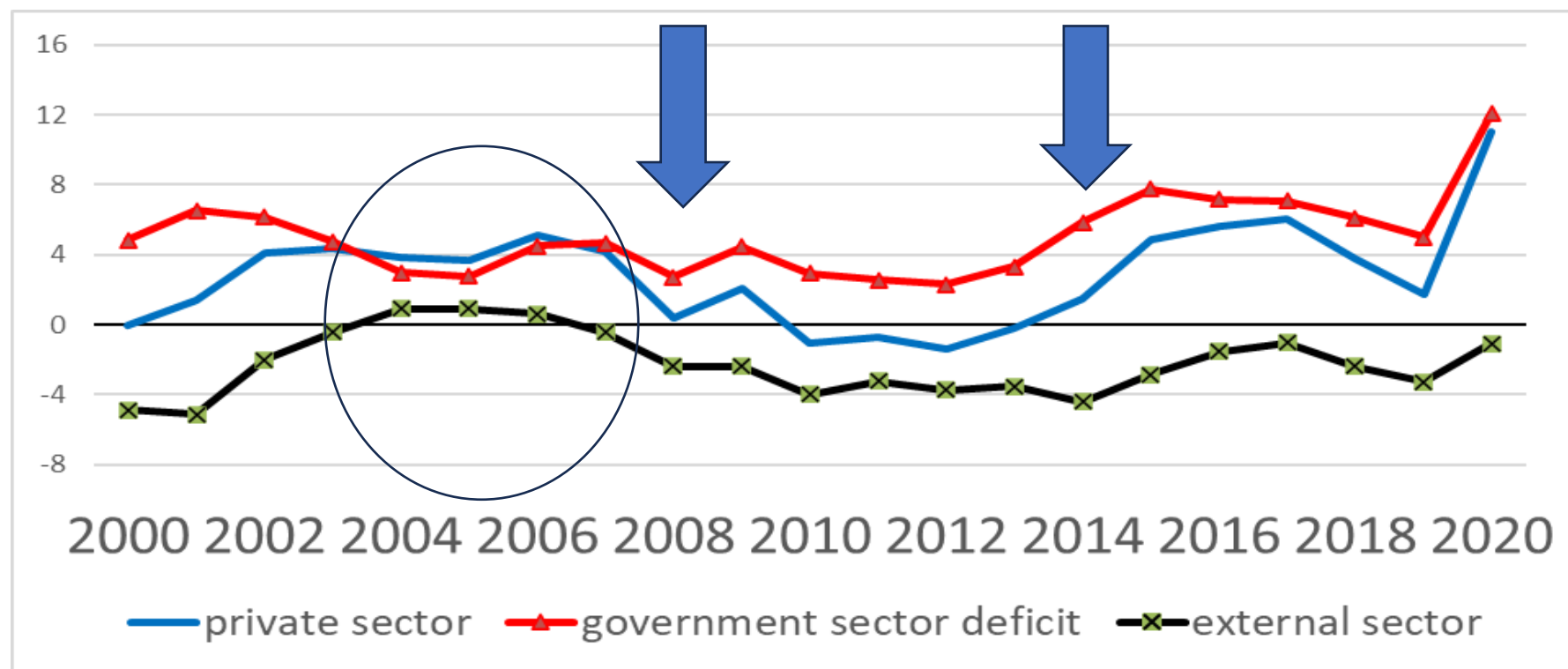
Source: IBGE: Quarterly National Accounts



GDP per capita: **1961-1980 =4.7% aa**  
**1981-2022 =0.8% aa**

Source: WDI

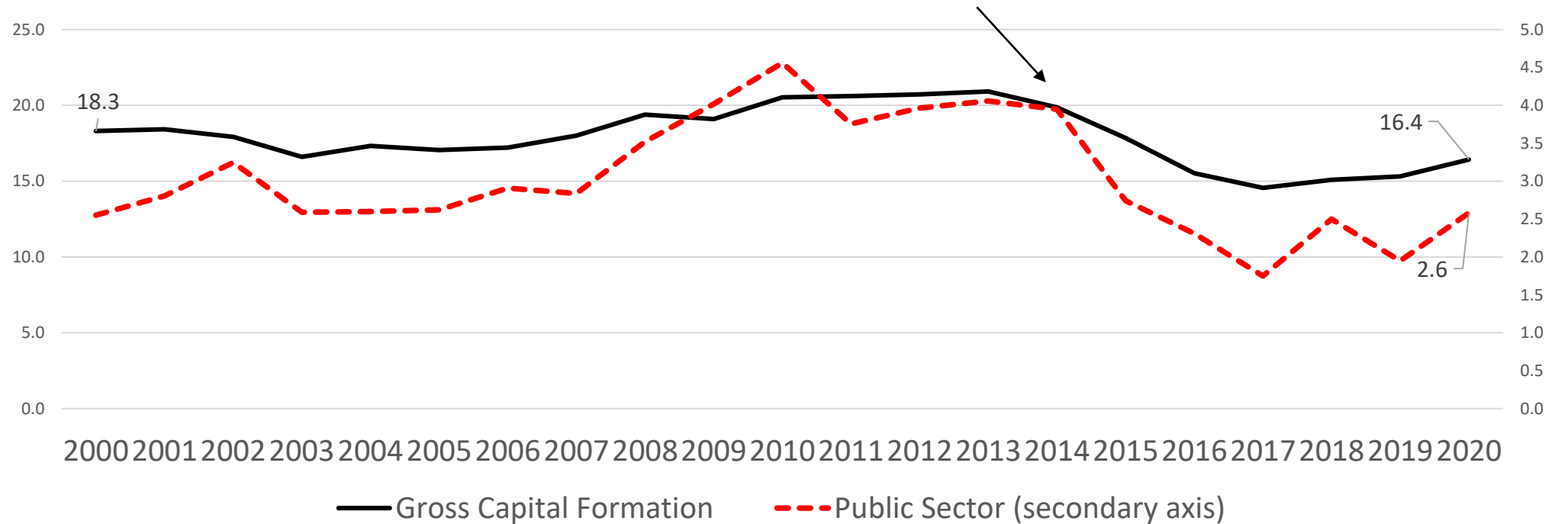
## Sectoral Balance of the Brazilian Economy by institutional sectors -% GDP



Source: IBGE Annual National Accounts

# Share of public and total investment in GDP %- 2000-2020

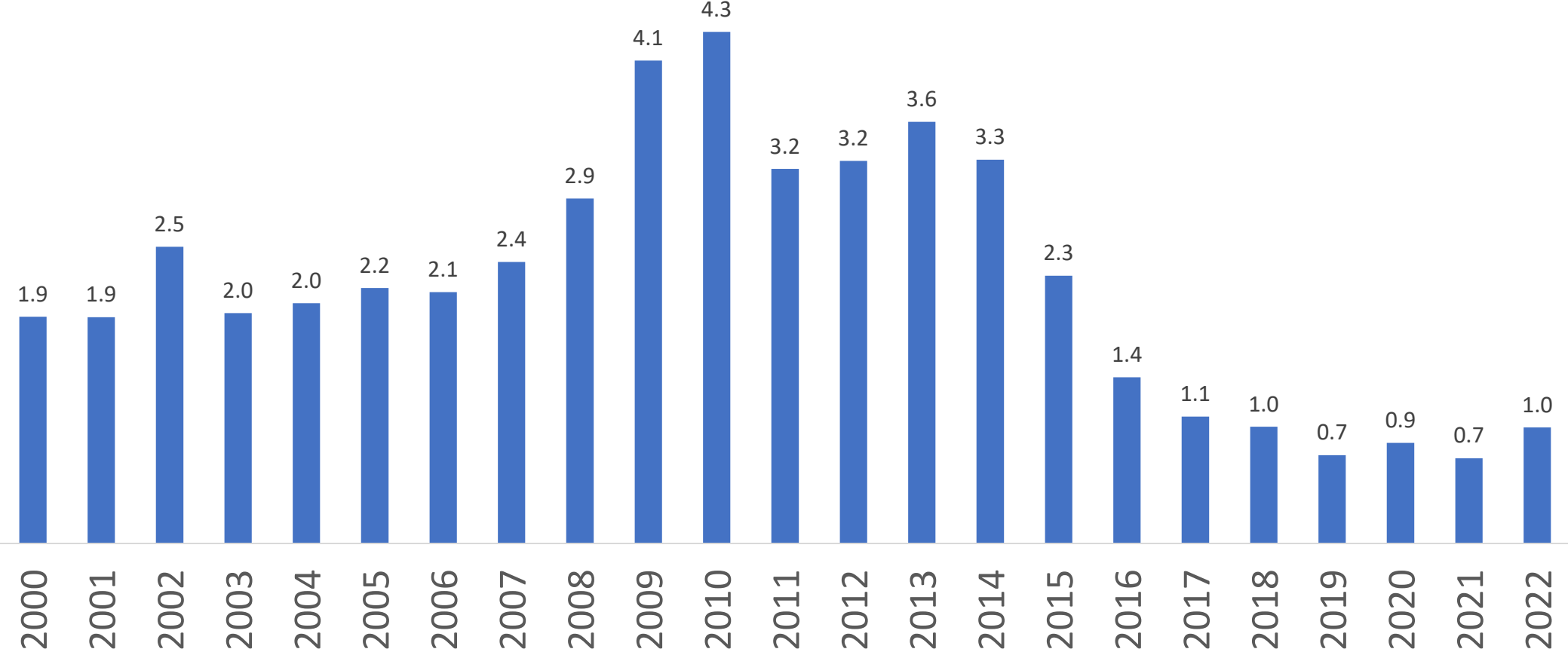
Source: FGV- Observatório de Política Fiscal





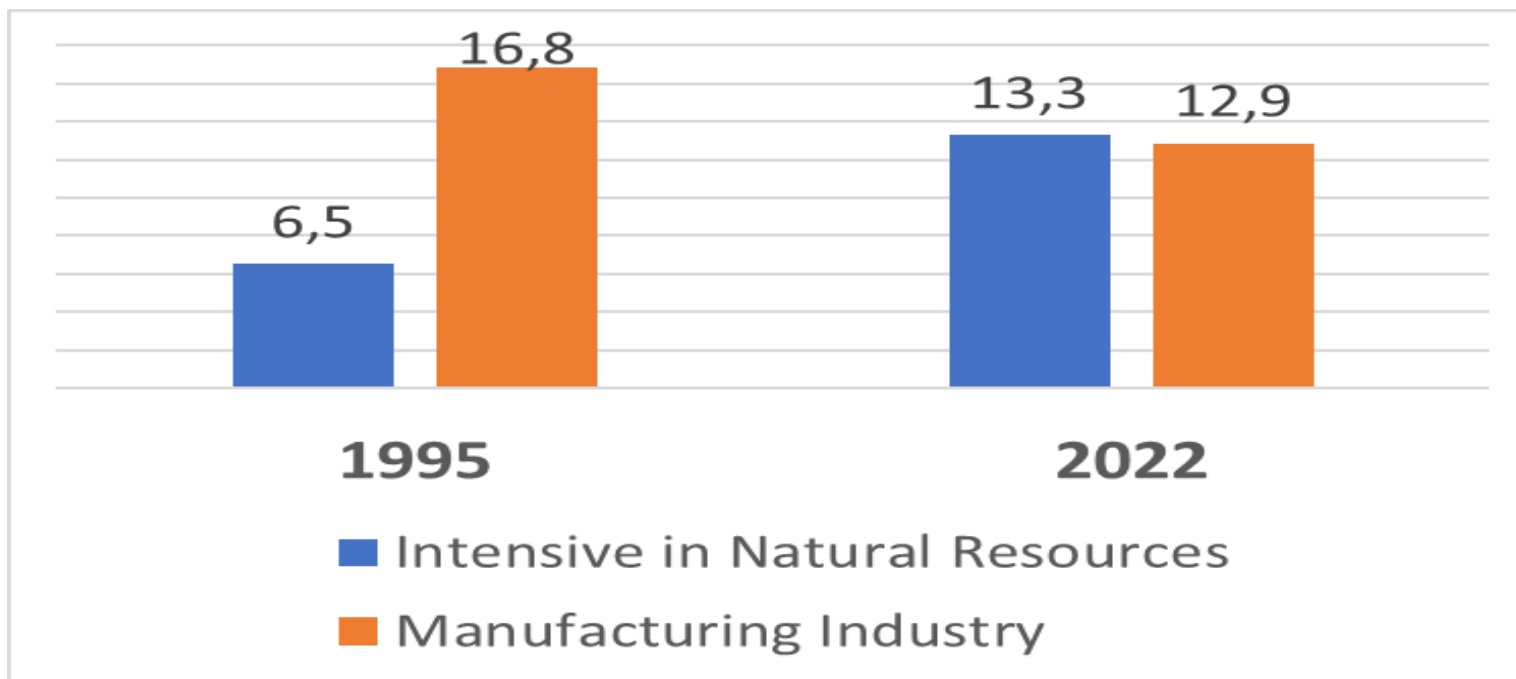
# BNDES: Disbursements/GDP (%) – 2000-2022

Source: BNDES



Reindustrialization is needed to resume growth dynamism.

Share (%) of Agriculture and Mining and Manufacturing in total Value Added



Source: IBGE – Quarterly National Accounts

Reindustrialization is perceived as necessary to resume growth dynamism

- The Neoindustrialization proposal: reindustrialation in the 2020s means :
  - modernizing the Brazilian industrial park incorporating sectors and activities of greater technological complexity,
  - guaranteeing a sustainable green transition process
  - and better conditions to job creation.

However....

# Challenges on productive structure specialized in commodities

- Disasters induced by climate change significantly affect the export of agricultural and mineral commodities.
- Climate vulnerability increases the physical risks arising from disasters associated with climate events.
- Climate crises can accentuate cyclical fluctuations and, by increasing the risk perception by international investors of balance of payments difficulties, make the resumption of growth slower and more financially costly.

## Also, policy space restrictions

- resulting from the subordinate integration in the international monetary and financial system.
  - implies the predominance of the External sector performance to create policy space for counter-cyclical macroeconomic policy.
- specialization in producing mineral and agricultural commodities leads to uncompetitive exchange rates.
  - An uncompetitive exchange rate for an extended period implies poorly diversified production structures.

fresh breath to the discussion about economic development:  
New Acceleration Plan+Ecological Transformation Plan+New Fiscal rule

- **The Ecological Transformation Plan:** aims at economic development under the sustainability commitment for the next 3.5 years.
  - Among other things, aims at creating the carbon market and promoting low-carbon agriculture
- **The New Fiscal Rule:** aims at creating fiscal space to resume public investment and depends mainly on improvement in the increase in tax receipts.

## Concluding remarks

- Policy space for structural change and resuming growth might be limited by the very conservative way that macroeconomic policy has been conducted:
    - It does not consider the long-term benefits that green industrialization can bring to the economy.
    - Conservative macroeconomic policy reinforces the financialization of the economy, i.e., decoupling of financial investments of the domestic capital formation,
  - Finally, it should be added:
  - The energy transition is expected to alter global trade patterns.
  - With large reserves of critical minerals, Brazil could be in a position to benefit from rising demand for essential decarbonizing inputs for green technologies
  - but
  - also could deepen extractivism and specialization in low-value-added activities.
- In this case, we would be heading for another lost decade.