Presentation
On
Brazil Economy

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MAJOR ECONOMIC PROBLEMS

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- **POVERTY**
- 15 Million lived on less than $ 1 per day.
- 2/3 of poor lived in rural areas.
- Richest 1 % own 44 % of arable land.
- 59% farmers own less than 3% land.
- This inequality spawned land "less movement" MST.
- Between 1995 – 1997 land reforms were carried out which facilitated 200,000 families.

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- **INFLATION**
- _Rapid inflation has been a persistent problem.
- It was 2,700 % in 1993 before declining dramatically fowling major policy changes in 1994.
- Major causes were large public deficits at the federal and state levels and deficits incurred by state -owned companies.

MAJOR ECONOMIC PROBLEMS

- **Declining Real Incomes**
- Until recently, real incomes have been declining among Brazil's middle and lower classes.
- Fully 65% of Brazilians earns a minimum salary of less than $ 40 per month.
- During the 1980s, the economy stagnated, with no real growth, while real wages fell by 30%.
- A recovery in the 1990s was cut short by a financial crisis in 1998, followed by the global slowdown beginning in 2000.

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- **Foreign Debt**
- As a result of foreign borrowing, including borrowing from private commercial banks and the World Bank, the county's foreign debt in 1999 stood at $245 billion, the highest of all developing nation.
- A collapsing stock market in 1998 combined with renewed capital flight caused the debt to increase from its all already high level.

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- **Trade Balance**
- In 1984, Brazil had a record trade surplus (exports minus imports) of $13 billion, which was down to $9 billion in 1994.
- This surplus turned into a $3.5 billion deficit in 2000.

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- **A Large State-Owned Sector**
- The state continues to play a dominant role in the economy.
- State-Owned companies accounted for 8% of Brazils GNP and more then half government's budget deflect of $ 150 billion in 1997.
- The state also runs private businesses with extensive regulations such as prize controls and wage policies.

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- **A Large State-Owned Sector**
- However, these have declined in recent years as a result of a sale of many state-owned enterprises to private investors (privatization).
- between 1990 and 1996, Brazil sold 73 companies for almost $15 billion and in 1998, in the largest LDC privatization sale ever; it sold its national telephone company. Telebras, for almost $19 billion.

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- **Stringent Import Barriers**
- Until a few years ago, no product could be imported if it was also produced domestically, even if the domestic price was higher.
- A stubborn refusal to recognize patents had until recently discouraged foreign investors.
- Tariffs on imports are still relatively high in Brazil (they averaged about 14% in 1997), but they have come down drastically in the past few years.

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- **Environmental Damage**
- Brazil's pursuit of rapid growth at any cost has inflicted severe environmental damage, especially in the Amazon Basin, the world's largest remaining tropical rain forest and a critical preserve of global biological diversity.
- In 1995 over 11,000 square miles an all-time record were cleared.).

MAJOR ECONOMIC PROBLEMS

- **Austerity Plan of 1990s**
- In July 1994 the government instituted a new and more severe austerity program known as the Real Plan, after the name of the new currency that introduced, the *real*.
- The plan was designed to attack the basic cause of inflation, the large budget deficit, by increasing tax revenues, cutting back on government spending, and maintaining a stable currency.
- The real plan was successful in reducing inflation from 600% to 10% between 1994 and 1997 the lowest inflation rate since the1950's.

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- **Austerity Plan of 1990s**
- But along with the liberalization and privatization programs of previous years, it caused the economy to weaken considerably and the formal industrial sector to eliminate about one-third of all jobs a total of 2.2 million workers were let go.
- Although economic growth accelerated between 1995 and 1997 at the rate of almost 4%, it slowed once again to 1.3% in 1998 as the Asian economic crisis spilled over into Latin America and even the United States.
- The International Monetary Fund (IMF) put together a $41.5 billion rescue package for Brazil in November in 1998.

MAJOR ECONOMIC PROBLEMS

- **Austerity Plan of 1990s**

- In return the government was required to tighten its fiscal belt ever further.
- Brazilian economists worried that this new austerity program could cause the economy to weaken dramatically and send an already historically high unemployment rate even higher.
- The first sign of trouble with the IMF package appeared in early 1999 when the *real* lost over 30% of its value

MAJOR ECONOMIC PROBLEMS

- **Austerity Plan of 1990s**

- Local and foreign investors sent huge sums of money overseas in what is known as "capital flight."
- the stock market took a nosedive.
- a major state government temporarily suspended foreign-debt repayments.
- Fear of renewed inflation became widespread.