EXTERNAL SCENARIO
Unforgiving

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IBRE's EXTERNAL SCENARIO shows that the consequences of the international crisis that erupted in 2009 are far from over for the global economy. In 2013 the United States is expected to have a moderate slowdown in economic activity, with growth declining from 2.1% in 2012 to 1.8% in 2013. The Eurozone's economy shrank 0.4% in 2012 and is expected to stagnate next year, growing only 0.2%. Similarly, after growing at about 10% for the last three years, China is likely to slow down to 7.6% in 2012 and 7.8% in 2013.

For economist José Júlio Senna, managing partner of MCM Consultants and a member of the FGV board, the main consequence of this crisis scenario for Brazil is the absence of external demand to stimulate growth next year: "It's amazing the degree of synchronization of the downturn in the economies of many countries. Because countries did not buy from each other, global exports collapsed; they recorded negative 12-month growth for the first time since the acute phase of the global crisis . . . . At the moment, nobody is helping anybody."

China is different. Senna says that the slowdown there is caused by overinvestment, with gross fixed capital surpassing 40% of GDP for the last 10 years, and there is a decline in consumption, which is responsible for about 35%

of GDP—though that is not much by international standards. With 10 years of extremely low interest rates reducing the cost of purchasing foreign currency to keep the exchange rate competitive, the Chinese have chosen to invest their savings in real estate; theirs has been the fastest-growing market in recent years. “With the loss of dynamism, China is preparing to rebalance its economy in order to increase consumption [and reduce investment], but there are interests in conflict with this, such as the construction industry. Even if there is a rebalancing of the economy, losses may occur because a possible drop in the value of real estate, which has great importance in the Chinese economy, could hurt growth,” Senna says. “It’s a complex situation.”

The positions of the U.S. and the Eurozone, Senna adds, are also complicated. In the U.S., the concerns are about inhibition of private investment, with consumers still reducing their debts, and fiscal issues, particularly with regard to the timing of the fiscal adjustment that is necessary. “The damage that fiscal policy will cause to U.S. economic growth in 2013 will be higher than this year,” he says. With regard to the Eurozone countries, Senna expects the situation to worsen before it gets better: “Employment takes time to recover, bank loans are frozen, and there are signs that the crisis is spilling over to central European countries. In Germany, exports to the region have stagnated, and the business confidence index is not positive.”