



Brazilian Agriculture: domestic and external challenges and perspectives

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Brazil's current economic situation

- Brazil has gone through one year of low growth (2014) and two (2015-2016) of deep recession. Unemployment increased from 7% to 12%. Per capita GDP may have fallen by at least 8% in 2014-2016.
- On the upside, in recent months inflation has been consistently falling and the Central Bank has started an interest rate reduction from 14,25% to possibly less than 10% by the end of 2017 as inflation reaches the target rate of 4.5%.

Brazil's economic perspectives

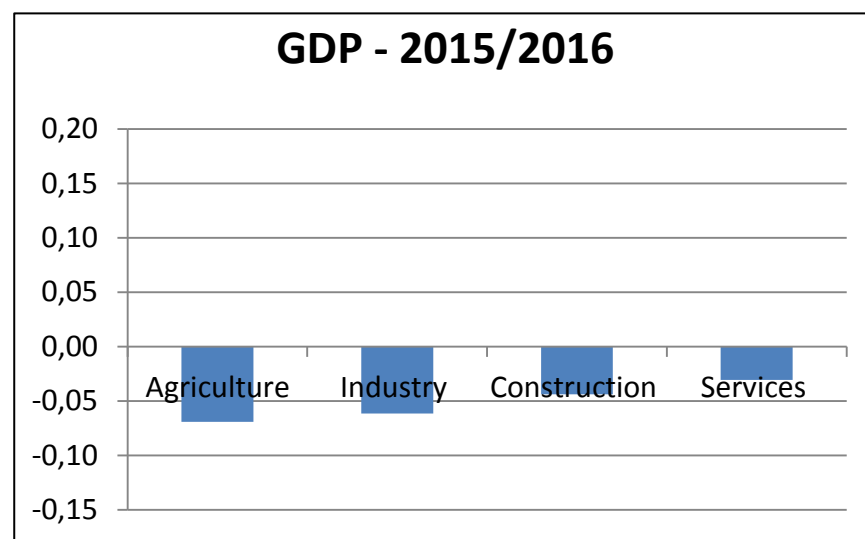
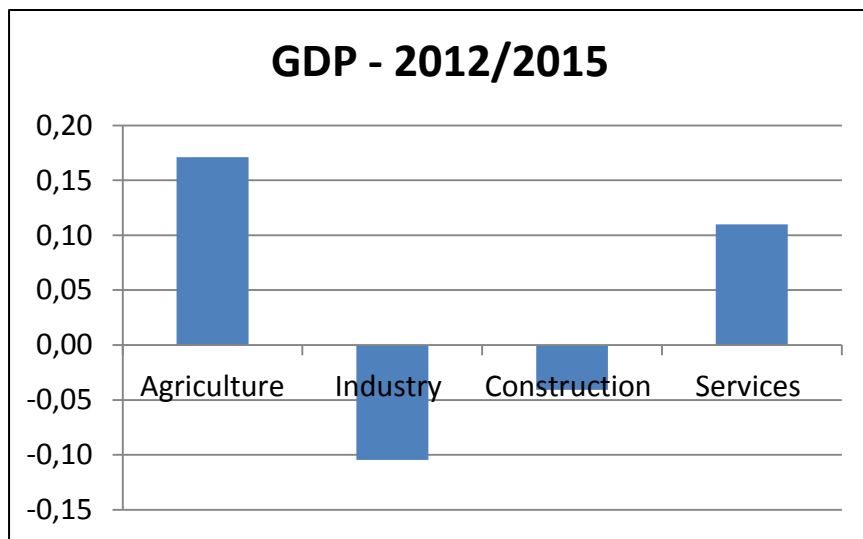
- Full recovery may take several years depending on several difficult reforms: political, fiscal, social security, labor market, etc.
- Congress is examining some of these reforms, some have been approved.
- Implementation may be very difficult and short term effect may well be recessive.
- Fiscal reform needed to assure short-term solvency and long-term growth. Private capital has to be attracted.
 - A ceiling expenditure growth equal to past inflation rate has been established so that total real expenditure is fixed for 10 years. Only reallocation of funds is permitted.

Brazil's economic perspectives

- When excess capacity is reduced and new infrastructure - airports, ports, roads, highways, and energy (oil, electricity) investments are launched, then a modest recovery may come along for the next two years.
- Short term
 - Interest rate reduction seems assured
 - Lower inflation raises real consumers' income
 - Good agriculture performance
- Microeconomic reforms to increase productivity are being proposed such as changes in the educational system, credit market, simplification in tax system, measures to improve the business environment, etc.

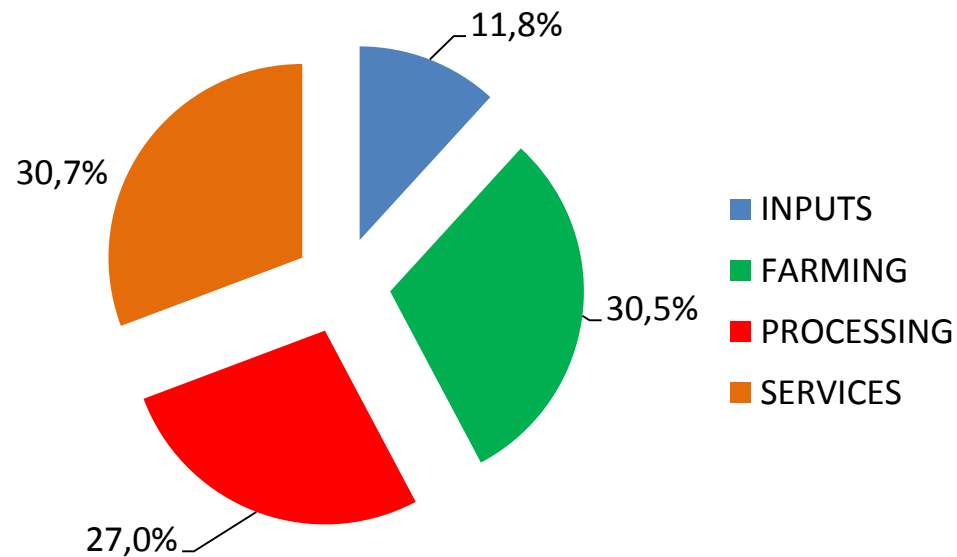
Agriculture and Agribusiness

- In the short run, agriculture/agribusiness is seen as one of a few sectors that may contribute significantly to short run economic growth. Unfavorable weather conditions (as in 2016) will not help. A 15% - 20% increase in grain production is expected for 2017 after a 10% crop failure in 2016. Results pending on weather conditions.



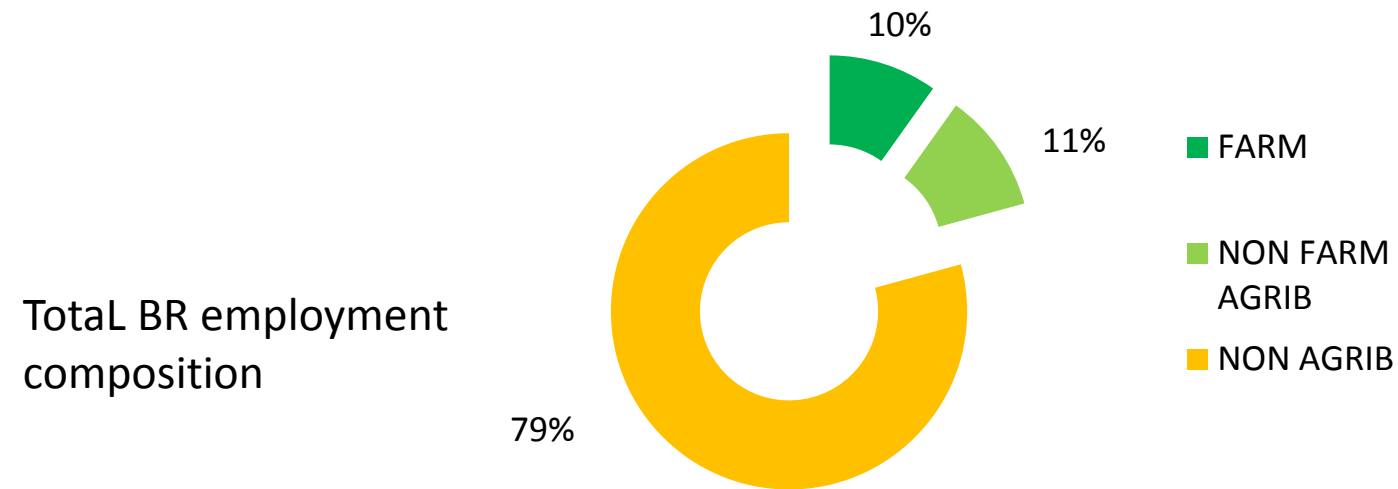
Agribusiness (2015): 21% of Brazil GDP

Agribusiness
GDP composition



Source: CEPEA

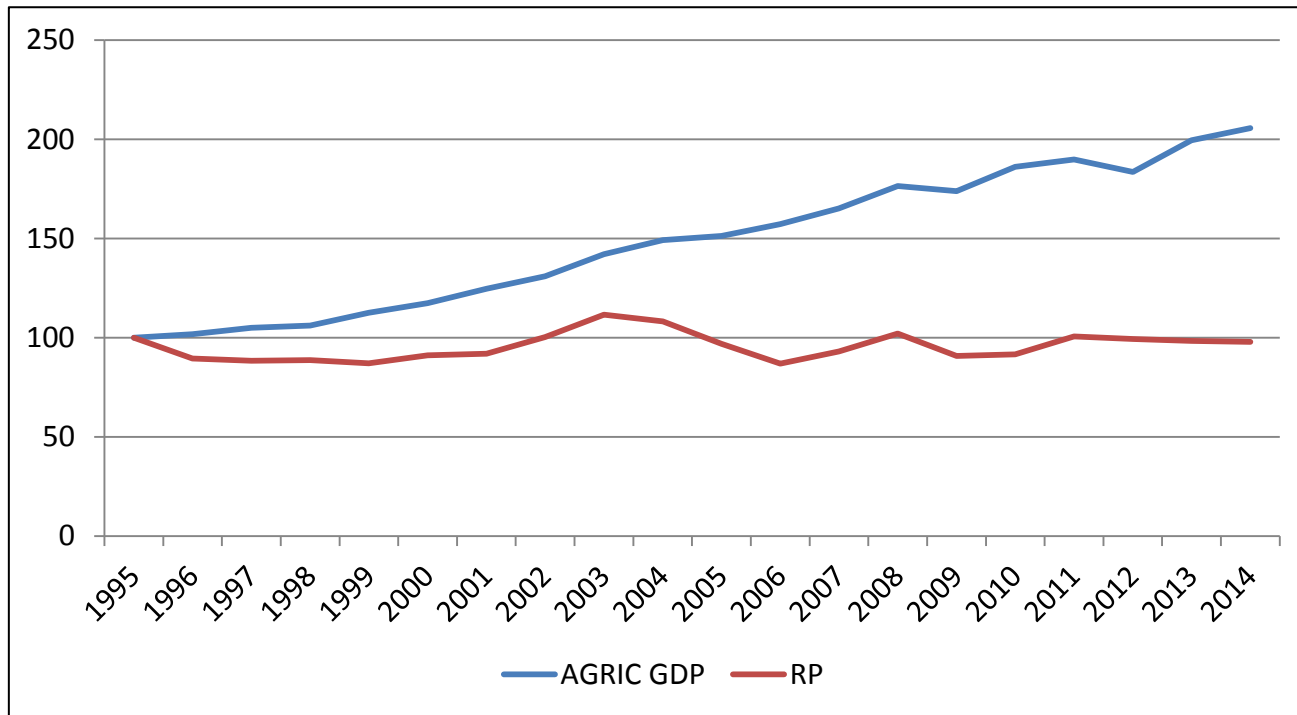
Agribusiness: 21% of total employment



Farm jobs: 48% of agribusiness jobs

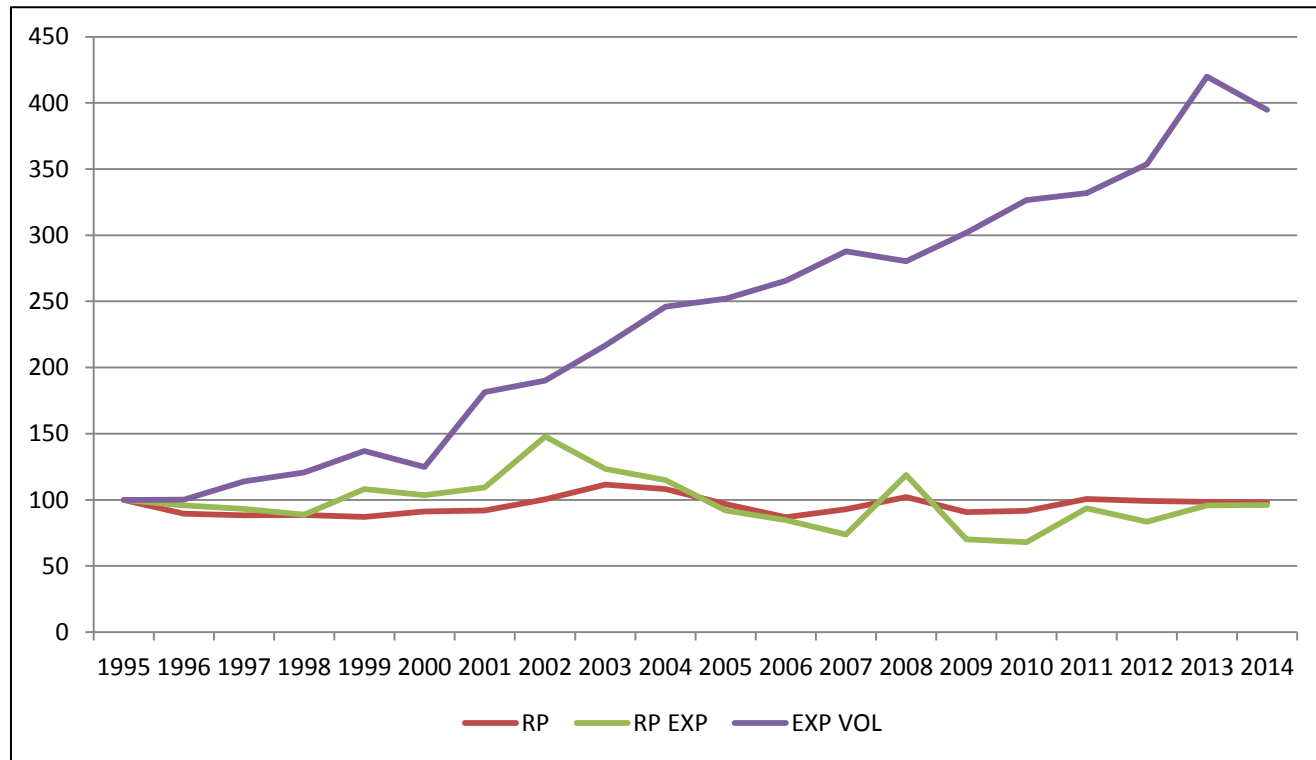
Source: IBGE/PNAD; CEPEA

Output of agriculture doubled from 1995/2014 with no trend in relative prices



Source: IBGE, author's calculations

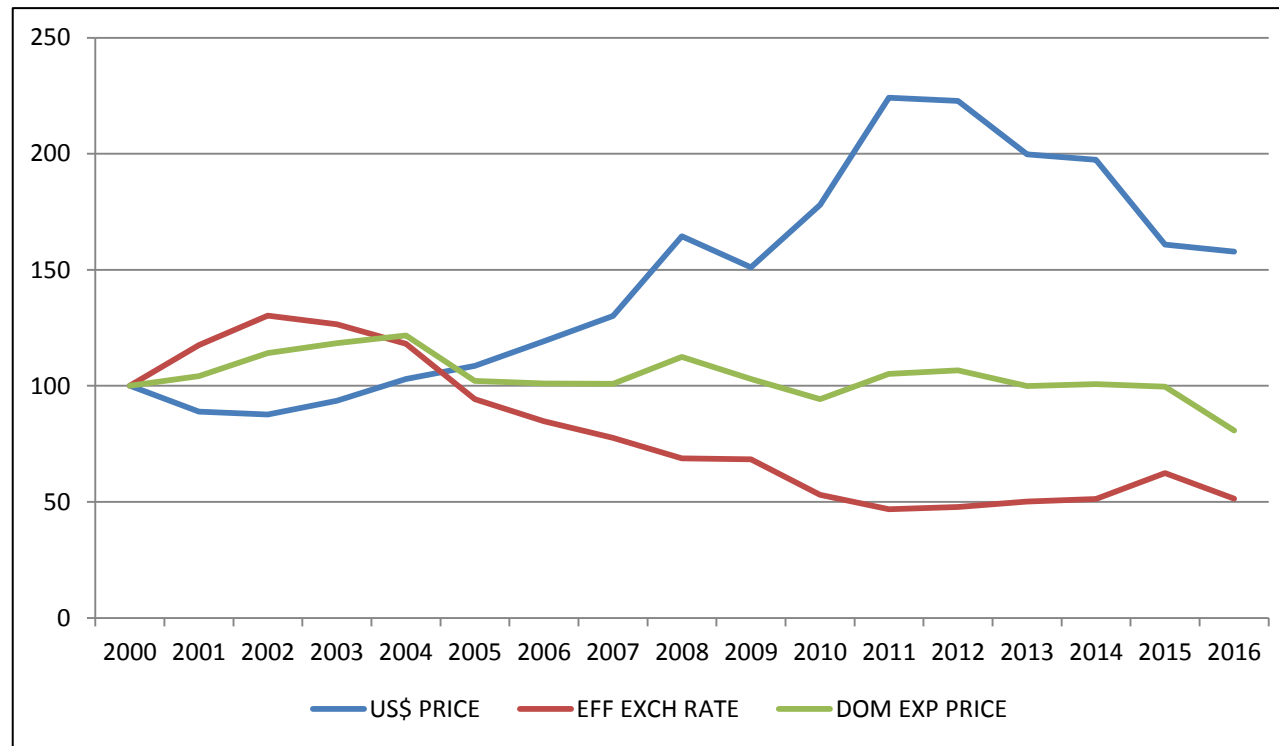
Volume of exports from agriculture increased fourfold from 1995 to 2014



Source: IBGE, author's calculations

Exports domestic relative price decreased somewhat during the commodity boom as exchange rate appreciated significantly.

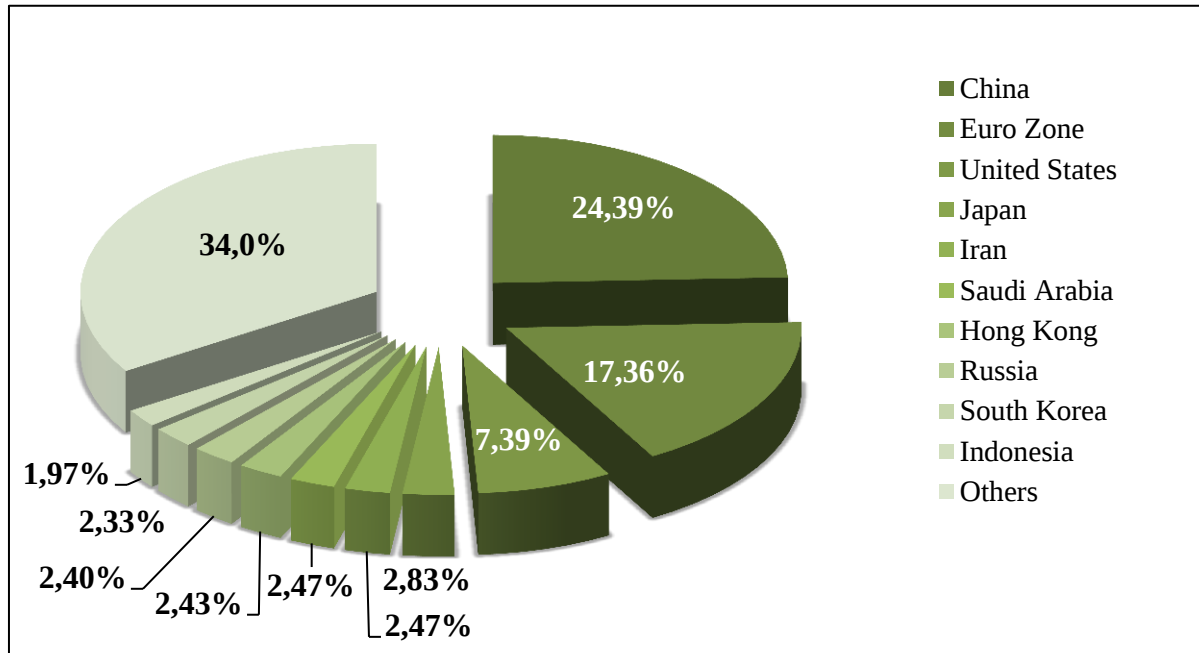
Domestic agricultural exports prices are more stable than international prices because of exchange rate compensating movements



Source: IMF, IPEADATA, CEPEA

Recent fall in international price plus appreciation of the domestic currency may lead to lower farm output prices, but probably resilience will prevail.

Brazil's main exports destinations



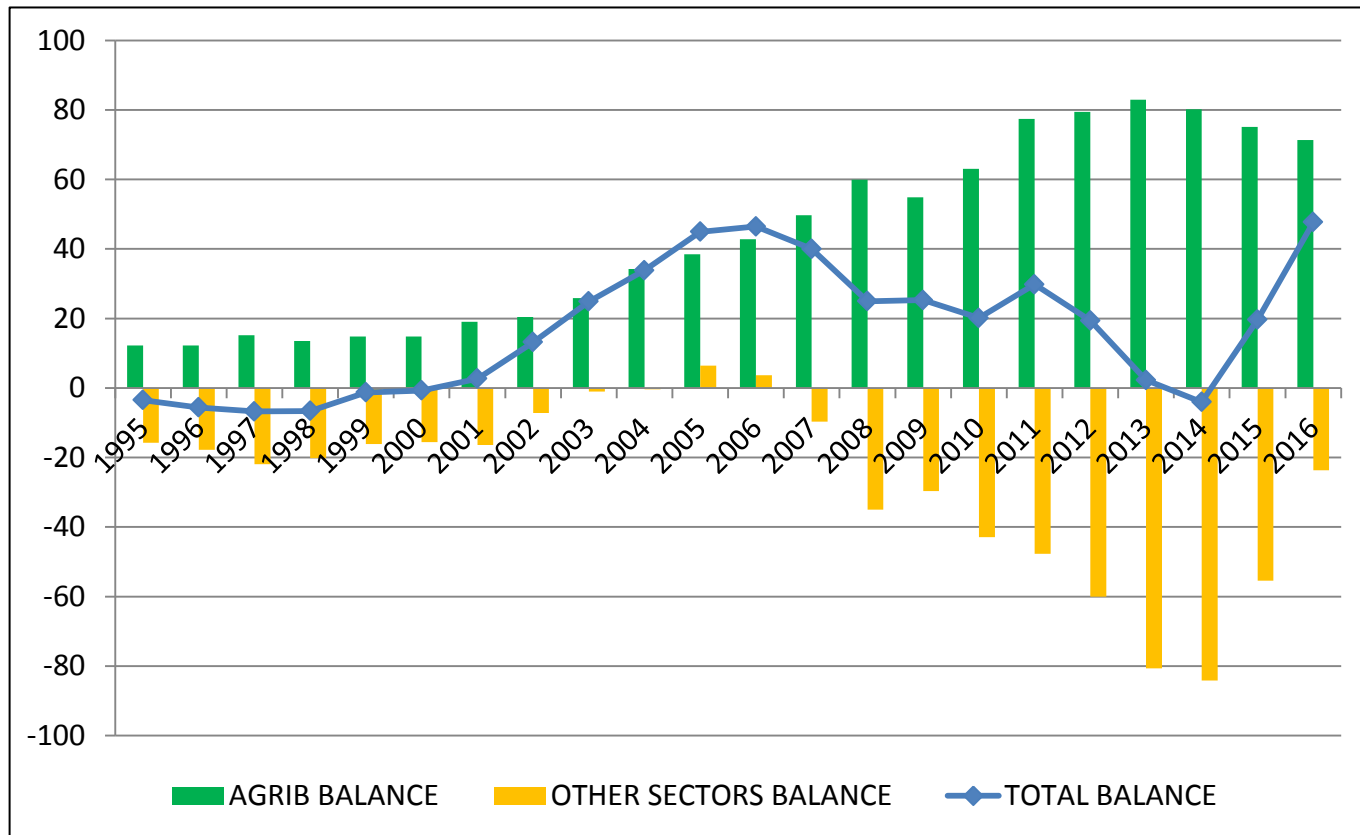
Source: MDIC, CEPEA

Threats:

China slowdown accelerates

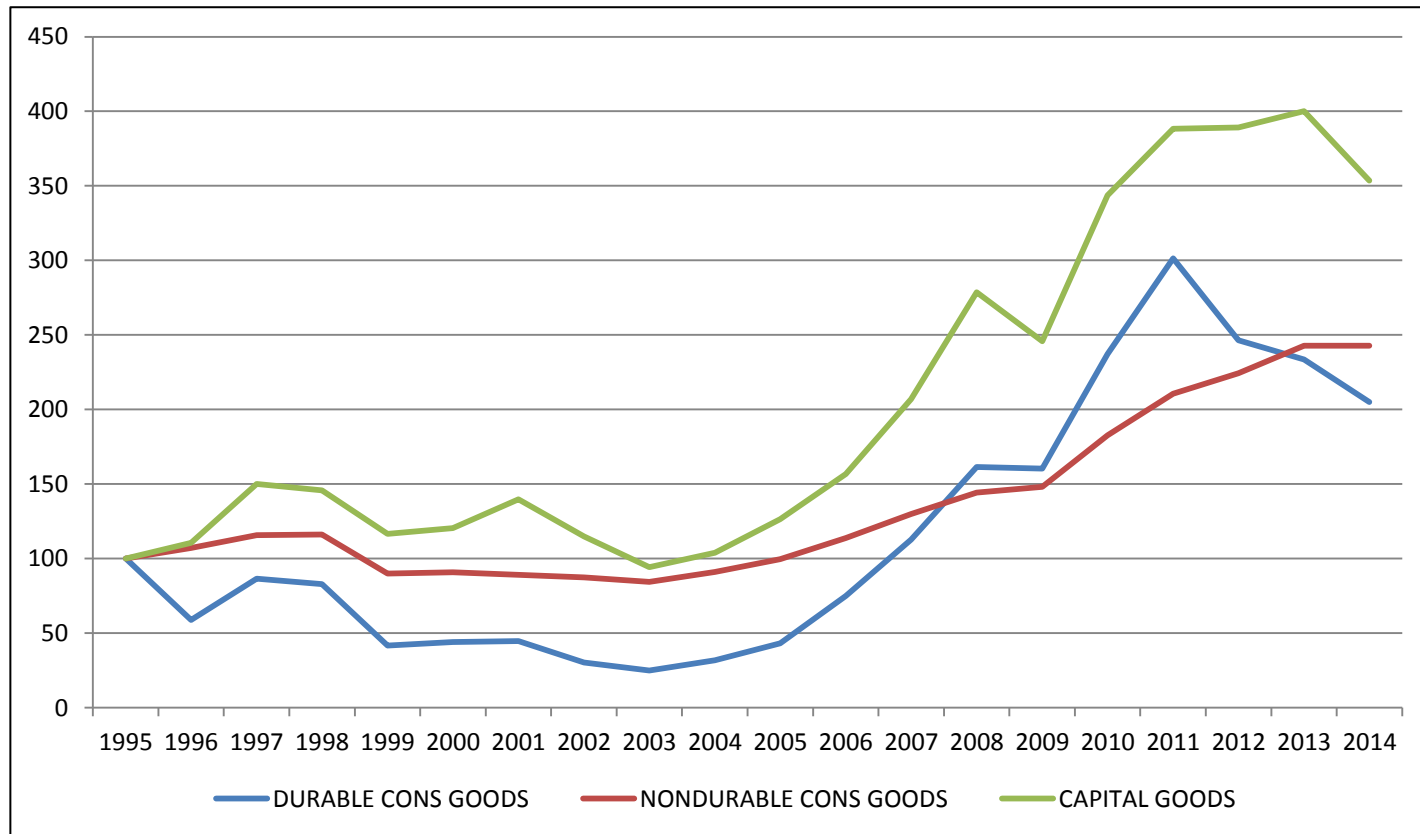
Uncertainty about Euro Zone and US domestic and external policies

Agribusiness exports supplied Brazil with large amounts of cheap dollars: External Bonanza



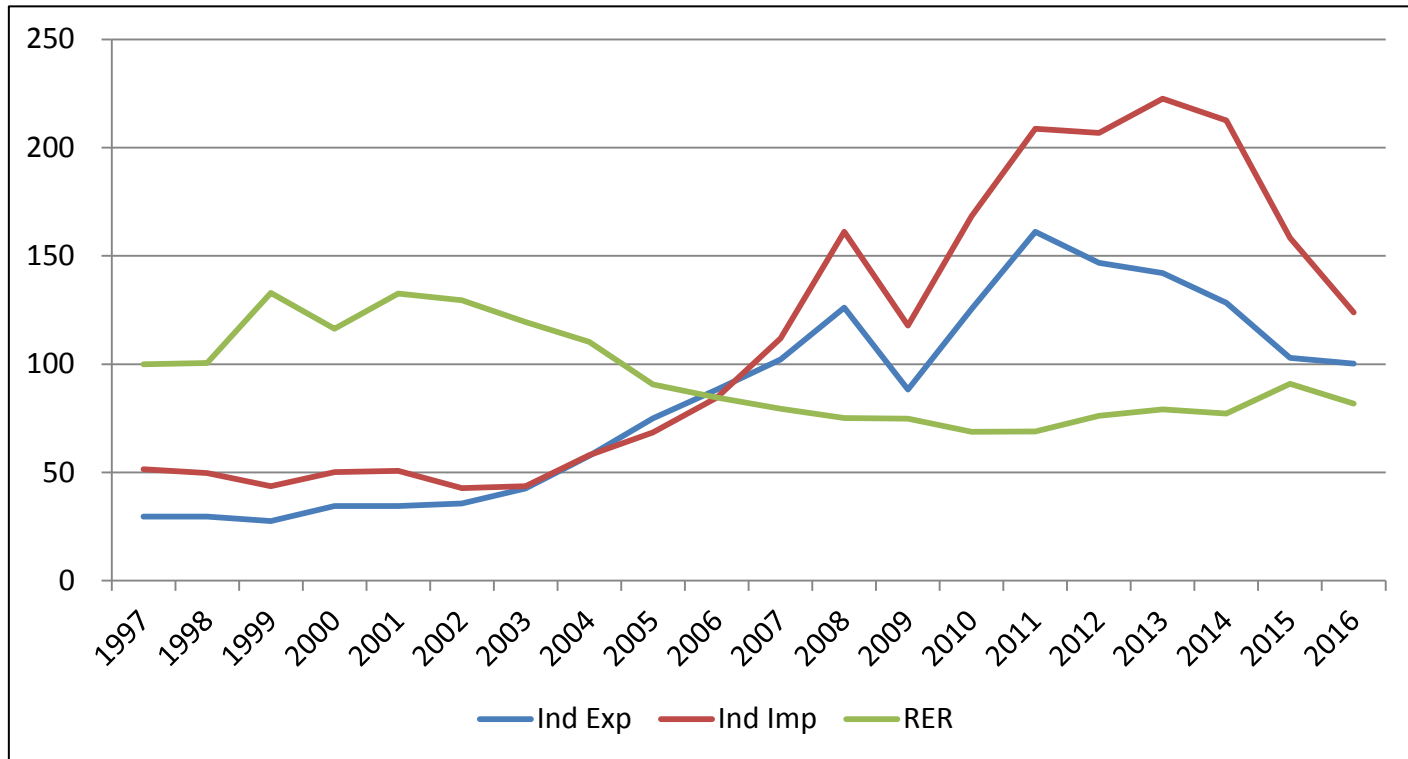
Source: MDIC, MAPA

Brazil was able to import large amounts of both consumer goods (that controlled inflation) and intermediary and capital goods (that induced economic growth) during the commodity boom



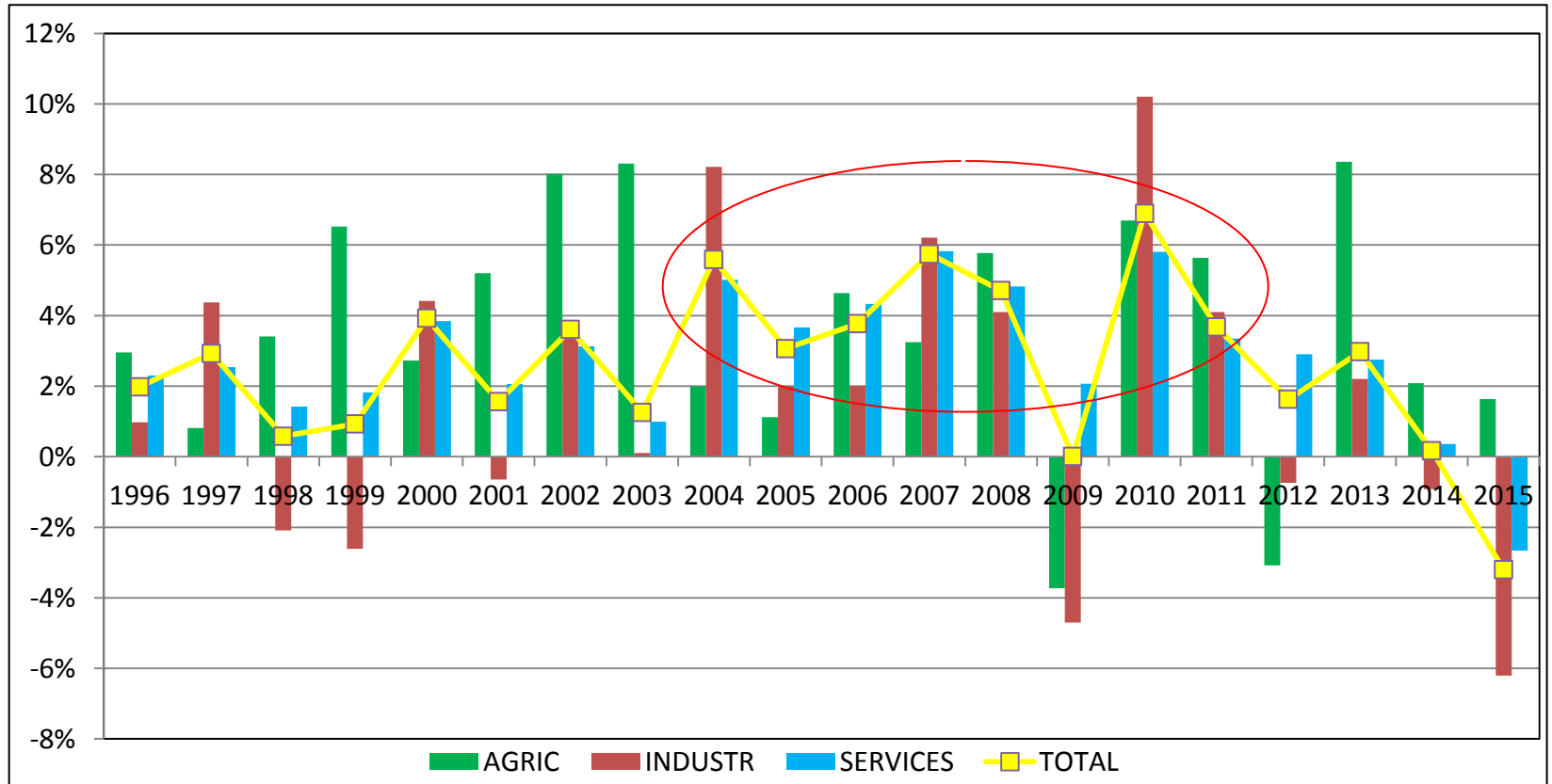
Source: FUNCEX/IPEADATA

Contrary to what happened with agribusiness, industrial exports lagged behind imports as industry exchange rate appreciated



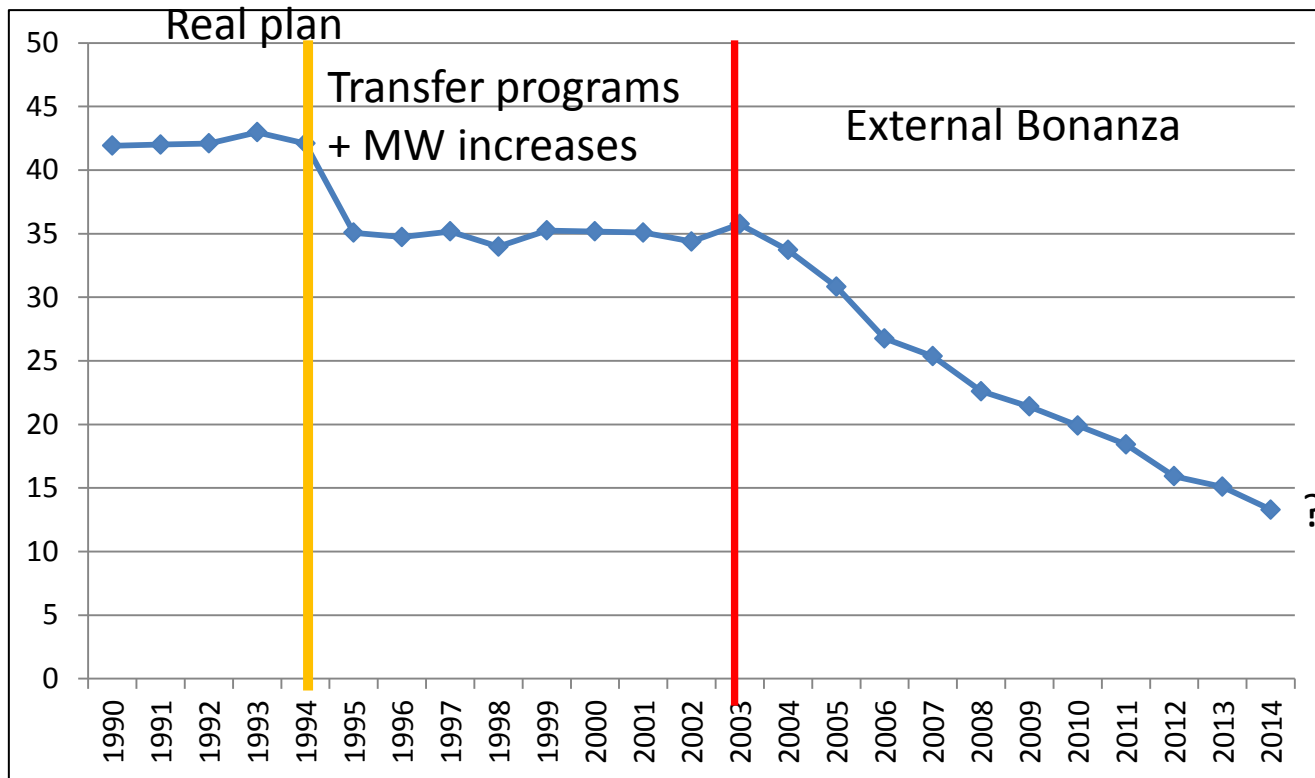
Source: IPEADATA

The commodity boom in Brazil (GDP growth)



Source: IBGE

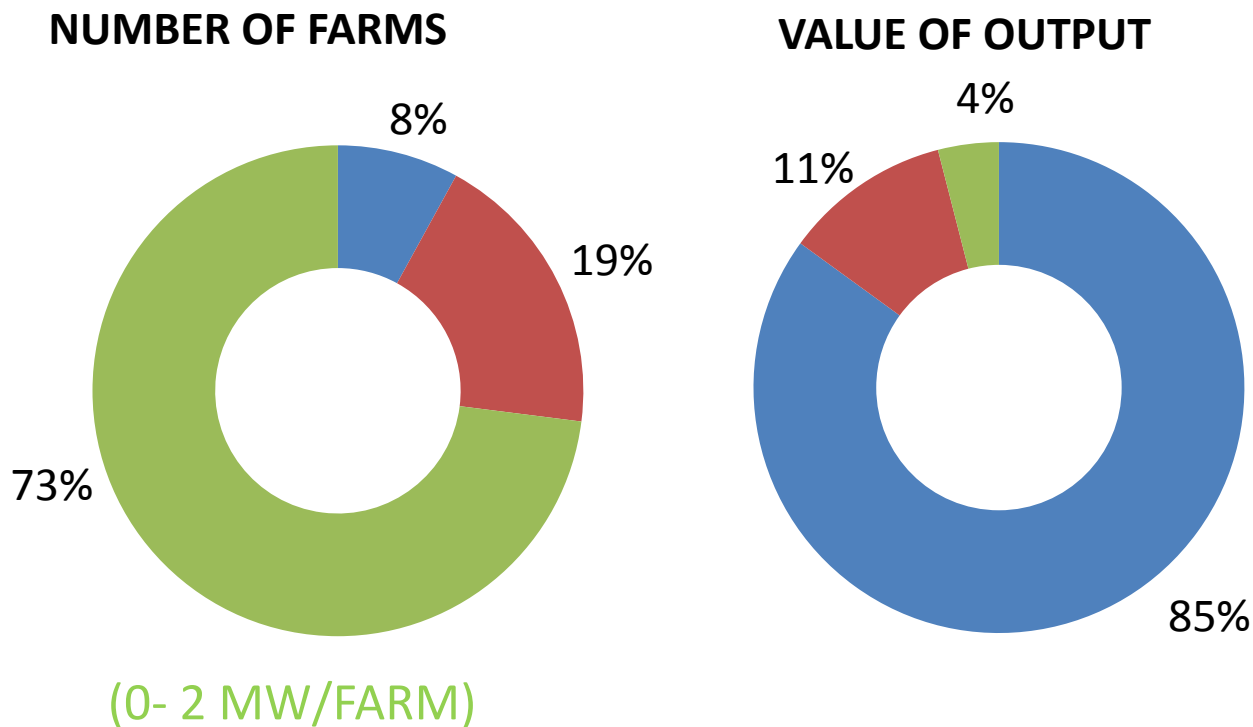
Poverty line- Brazil



Source: IBGE, IPEADATA

Income transfer programs plus MW rises became very effective in reducing poverty with controlled inflation and during the External Bonanza

Looking inside agriculture: high income concentration and poverty

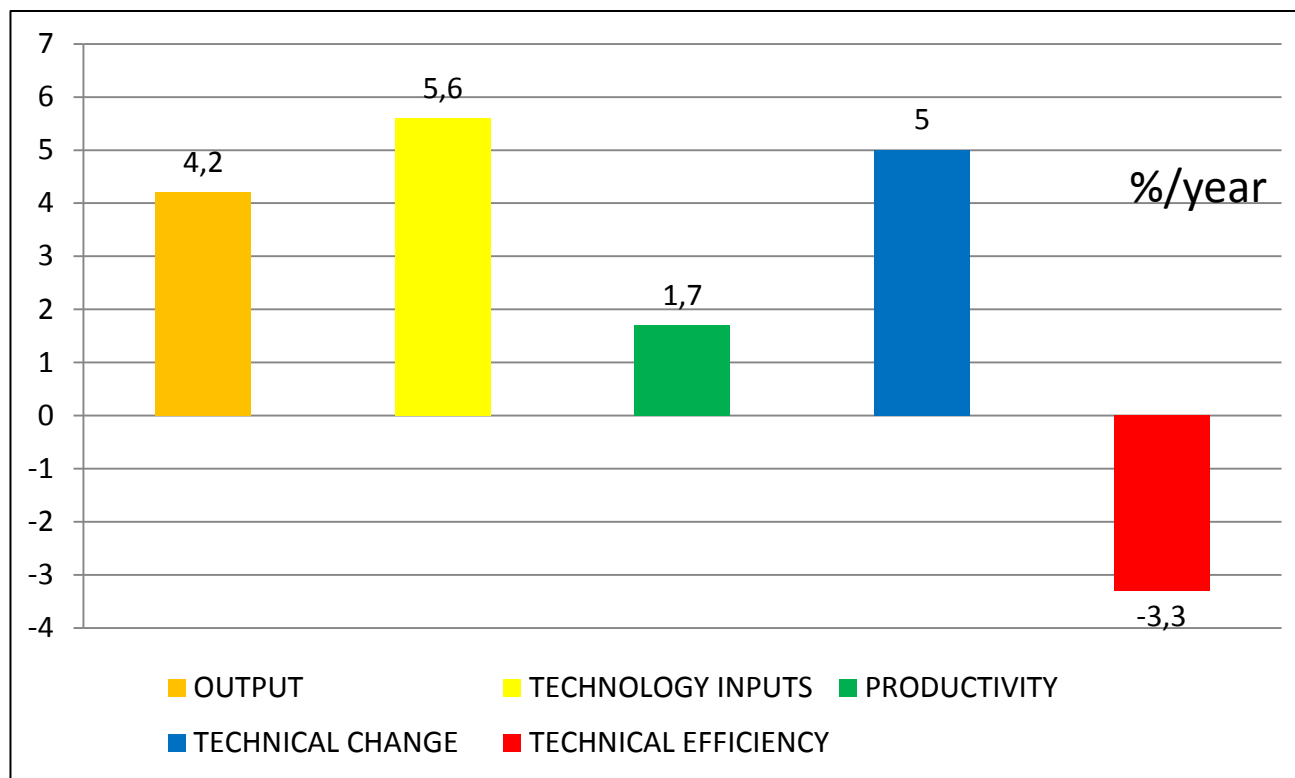


Source: Alves (2010)

73% of the 5.2 mi. farmers are very poor
(Value of output is highly concentrated)

Farm technology potential is high, but technology use is low for most farmers

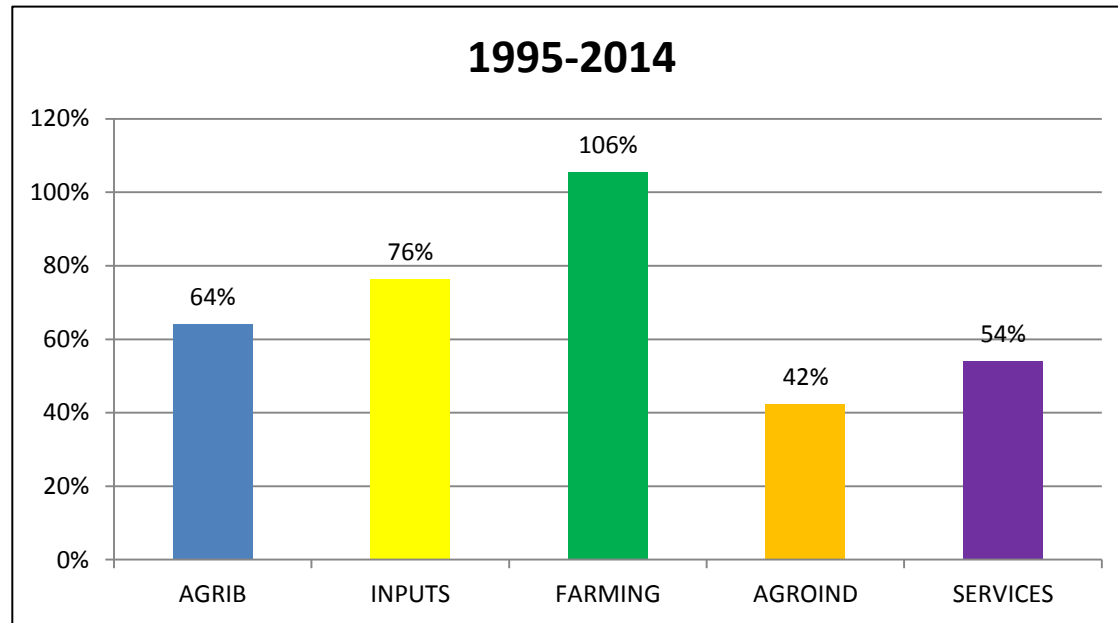
1985-2006



Source: Helfand, Magalhães, Rada

Public & private investment in R&D has been kept at reasonable levels, but extension lagged behind. Modern farmers count on private extension. Better infrastructure would help.

Agribusiness GDP growth



Source: CEPEA

Farm and inputs segments grow at faster rates

Agriculture: Priorities

- Maintain support to public science and technology to assure continuity of technical change
- 8% of the farmers producing 85% of output using top technology are connected to external markets and do most of trade and financing with multinational agribusiness inputs and processing firms
 - China, for instance, is entering the inputs markets and may intensify input/output trade with Brazil, a major supplier of commodities and consumer of agrochemicals. China's infrastructure investments in Brazil go in the same direction

Agriculture: Priorities

- Domestically Brazil is working on helping small farmers (reducing rural poverty)
 - Subsidized rural credit directed to family farmers and medium sized farmers – credit rate to be reduced as the general target rate falls
 - Raising small/low income farmers' productivity ; attention to extension programs with focus on technology and on management techniques plus income transfers programs

Agriculture: Priorities

- Adjustments to climate changes, global warming, environment
 - ABC Plan (Low Carbon Agriculture Plan): rural credit program for recovery of degraded pasture lands, crop-livestock-forest integration, no-till farming, animal residual treatment
 - Rural Environmental Register (CAR) –farm's account of geo-referenced environment aspects, pre-condition to access to official credit
 - Agricultural zoning to mitigate climatic risk for rural credit and insurance programs
- Intensified control of pest incidence and pesticide use and food security,
 - Quality and high sanitary standards are also necessary condition to access to higher income international markets

Agriculture: Priorities

- On the external front, government works on trade agreements to obtain access of higher value products to richer and/or faster growing markets to circumvent food quality barriers

Final comments

- Major threats:
 - Uncertainty related to new trade configuration after changes in USA government and Europe
 - China may slowdown somewhat but income gap in China is still high so, in sum, demand may remain reasonably strong
 - US interest rate increases, US exchange appreciation coupled with a devaluation in the Brazil's domestic market
- Unless world market demand falls drastically, Brazilian agriculture probably will remain viable and competitive.



THANKS