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## Brazil's Negative Spiral Impact of Resumption of Iran's Crude Oil Exports

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### Brazil's Negative Spiral

The decline of Brazil's economy is not stopping. Retail sales of April decreased by 8.5% (YoY) and industrial production decreased by 7.6% (YoY). Even the three month moving average was, -6.6% and -6.8% each. Although the government, targeting a primary balance of GDP +1.1% in 2015, is planning on a reduction of government spending, because of the weak economy it seems that further reduction in government revenues is forthcoming. The approval rating of Rousseff's government is already low, according to public polls done by Datafolha from June 17 to 18, the approval rating was 10%. This is the worst approval rating next to that of Collor's government (Sept. 1992: 9%) which was impeached because of corruption issues. A positive primary balance is a must in keeping up credit ratings. A reduction of the governmental budget worsens the economy then further reductions will be needed starting a negative spiral.

Tail winds from overseas cannot be expected either. The price of iron ore, Brazil's main export product, will not recover for a while. The adjustment in China's construction industry is likely to last longer and prices have become the lowest since 2002.

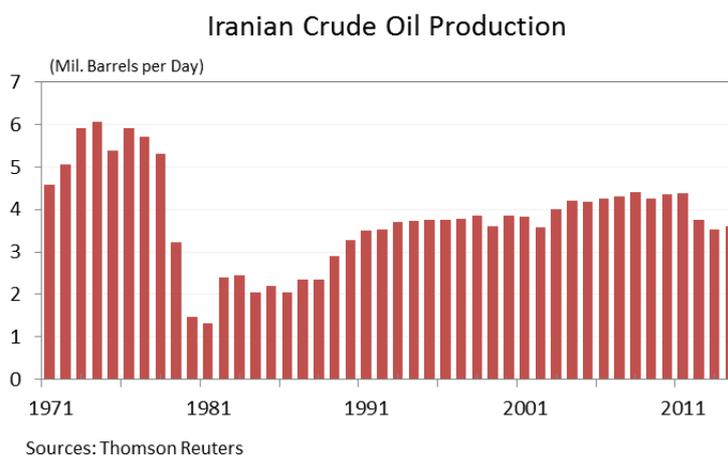


## Impact of Resumption of Iran's Crude Oil Exports

Although Iran has been under sanctions because of their nuclear developments, negotiation with six of the U.S./European nation, although having difficulties, is coming close to an end and expectation on sanctions being lifted soon are high. After there are lifted, it is likely that Iran will immediately resume their exportation of crude oil and they have already filled large tankers with crude oil. According to a June 16th Reuters article, the amount is said to be about 20 super tankers or 40 million barrels.

Before, amongst oil producing countries, Iran was second to Saudi Arabia, producing at its peak 6 million barrels a day. Today they produce about 3 million barrels a day, of which 1 millions are saved for exports but there are potential of more than 2 million barrels a day as additional supply capability.

The Saudis to keep their share seem to have increased production. According to IEA, May's production was 10.25 million barrels a day, highest production since August 1981. Fight for market shares amongst the oil producing countries is becoming severe.



Also, frozen overseas assets of Iran amount to 120 billion dollars. Most of these will be brought back to Iran and probably be used in investments and consumption. After sanctions are lifted Iran's economy will probably prosper. (Written on July 2<sup>nd</sup>)

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