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Gnosis, Knowledge of economics)

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**Ecosnap No. 2 Brazil and Argentina: From politics to economics and  
back in 30 seconds.** **16 Sept. 2018**



### **Brazil and Argentina: From politics to economics and back in 30 seconds**

Given the, on purpose, limited space of Ecosnaps, we will dive straight  
into two issues which these two countries have been associated with,  
corruption and economic instability.

**Corruption** can be defined as the misuse of public or private power for

private gain. In the private sector corruption may damage the interests of shareholders or of the legal owners of the assets involved, while in the public sector it is almost exclusively the domain of selling the exercise of the economic power of the state for personal gain. State related corruption is particularly galling as it involves the property of the community at large as opposed to the property of a private individuals or companies in the case of corruption in the private sector.

Why is corruption bad ? Keeping in mind that corruption may not necessarily be theft per se, its impact can distort efficient decision-making, by-pass impersonal market mechanisms, which favour the more efficient and cheaper solutions, and redistribute income not on the basis of economic performance but on the basis of pure networking and even chance. Needless to say there are the moral issues of unfairness and arbitrariness which corruption may entail. State related corruption can be dealt with easily by removing economic decisions making from the hands of civil servants and politicians . Although this is hardly a defence, corruption involving the private sector limits the damage done to a specific group and not the society as a whole.

Is corruption particularly a Latam phenomenon? Absolutely not! Just consider the following sprinkling of examples. Currently, a past Chief Executive (the equivalent of the “president”) and a past Chief Secretary (the equivalent of “prime minister”) of Hong Kong are both in jail for corruption. Of the four surviving past presidents of S.Korea, all of them either served or are serving prison sentences or were prosecuted for corruption. China has been convulsed in the past 4 to 5 years by massive corruption scandals and prosecutions, casting doubt as to the degree of control that the all-powerful communist party had over its members. In 2012 the president of Germany, Christian Wolff, resigned under allegations of corruption of which he was found later on not guilty. The last PM of Malaysia is at present accused of corrupt payments of hundreds of millions USD to his personal bank account. The cases of equally massive theft of state funds by various past African presidents are too numerous to list here. Last, but not least, in this sorry list, an ex-PM of Italy, S.Berlusconi, was jailed for tax fraud.

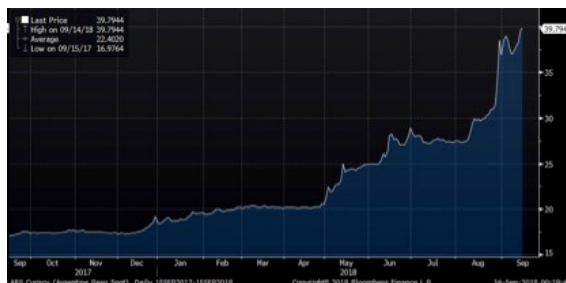
In the case of Brazil, the on-going corruption case involved payments made by or to Petrobras, the state-owned oil company, as well as parallel cases involving a major construction company. The ex-president Luiz Lula (2003-11) is serving a jail sentence for corruption while his successor to the presidency, Dilma Rousseff was impeached and removed in August 2016, not for corruption, but for fiscal irregularities. Both have been

associated with, but not prosecuted, the Petrobras scandal and both have vociferously denied any knowledge or involvement. Considering that Lula was the president of Brazil from 2003-11 while Rousseff acted as his Minister of Energy during 2003-5 and was a member of the BoD of Petrobras during 2003-10, then both are at least guilty of gross incompetence and negligence in not having noticed the millions of USD which changed hands daily under their noses. But then all this is a conspiracy of the right against the left! Right ? Sadly the left has a proud history of corruption in Latin America.

The two ex-presidents, husband and wife, of Argentina, Nestor (2003-7) and Cristina (2007-15) Kirchner had staunch left wing positions and implemented populist policies which did not stop them being accused now (at least Cristina as Nestor died) of extensive corruption favouring them personally.

### Economics

Both economies will need to control their fiscal deficits which have led to extensive distortions, especially in the social security sector in Brazil, while Argentina's fiscal deficit has reached crisis point. Forex instability, especially in Argentina, reflects the concerns of over inflation and of the impact of the inevitable fiscal austerity on GDP growth.



### ARGENTINA

The new administration of M.Macri, cleaning up after the years of Kirchner mismanagement, faced political problems in reducing the fiscal deficit which translated quickly to a flight from the peso ( chart above ) leading during Aug-Sept. 2018 to 45.0% depreciation with subsequent pressures on inflation.Help from the IMF is poitically unpopular while fiscal adjustment is essential given the large accumulation of increasingly expensive foreign debt.



### BRAZIL

The progressive improvement of the fiscal deficit still leaves it quite large in terms of the GDP.The rapid expansion of social security policies during the Lula adminsitration led to improvements in poverty levels but left unanswered the "who pays for all this ?" question.The ending of the commodities cycle has hit Brazil's GDP growth and the political paralysis caused by the pervasive corruption has not been helped by the forthcoming presidential election where the most popular candidate can not stand as he is in jail for corruption ( Lula) while

the next most important candidate has just  
been stabbed almost to death.

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