

Portfolio Diversification Enigma



TheCaseSolutions.com

TheCaseSolutions.com

Syndicate 8

2013/14 Part-time Group

Sustaining long-term growth
TheCaseSolutions.com



Portfolio Diversification Enigma



TheCaseSolutions.com

TheCaseSolutions.com

Syndicate 8

2013/14 Part-time Group

Sustaining long-term growth
TheCaseSolutions.com



Case Issues

Growth stalled

Deficit increasing

Inefficient production - "Custo Brasil"

Monetary environment

- Inflation
- High interest rate
- Strong currency - "Currency wars"

$$C + I + G + (X - M)$$

Uncompetitive industries

Cheaper to produce abroad

Hot money inflows

Move from manufactured -> primary

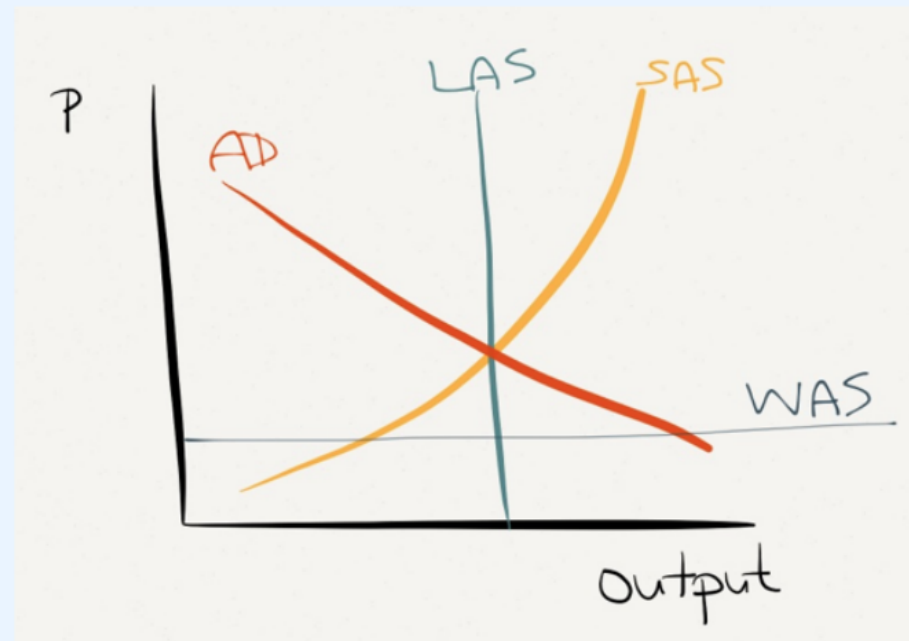
Policies

GDP growth vs Inflation targeting

- Stimulus packages
- Interest rates
- BNDES

International competitiveness

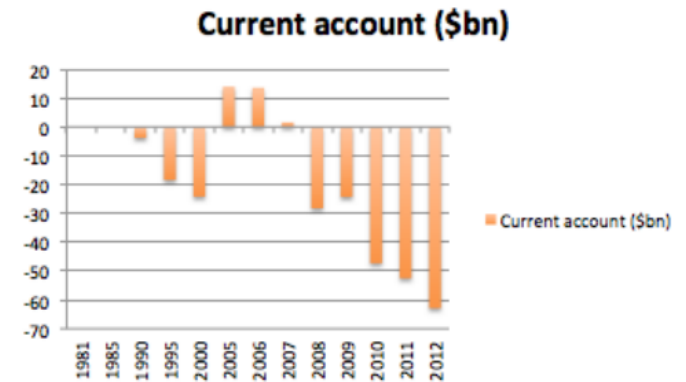
- IOF
- Tariffs on imports
- Stimulus (textiles, footwear, software)



Impacts

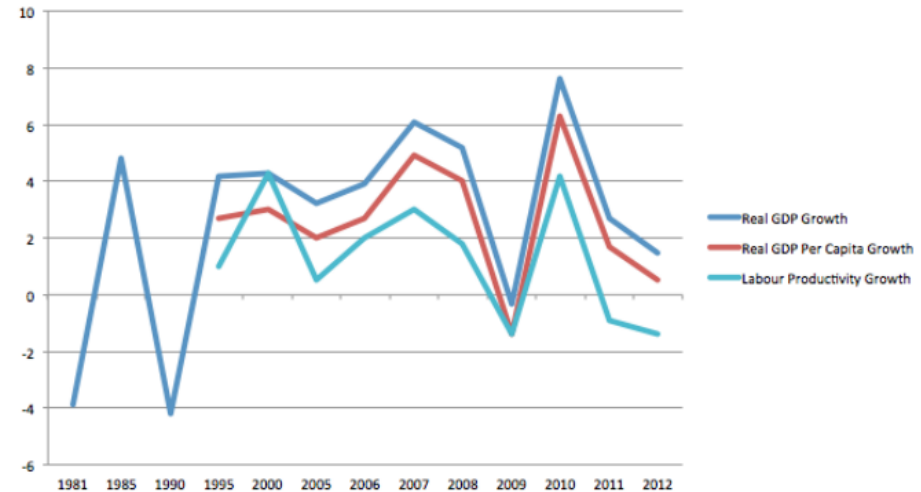
GDP growth vs Inflation targeting

- Stimulus packages - no impact (production index)
- Interest rates - attracting carry trades (hot money)
- BNDES - large corporates, political apportioning



International competitiveness

- IOF - Equities market, complexity (ex. 17)
- Tariffs on imports - protectionist, promotes inefficiency
- Stimulus (textiles, footwear, software)



TheCaseSolutions.com

Recommendations

Inflation targeting vs GDP Growth

- Reduce interest rates, raise reserve requirements
- Sell Real in the spot market (short term)
- Governance on BNDES - apolitical apportioning

International Competitiveness

- Simplification of Taxation (exhibit 13b)
- Cut protectionist policies, as per Chile
- Open labour policy
- Immigration policy, target key skills

South Africa

Pay more heed to inflation targeting

Freer labour policy

Currency stability attracts investment

Lower interest rates deter hot money

Divorce Government and State machinery

TheCaseSolutions.com

$$C + I + G + (X - M)$$



TheCaseSolutions.com

Susta

TheCaseSolutions.com

Sustaining long-term growth
TheCaseSolutions.com