Lemann Dialogues Conference  
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How to deal with the perfect storm and get the long-term opportunities?

Panel: The Current Political and Economic Landscape

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The Perfect Storm

- **Political crisis**: about-face, low presidential approval, political fragility of the government, scandals of corruption, etc.
- **Recession**: prolonged GDP contraction and no investment prospect.
- **Fiscal Crisis**: unable to reach the required primary surplus, even in coming years, then the gross debt soars to 72% of GDP.
What happened?

- Commodities-addiction? vulnerable to booms and bust of the commodities prices
- Counter-cyclical policies collapsed? no more fiscal space to stimulate the economy; and tight monetary policy to rebuild credibility
- The back and forth in the economic policy: what’s the stance?
- Lack of reforms during the golden age? pension system, tax, labor, trade, and social benefits
- Middle-income country living beyond its means? consumption-credit driven recent expansion doesn’t last forever… other growth model didn’t come!
A commodity-addicted country?

Real GDP Growth (simple exponential smoothing) and Terms of Trade – Normalized data 1980-2015

Source: IBGE and Funcex. Author’s calculation
The State doesn´t fit in the GDP

Net tax revenue and government consumption % of GDP

Source: Ministry of Finance
How to deal with the perfect storm

Never want a serious crisis to go to waste!

• Spending-based fiscal policy rather than tax-based one
• State-owned companies governance: IPOs and strategic alliance
• Limit indexation and subsidized credit
• Independent fiscal council: quality and transparence
• Debt ceiling: limits for gross debt to GDP
• Agenda of reforms to see the light at the end of the tunnel
Brazil needs reforms, but is the society ready for them?

- **Educational reform**: gratuity, financing system, accountability, technical education, vouchers, etc.
- Profound **pension system reform**: minimum age increasing over time, no gender and rural differentiation, de-indexation from minimum wage, etc.
- **The quality of public policy**: transparence, cost-benefits assessment, effectiveness, and efficiency of the all benefits
- **Tax reform** toward VAT (value-added tax) system
- **Trade opening** (broad import tax reduction): local content orientation is no longer relevant.
- Promote **investment in infrastructure** and in **innovation**: but, how?
The current pessimism will turn out to be short-lived

• Once the country moves toward better fiscal results and lower inflation rates, the economy can resume growth soon.

• Brazil has vast and profitable opportunities of investments: short-term problems, yet long-term opportunities.

• Effervescent democracy, and institutions getting stronger.