

Lemann Dialogues Conference
Columbia University in the City of New York

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

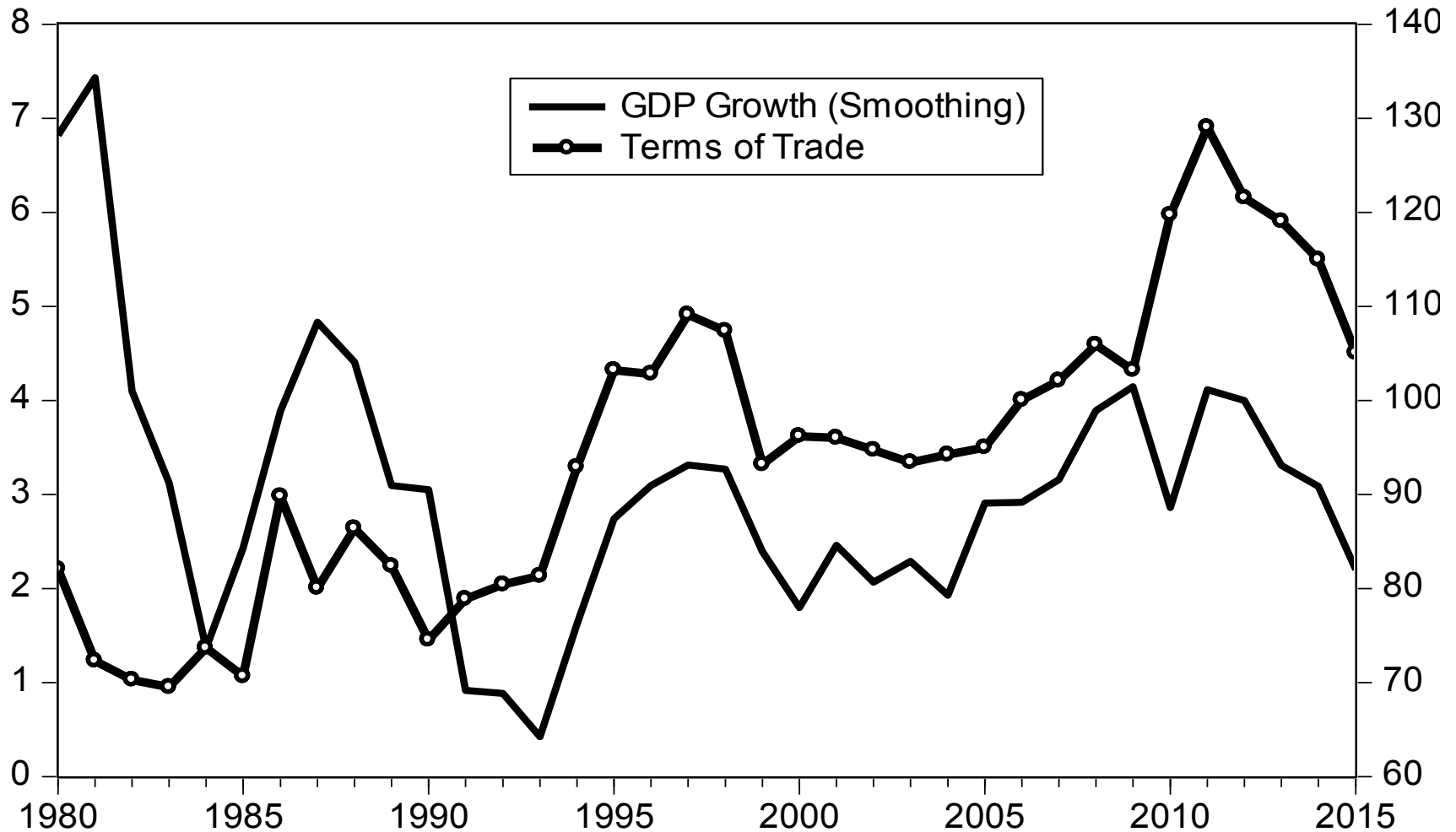
- **Political crisis:** about-face, low presidential approval, political fragility of the government, scandals of corruption, etc.
- **Recession:** prolonged GDP contraction and no investment prospect.
- **Fiscal Crisis:** unable to reach the required primary surplus, even in coming years, then the gross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

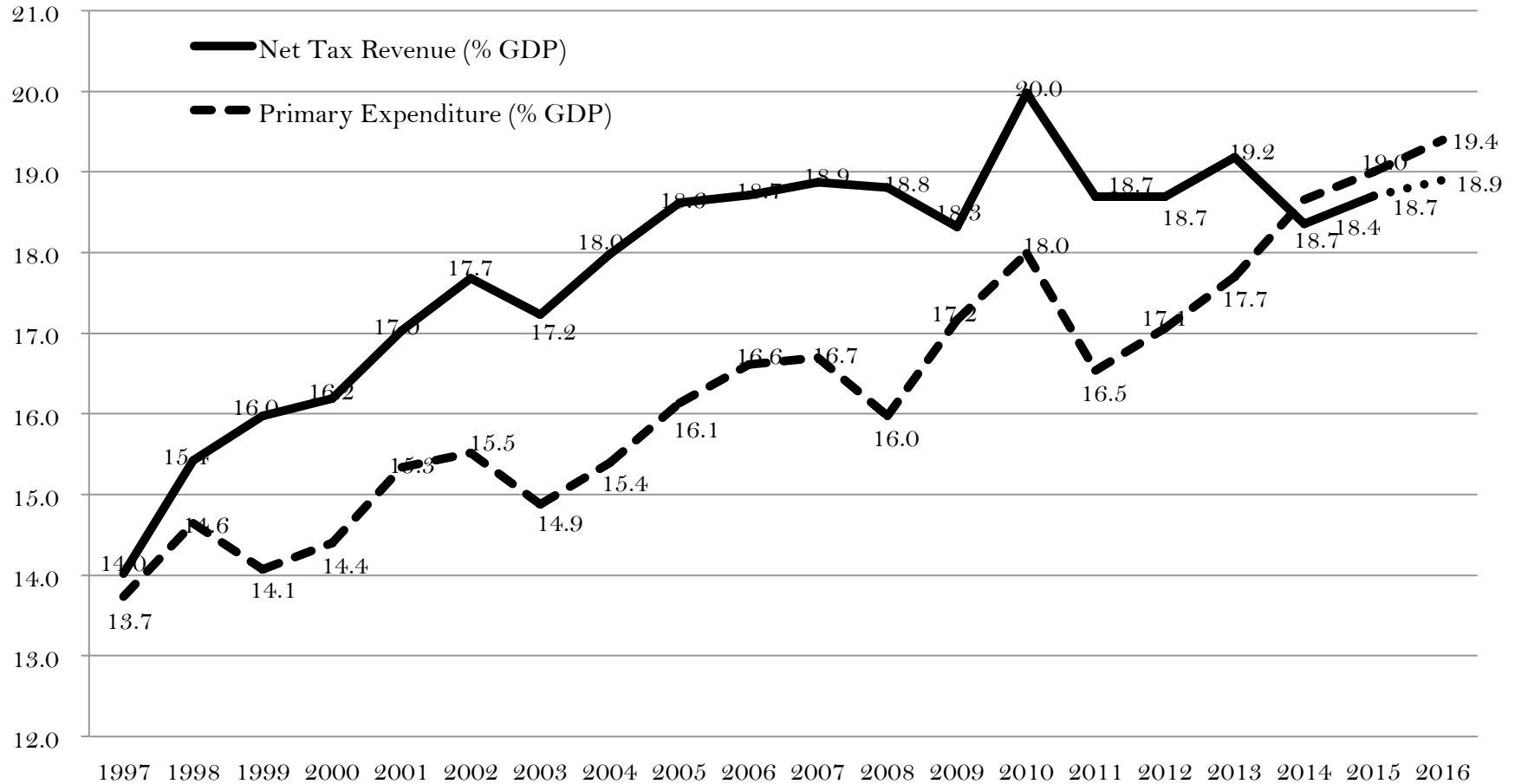
Real GDP Growth (simple exponential smoothing) and Terms of Trade – Normalized data 1980-2015



Source: IBGE and Funcex. Author's calculation

The State doesn't fit in the GDP

Net tax revenue and government consumption % of GDP



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 transparency
- **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:** transparency, 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.