



## Brazil's Rousseff Impeached: What Comes Next?

*Monica de Bolle says the prospect of closure in Brazil's impeachment saga is a positive for the country, but adds that the new administration will face plenty of challenges in getting the country's fiscal house in order.*

*Unedited transcript of interview recorded May 12, 2016. © Peterson Institute for International Economics.*

Pedro da Costa: I'm Pedro da Costa, Editorial Fellow here at the Peterson Institute for International Economics joined by Monica de Bolle to discuss Brazil's impeachment saga, which has finally concluded come to some sort of a head as the Senate has voted for the impeachment trial to go ahead. Could you just speak about the significance of the vote and some of the next likely logistical steps in the process?

Monica de Bolle: Sure. So, this seems like the beginning of the end for Rousseff's government. She has not been ousted exactly. She has been suspended by the Senate. So now what will happen is there will be a trial that is meant to take place within the next 180 days. That trial is presided over--it takes place in the Senate, but it's presided over by the Supreme Court. And at the end, if they do indeed find her guilty of crimes of responsibility, she will then be officially removed from office, she will lose the ability to have any kind of public appointments or run for office or anything of that sort for the next eight years and a number of other implications that come with that.

I think the one thing that was very, very relevant about yesterday's marathon and it really was a marathon, 24 hours of senatorial speeches and the whole voting.

Pedro da Costa: Fanfare.

Monica de Bolle: Now, fanfare and the whole thing actually taking place only this morning. It is telling that two-thirds actually of the senate voted in favor of accepting the trial proceedings against her. They only needed a simple majority for this but the fact that it was two-thirds shows us clearly how weak this government actually is and how difficult it will be for Rousseff to survive the trial process.

Pedro da Costa: So does that mean that the process will end more quickly than it would have otherwise given that political [inaudible 00:01:56]?

Monica de Bolle: Yeah, I think we can have those two interpretations here. So on the one hand, it being very, very difficult for her to survive. So in other words, that's an area where the trial takes place and at the end of the day, they find her not guilty. That seems very unlikely now. And the second thing I think that we can kind of draw out of this in terms of conclusions is that the process is likely to move a lot faster than the 180 days. And I think at least the sense I get from the way things are going in the country is that people want to wrap this up before the Olympic Games and that's in early August as we know. So, it could be very quick indeed.

Pedro da Costa: Sure, that is a very realistic and looming deadline. It would be kind of strange for Brazil to have a leaderless country as it hosts the biggest sports event in the world. And so, let's move

on to the new de facto president, President Temer. So what--he's had some time of course to prepare. He's known this was in the pipeline. It's not like this happened just in the last 24 hours. It's been long in the making. So, what kind of an economic team in particular has he been putting together and what are the likely policies that he is going to be pursuing right off the bat?

Monica de Bolle: So, Brazil's main talent and main problem is fiscal. So, the first order of business, I think, will be actually finding out how bad the fiscal situation is and I'll speak about that in a second, but that will be his first order of business. He has already appointed some important cabinet members, so we already know who the finest minister is going to be. It's going to be Mr. Meirelles who was the Governor of the Central Bank under the two Lula administrations.

Pedro da Costa: During the boom years.

Monica de Bolle: So, during the boom years, he will be the Finance Minister. Probably, there will be some changes at the Central Bank as well. There will certainly be changes at the public banks. So, the heads of the public banks in Brazil will change. And apparently, Mr. Meirelles is the one who's going to be making those appointments.

There is a new Planning Minister, there's going to be a new Commerce Minister, there's going to be a new Foreign Relations Minister. It's not clear exactly how the responsibilities will be split because one of the things that the Vice President and now President has said over the last few days is that he intends to shrink Brazil's cabinet. We currently have about--

Pedro da Costa: The number of cabinets.

Monica de Bolle: Yeah, the number of cabinet positions down to something like 23, 24 depending exactly on how the negotiations go with the coalition. But the essence of the problem is fiscal and that's the first thing that he's going to have to face.

Now, there are a number of questions about how big the fiscal problem in Brazil is. I mean, we know that the debt to GDP ratio is increasing, we know that the economy has been running deficits for quite a few years now, at least two, probably three this year, probably four if we have another deficit next year and are unable to find very quick short-term measures to reverse that.

Pedro da Costa: Right.

Monica de Bolle: That's very hard given the current environment of just a very deep procession and rising unemployment and everything else.

Pedro da Costa: But you've also flagged, in addition, there might be kind of shadow risks from the public banks that [inaudible 00:05:17].

Monica de Bolle: Well, that's the issue. I mean, there are a number of contingent liabilities that are very fast going to become not contingent but actually real liabilities.

Pedro da Costa: Implicit guarantees have become explicit so to speak.

Monica de Bolle: Yeah, exactly. So, on the part of public banks for instance, there is already growing evidence that at least one of those banks, the mortgage bank in particular might need to be recapitalized.

Pedro da Costa: Caixa Econômica.

Monica de Bolle: Caixa Econômica, we don't know how much, what the amounts would be but certainly that's going to add to the debt. There are state-owned companies that are going to need government support. There's an electric power company, Eletrobras, that is certainly going to need cash injections from the government because that company is really suffering quite a bit.

Pedro da Costa: Mm-hmm.

Monica de Bolle: There are also questions about Petrobras whether Petrobras is going to need such cash injections. Petrobras has a very, very fragile financial situation right now.

Pedro da Costa: They just borrowed a bunch of money from China.

Monica de Bolle: They did but they will run out of cash by 2017.

Pedro da Costa: Yeah.

Monica de Bolle: By sometime early 2017, so they may need a cash injection very quickly as well.

Pedro da Costa: How does the Brazilian public feel about injecting cash into a company that is at the center of a corrosion scandal?

Monica de Bolle: That's to be seen.

Pedro da Costa: Yeah.

Monica de Bolle: And, the other issue is the national finances and the...

Pedro da Costa: The states.

Monica de Bolle: ...what's happening with the state. Many states in Brazil including the state of Rio, the state that's hosting the Olympics is under--they are under severe financial stress. A lot of them have not been paying public servants on time and having delaying salary payments and wage payments, and benefit payments. They had already been after the government for some kind of debt renegotiation agreement or even some debt relief. So, President Temer will have to face that and will have to face that as one of his first orders of business as well.

Pedro da Costa: Yeah.

Monica de Bolle: The measures that he's been talking about implementing, I mean, we will know more in the coming days as he makes these announcements. But apparently, there will be a push for social security reform. Apparently, there will also be a push for constitutional amendments

that allow budget execution in Brazil to become more flexible. We've talked about this issue here before, budget--

Pedro da Costa: Because there are so much that's allocated to the states constitutionally. There's a very little flexibility.

Monica de Bolle: Well, there is that and there's also the fact that there are certain constitutionally-mandated expenditures that you cannot cut.

Pedro da Costa: Yeah.

Monica de Bolle: And there are also some constitutionally-mandated indexation mechanisms on expenditures that you cannot change unless you pass a constitutional amendment.

Pedro da Costa: An embedded inflationary pressure basically.

Monica de Bolle: Exactly. So, you need to break these things and you need to break off with these problems that currently make the budget very rigid. And I expect that this will be one of the first things that he's going to try to do. If he's successful at doing that, currently, it seems like he might be because as things are organizing themselves in Brazil, he appears to have a majority in the Congress and a majority that would be sufficient to pass these constitutional amendments. Constitutional amendments in Brazil need three-fifths of the vote.

Pedro da Costa: Mm-hmm.

Monica de Bolle: It seems like he has two-thirds. We will know in the coming days. But, if he manages to pass these things through Congress, that will be seen as a huge achievement given that Brazil hasn't passed anything through Congress in the last year and a half.

Pedro da Costa: Yeah.

Monica de Bolle: It's just been complete gridlock.

Pedro da Costa: And to close out, as far as the broad economic outlook even as we head into the Olympics, you don't see the prospect of a turnaround anytime soon even if these reforms are implemented, right?

Monica de Bolle: Yeah.

Pedro da Costa: We're talking about a long-term recovery from one of the deepest recessions in Brazilian history basically.

Monica de Bolle: Exactly. I mean, there are still severe structural problems to be resolved. The reform agenda is huge. We're talking here about very deep social security reform, very deep labor market reform, very deep financial market reform, you name it and there's a reform in Brazil that you need to do.

So, in essence, this is what actually dealing with these problems is what would put Brazil on a sustainable growth path. That's years of work. And, the groundwork may actually begin in

this government but we'll only see real progress, I think, in the next government after the 2018 elections.

So for now, I'm betting that all we'll see really is a relief rally from market.

Pedro da Costa: Yeah.

Monica de Bolle: And perhaps, depending on how the situation evolves from here on out, some international flows coming into Brazil as of course foreign companies that have been sitting on the sidelines and waiting to invest again in the country see the possibility of Brazil being a little bit better off in the next three to four years.

Pedro da Costa: Yeah. Okay, thank you so much, Monica.

Monica de Bolle: Thank you.



