



## Brazil's Fiscal High Dive into Olympics 2016

*The Olympic Games may offer Brazilians a temporary reprieve from the bad economic news plaguing the country, but Monica de Bolle says the respite will be temporary—and spending on the Games could make matters worse.*

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Pedro da Costa: Hi, I'm Pedro da Costa, Editorial Fellow here at the Peterson Institute for International Economics. I'm joined by Monica de Bolle, Senior Fellow here. And we're talking about the Rio Olympics, which normally would be cause for celebration, but this year could be a bit of a cause for concern given the political and economic backdrop in Brazil, and even the fiscal situation in the state of Rio. Could you give us a little bit of the background of what's happening in Brazil in the last few weeks, since we last spoke?

Monica de Bolle: In Brazil things are happening on a second by second basis. So, it's been very much a –

Pedro da Costa: Roller coaster.

Monica de Bolle: Roller coaster. On the Olympics itself -- and then I'll speak a little bit about the overall situation in the country. But on the Olympics specifically, it is telling that in the midst of a political and economic crisis as we're seeing in Brazil, the Olympics is like the least talked about subject in Brazil. So, you open the newspapers, you read the press and the news is all about the politics, the economics, mostly the politics. And there's very little on the Olympics.

Pedro da Costa: Sure, because the corruption scandal is much more exciting, right?

Monica de Bolle: Yeah. And on the ground at this moment, of course Brazilians tend to only focus on things kind of last minute. Being a Brazilian I can say that. You being a Brazilian know that as well. But it is surprising that two months always from the opening ceremony there is surprising little interest on the ground for this mega sports event. So it really is revealing of where worries and preoccupation actually lie.

Pedro da Costa: And what about ticket sales and that stuff. Are you getting any figures on it?

Monica de Bolle: Well, what we've seen from ticket sales, it's very hard to find data because the official sites don't really tell you very much about ticket sales, about other things like the infrastructure projects that are happening, what they're costing, how they're moving along. It's very hard to find that kind of data. But what we do know is that if you try to buy, for example, a ticket for the soccer final, and the soccer final should be a big thing, you can actually find tickets for the soccer finals still.

So, that tells you that tickets are likely undersold and in fact the few press reports on this that we have seen and are pointing in that direction. So, there's a concern. There is a concern that it will be – I mean, the party will be nice, the two weeks during which the Olympics are happening will probably be all eyes focused on Rio and everything going, I think, relatively smoothly as the world cup proved it—

Pedro da Costa: It's not a question of the infrastructure not working or the water being dirty. All that stuff tends to be sorted out by the time the event comes around, right?

Monica de Bolle: It won't, but people will focus on other things and they will look at the Olympics the way they always look at the Olympics, it's a major event and all eyes will be on the sports and on the athletes and everything else. But the real worry is, what's the legacy of all of this and what comes after? What does it imply for the country specifically? What does it imply for the state and what does it imply for the city?

Of the three, the city of Rio right now is financially sound compared to the other two. The state is not financially sound. The state has actually recently defaulted on two international loans and it had to be saved by the national treasury, which was the guarantor for those loans. And the country, as we know, is floundering.

Pedro da Costa: Yeah. And the economy itself can probably be described as Brazil's great depression right now. It's one of the, if not the deepest recessions in modern history. So, that's pretty unusual for a country to be hosting as large an event as the Olympics in the middle of such chaos, and if you add the political chaos on top of it. Can you think of any modern precedent for that?

Monica de Bolle: No. It's a first. Actually, if you look to data going back to 1964, it's the first time that a country hosts the Olympic Games and is having a recession at the same time. This is since 1964. If we go back further than that I don't know. But since 1964 that is definitely true. And certainly we haven't had this kind of toxic combination.

Even Brazil hasn't had it and, as you said, it is definitely Brazil's great depression and in fact Brazil's finance minister just as that this morning in his speech. He said this two year recession -- encompassing 2015 and 2016 -- will most likely be Brazil's great depression. It is already looking far worse than what happened to Brazil during the great depression. So, yeah, it's a first in that respect and that's very unfortunate because these are the first Olympic Games to be held in South America.

Pedro da Costa: So, let's talk about the broader outlook for Brazil. In the near term, is there any chance that the Olympics could actually boost growth and then in the longer run, do you think that the new president has made any progress on reforms? I know there's been a little bit of -- his government has had scandals of its own with certain ministers stepping down and so on. So, what are the challenges ahead for the new president and what's the likely impact of the Olympics on the economy?

Monica de Bolle: So, on the likely impact, what the academic literature shows is that really, if you decide to host the Olympics it's not about the economic impact. It's about all sorts of other things, soft power, what have you—

Pedro da Costa: Foreign cloud.

Monica de Bolle: What have you, but not about the economic impact which is usually, it's either a zero sum game or there's some loss for the country in question.

Pedro da Costa: And there's plenty of side shows of old abandoned Olympic fields that I've seen.

Monica de Bolle: Exactly. And the literature is really very conclusive on that point. So I really don't think that the benefit is really going to come from that. On the government and the things that have been happening recently, this government is going to be completing 30 days very soon, actually, this week, this coming Friday. Actually next Friday. So, what's been done in these 30 days? Within these 30 days, actually a lot was done. We have an entirely new economic team. The number of key positions have been completely changed. There's been an 180—

Pedro da Costa: Even the central bank right?

Monica de Bolle: Even the central bank, the finance ministry, the head of Brazil's development bank BNDS. The head of Petro Bras, you name it; there's someone new and in charge. And these are generally people who have very good reputations, these are very well established people. And news of this has been very well received in Brazil. So, on the economics things are looking actually looking better in some sense.

The big problem of course is still the politics. And there have been as we saw in recent weeks, ministers that were involved or allegedly involved in activities to obstruct the corruption probe in Brazil. And these ministers have since left the government. The two ministers that have left the government are actually people who are relatively close, close advisers to interim president Michel Temer. So of course, this has been a blow for him. And we're at this stage where the impeachment trial is ongoing. there's yet no great clarity as to how this process is going to move along. The expectation is that it will be finished by mid-August, so smack in the middle of the Olympics. And that's a little bit strange, it will also be a first not knowing exactly who is the country's leader during this major event.

Pedro da Costa: Absolutely. Who holds the torch?

Monica de Bolle: Who makes the opening speech? All of these things. So, there's a lot to be concerned about still in Brazil, but there are a few things to be hopeful for. I mean, the fact that there is a clear agenda on the economic front, the fact that there seems to be a shift in the making on foreign policy and trade issues in Brazil. Brazil has been completely closed off from the global markets and everything else for a very long time, and there's now a clear shift in foreign policy. There's a clear shift toward greater concerns over trade and openness and all of these things. Of course, not in line exactly with what's happening in the rest of the world. But still, that's a positive for Brazil and it shows that the country is trying to move in a new direction. Hopefully the politics won't get in the way too much, but they will get in the way to some extent as they have been recently.

Pedro da Costa: At the very least Brazilians will get a reprieve from the political mayhem as the games arrive. They're certain to throw a good party. I guess it all depends on how bad the hangover ends up being.

Monica de Bolle: Well, that's exactly the question. We will get two weeks of relief and then we have to wait and see how bad the hangover is.

Pedro da Costa: Monica, that you so much.

Monica de Bolle: Thank you.

