The credibility issue



Photo: Luciana Vermell

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In the first joint IMF-FGV seminar in 2013, you warned about the problematic reliability of Brazilian fiscal performance indicators. Was it possible to imagine then that Brazil would have a fiscal crisis of the current proportion?

It was very clear that in its first term the government of President Dilma Rousseff was making extensive use of creative fiscal policy—accumulating arrears, cashing in dividends from state-owned companies that were having financial difficulties, anticipating revenues—and state-owned banks had large-scale quasi-fiscal operations. The problems were amply discussed by economic observers and in the Brazilian media, who indicated that the fiscal situation was substantially weaker than would appear from the official statistics. But at that moment, it would have been difficult to predict the magnitude of the 2014–16 fiscal gap because the gap reflects, in addition to creative accounting and the fiscal risks of quasi-fiscal operations, several other factors, especially the plunge in GDP growth, higher interest rates, and the impact of exchange rate depreciation on gross public debt.

The IMF's slower growth projections for the world do not leave much room for an export-led recovery of the Brazilian economy. What could help the country to revive economic activity in the short term and contain the fiscal deficit?

I have said on several occasions, most recently at the fiscal policy seminar in Rio, that for Brazil sustainable recovery … first requires resolution of the current political uncertainties and emergence of a government with broad support in Congress so that it can make difficult adjustments and adopt reforms, move to restore business confidence and promote recovery of investment, and reach an agreement on a program of structural fiscal reforms that restores credibility. Such reforms cannot be done immediately, but once they are begun the private sector may see both a sincere and significant effort and a clear horizon for their investment projects in the coming years.

At the close of the seminar, you said that, although the Brazilian economic outlook is serious, you were optimistic about its reversal, since various segments of society were aware of the causes of the current crisis. Will that be sufficient to carry out a necessarily unpopular reform agenda?

Society's emerging awareness of the extent of the current difficulties and the need for substantial reforms to address them is essential, but not sufficient, to overcome these problems. It will be very important that the government in charge in coming weeks and months quickly discuss measures to ensure some quick wins in containing the economic deterioration and giving a credible signal of hope for a gradual economic recovery in the medium term.