The Brazilian Economy—How do you evaluate the government’s new package of concessions for infrastructure. Was it an ideological shift?

Rogerio Werneck—The government was being pragmatic because it really was not able to carry out public investment. For quite some time, the government has demonstrated a statist bias: it always opts for more intensive government action even when working with the private sector. It’s really difficult to make public investment happen. . . . In President Rousseff’s first year in office there was a succession of episodes of corruption. The government acted quickly . . . but failed to reconstruct the long chain of command that triggers public investment. With 40% of the term already elapsed, everything was paralyzed. Then, at some point the penny dropped. The concessions are the best evidence that something has changed. Yet there is no consensus in the

Will public funding, private management work?

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ALTHOUGH IT REPRESENTS an acknowledgment by the government that alone it cannot carry out the large infrastructure investments the country needs, the recent package of road and railway concessions does not necessarily mean that private resources will provide the financing, warns economist Rogerio Werneck. “The Treasury issues bonds and transfers funds to the National Bank for Economic and Social Development (BNDES), which in turn transfers them to the private agent, financing 80% of the project long term at subsidized interest rates. It is like a public work, with the advantage of being managed by the private sector,” he says. Werneck is also concerned about carelessness in the conduct of monetary policy: “Everything indicates that in this presidential term inflation will be persistently above the target.”
government core about whether this is the right thing to do. There are reactions from unhappy groups. The case of concessions at airports, for example, has motivated a completely surreal discussion involving vested interest groups connected to the Brazilian Airport Infrastructure Company (Infraero). I find it difficult to believe that any ideological shift did occur.

Is the program attractive to the private sector?
It is a step forward in that the government acknowledges that it alone cannot get these investments done, but the program could have been much better structured to attract private resources for infrastructure. The ideal would be that private investors contribute a substantial amount of resources to finance the projects. However, as I understand it, what the government will do is replicate the current model: The Treasury issues bonds and transfers funds to the BNDES, which in turn transfers them to private agents, providing 80% of the long-term financing at subsidized interest rates. It is like public works with the advantage of being managed by private initiative, which reportedly has proved better able to carry out such projects. There are people in the government who prefer it this way because otherwise it might open the argument that what the government is doing is actually privatization. It is more comfortable to say that it is all public money; there are no private resources.

Is the package in time to promote economic growth?
Strictly speaking, the same barriers that are stalling public investments could do the same with concessions. The government itself acknowledges that the timeline is ambitious. Everything will take place in one year: studies until December, public hearings in January, bids in April, contracts signed between May and July. That does not seem credible and will surely meet with adversity. I imagine the first investments will effectively occur only in late 2013 or early 2014, when the current presidential term is already ending.

The government has adopted several packages to stimulate the economy, but the results have been disappointing. Why is this?
At the beginning the Rousseff administration was thinking it would prolong the second term of President Lula, which finished with 7.5% growth. But the projections for 2011 started at 5.5% and ended up at 2.7%. It was a cold shower. . . . However, the government has recognized two important facts: the obstacles arising from deficiencies in infrastructure and public investment were beginning for quite some time, the government has demonstrated a statist bias: it always opts for more intensive government action even when working with the private sector.
to disrupt [the economy], and the economy is finally feeling the tax burden. Over the past 20 years, the tax burden in Brazil rose from 24% of GDP to 36%, which is extremely high compared to other emerging countries . . . . But granting tax relief only to some sectors is not the most appropriate way to deal with the problem.

In a recent article, you warn that lowering the basic interest rate associated with the expansion of credit by state-owned banks can worsen inflation. Are there risks for 2013?

Everything indicates that in this presidential term inflation will be persistently above the target, suggesting that combating inflation has been given less importance relative to previous years. There are signs that inflation will rise again in 2013, and even in 2012 it should remain substantially above target. This suggests a certain carelessness about monetary policy, because we are talking about an inflation target of 4.5%, which is high compared to other emerging countries. As for state-owned banks, unfortunately the country has learned little from past [banking] crises . . . . History has shown that encouraging these institutions to make loans at low interest rates always ends up being paid for by the taxpayer. The government opted for an easy solution—to quickly push down bank lending—that used the power of competition from state-owned banks to induce private banks to follow. But now the private banks are not following, because they always have the option not to lend, reducing market share rather than walking into bankruptcy.

The question of federalism, involving such issues as equity funds to states and municipalities, division of oil royalties, and state debts, is very much alive today. How do you see this debate?

I think any chance of solving the main problem, which is the sharing of the tax pie, has disappeared for this government, which is not willing to touch this hornet’s nest . . . . A revision of the fund participation of states and municipalities, for example, should be decided by December 2012, so we are nearing to the edge of a fiscal cliff . . . . Moreover, the federal government, which was worried about its inability to carry out public investment, decided to open the doors for state and municipal investments, which expanded their debt ceilings. Some states are in better fiscal condition, but others not so much . . . . The European crisis should have at least showed us how fiscal difficulties could become a huge headache.
President Rousseff is approaching the middle of her term. What is the balance so far?
The government has some things to show, including a very low unemployment rate... But the momentum of the economy was lost and has not yet been found. The problem of the tax burden is sinking in very slowly, leading to discouraging solutions, such as tax relief for selected sectors. The issue of what will be the agent of economic growth and recovery is not being addressed convincingly. The government has realized that it cannot do it alone, but at the same time it wants to determine how the private sector will do it. I doubt that will work. I fear that some decisions now will be guided by time pressures—"let's do it because the important thing now is to show good performance in some key variable before 2014." Common sense may not prevail.

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