

The stakes for Brazil's 180-day government

Blog post by Adviser Daniel Capparelli, 13 May 2016

So Dilma Rousseff is gone, at least for now. Over the next 180 days, Vice President Michel Temer will set out an economic agenda focused on the consolidation of public accounts and on business-friendly market reforms, while Dilma's impeachment trial continues. This begs the question of how much Temer can realistically hope to achieve in the 180 days he has in power. The answer depends on what he and his allies see as being really at stake.

Regardless of the crisis, politics determines Brazil's economic policy, not economic theory. Temer has been actively negotiating the terms of a broad-based centre-right coalition for some time. His key objective is to secure a caucus in Congress big enough to push through changes and establish his temporary administration as a credible alternative to Dilma. Temer and his allies know that, while the impeachment trial will put a greater focus on the legal merits of the case than in the preliminary phases of the process, its outcome will still be overwhelmingly shaped by political considerations. This means the odds of Dilma being definitively deposed in 2016 will primarily be determined by whether his administration can make itself look like a better alternative to Dilma before the final impeachment vote.

That might seem a low bar, but the challenges are nevertheless considerable. Temer's choice for the finance portfolio, former central bank governor Henrique Meirelles, has already said he will push for a comprehensive fiscal consolidation package with a firm focus on spending cuts. In 180 days, the best Temer can hope to achieve is probably the introduction of a credible long-term fiscal consolidation strategy for Brazil's biggest-ever deficit, which could in fact worsen the recession in the short run. There is no guarantee he will win wide public support, although Brazilians are tired of policy paralysis under Dilma.

There is also probably time for other useful changes. Pro-business reforms in areas such as the pre-salt oil extraction framework have wide support among the pro-impeachment parties and across the business community. The creation of a special government taskforce charged with reforming Brazil's public procurement and legal framework for public private partnerships will be a critical dossier for Temer, given both the country's fiscal problems and the role that kickbacks in procurement processes have played in the Petrobras scandal.

But Petrobras is also the elephant in the room. Like Dilma's administration, Temer's government will itself be vulnerable to developments in the corruption investigations and to a related case in the Superior Electoral Court, which could result in the annulment of Dilma's and Temer's election in 2014. The risks of other members of a Temer government being implicated are material, particularly now that the investigations are reaching higher up the political ladder, and as more business and political figures are striking plea bargains. Temer hesitated for a long time before moving to topple Dilma - he knows well that no one in her seat can ever feel truly secure.