

Bolsonaro, pandemics, reforms and the Dollar

Brazil's great challenge

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It always seems a good attitude to be willing and face our problems with pride and optimism - seeing the glass as half full is a state of mind, which puts us in a "winning" position from the start. The reality, however, sometimes brakes our momentum, acts as a shield and raises red flags, while we reevaluate risks. The triple crisis that we are enduring makes us act this way: fearless and in denial of the vicissitudes as eternal optimists, but also with the rawness and hardships that the moment imposes on us, raising extreme prudence and attention to the facts.

The challenge facing Brazil is undoubtedly a test of our resilience and a test to the maturity of our nation's democracy aspiring to be developed. A real watershed. On the political and institutional side, we need to control abuse of power, and find harmony in the apparent chaos. Not least, Brazilian society voted for a President to be disruptive

in regard to the previous establishment. No one could foresee a Covid-19 crisis along the road, and for that, other traits and attitudes of our Commander-in-chief would be necessary.

These setbacks in life reached the whole planet and have the power to delay us and reverse our recent trend of economic readjustment. However, with a bare minimum political attention from our President to promises in the economic field, we will be able, even if at a higher cost, to overcome these obstacles. Economic

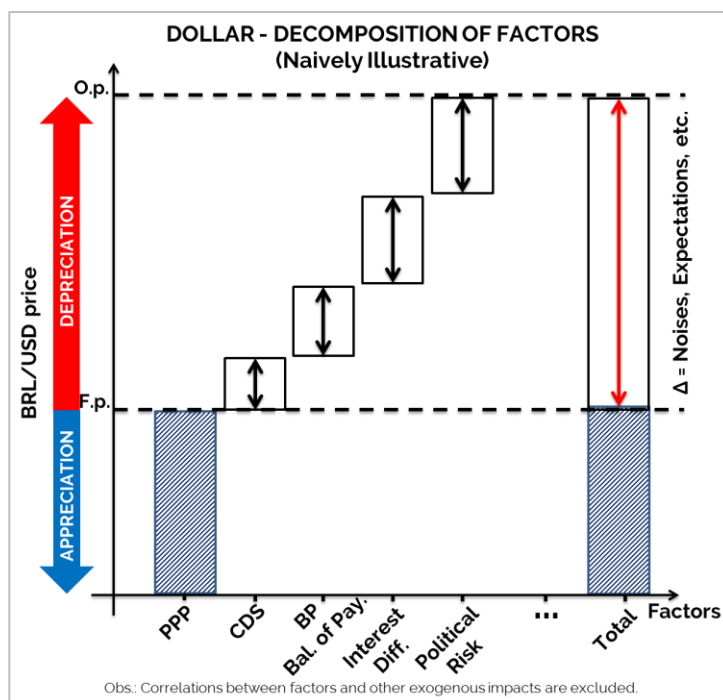
policy - and above all how it is conducted and influenced - depends to a large extent on the position and guidelines of the Commander-in-chief. His actions and stances are society's guidelines to a much desired transformation.

In this line, the pandemic is also a crucial factor, notably because the President constantly disparages scientific evidence, plays the victim as to the decisions of the Supreme Court on this matter and gets in the way of sound policy by making nonsensical statements that only

add noise. Crises as a rule are associated with opportunities and this could have been a unique moment for political advancement and leadership. A perfect storm that could have united the country, overcoming the difficulties inherent to the outbreak and above all addressing an extremely important agenda for Brazil. Conversely, we have witnessed the Coronavirus hog all the attention and wreak

havoc unimpeded, further fueling political unrest and contaminating various ministries.

Brazilian society sent a very clear message with the election of Bolsonaro and the renewal of the National Congress (CN): radical changes were claimed. Street movements and maximum tension led Brazilians to signal, at the polls, a break with the *status quo*, so that we could have broad, general and unrestricted reforms. It is not what we have seen thus far, quite the contrary. The first year of government usually lends itself to an



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administration truly showing what it came for - with endorsement and almost unanimous approvals from all segments of society; it has passed and all we have advanced essentially was the Social Security Reform. Quite a shame, because timing is everything and we needed much more.

In this sense, whatever remains of chances, even if remote, must be protected. It is essential that we do not run into further error, at least not so unfortunately. Unrestricted support for Minister Paulo Guedes and the return to his liberal agenda is, at this moment, our only way out. In other words, to break out of reform paralysis and to structure multiple task forces while there is still some reformist stamina in the National Congress. Yes, the old politics still lingering after the political reshaping of our legislative body, to which Bolsonaro is now enthralled,

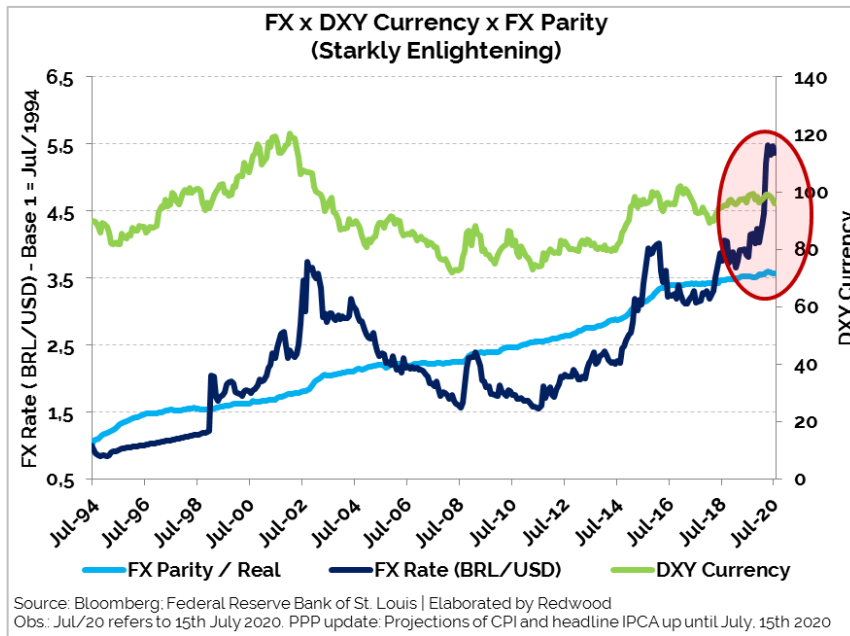
does not have a good record with reforms; it has "bargaining power" even holding a minority stake and is now raising as a phoenix and taking advantage of the weaknesses of the moment. It is a binary situation that we live in, and Brazilians are tired. This is a huge vulnerability, which makes room for opportunistic behavior and deviations from the desired route. Unfortunately, walls are closing in quickly and we cannot falter.

Thus, politics, pandemics and the yet-to-be-carried-out reforms are currently working together to the detriment of our economic recovery. However, with a minimum of leadership and competence, "political will" tends to return. Taking advantage of the low interest-low inflation combination "meritoriously" achieved and the

relative position still reasonably favorable to Brazil *vis-à-vis* its peers abroad, several indicators are likely to, with some effort, improve significantly. BACEN's agenda is excellent, the maintenance of the Expenditure Cap has been a victory and the fiscal vision of the economic team is an important differential.

In this line, an "indicator" serves as a thermometer of everything that happens, namely: the US Dollar. The table on the previous page lays out the "dimensions" and impacts of some factors. The hypothetical decomposition presented points out how they influence the currency

price. Controlling the level and volatility of the Dollar (whether by identifying dysfunctionalities or not) is, at the same time, a favorite "sport" for some and a total anomaly for those who believe in the free market. Market forces, in one way or another, in the long run and with the economy



minimally open, take care of it all.

However, this does not mean that there are no frictions, that some factors are not persistent and that deviations from the "fair" price are not sustained for any length of time. The graph above leaves no doubt about this statement. However, this price has rarely been as "out of place" as it is now, which suggests a reversal is likely to occur. Will it? Remember our binary situation! Behold, the "King Dollar" (level, volatility, flow) will continue to be an excellent indicator of our health (real economy) and investors' interest. With more solid foundations and a strong Balance of Payments, it is just a matter of BACEN not wanting to "assist" the exchange rate and we will have a dynamic equilibrium.

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