

A Stable Brazilian Economy with a Bright Future

By Claire F. Selsky*

On February 10, 2006, Otaviano Canuto, Executive Director for Brazil at the World Bank, spoke at GWU about the state of Brazil's economy. The event, titled "The Brazilian Economy," was hosted by the George Washington University Center for Latin American Issues (CLAI). Dr. Prabir Bagchi, Senior Associate Dean of the Business



School of Business Senior Associate Dean Prabir Bagchi welcomes Dr. Canuto

School at GWU, welcomed Dr. Canuto, expressing the importance of Brazil and the United States' mutual effort to learn about one another and to cooperate. Dr. James Ferrer, Director of CLAI and of the Institute of Brazilian Business and Management Issues (IBI), thanked Dr. Canuto for his participation in celebrating the inauguration of CLAI's new offices located in Duquès Hall, the new headquarters of the GW School of Business.

Dr. Canuto spoke of Brazil's recent economic success as well as future prospects for Brazil. Under Brazil's current President, Luiz Inácio Lula da Silva, Brazil's economy has been so stable that Brazil has been able to repay its loan from the International Monetary Fund (IMF) early. When asked why Brazil's economy has been so successful, Canuto spoke of three economic pillars that have enabled Brazil to progress: a prudent fiscal policy; a cautious monetary stance; and external adjustment. Due to its adherence to these three policies, Brazil has enjoyed lower long-term interest rates, improved debt dynamics, greater fiscal flexibility, stable inflationary expectations, more credit and more jobs. Canuto stressed that it was by following the clear strategy of applying the economic pillars that the current economic indicators have shown improvement.

In discussing Brazil's economic progress, Canuto noted that for the first time in twenty-five years, the external debt is not a problem in Brazil. In fact, during the past twenty-five years, the total debt/export ratio has dropped by two thirds, from an average of 4 to a historical low of 1.4. Brazil has broad-based growth, participating in many markets with different products and exporting to a wide array of destinations. Canuto accounted for the economic growth of Brazil by explaining how an increase in production, savings, credit and jobs has led to an attractive and profitable private sector. Canuto reasoned that the improved economic conditions have led to improved social conditions such as: the institution of a social safety net that avoids extreme poverty; an increase in the average number years of schools of people 10 years old and older; and an increase in the yearly average minimum wage.

Having provided the audience with an understanding of how Brazil has reached its current economic height, Canuto approached the question of the future of Brazil's economy. This question is of particular importance as Brazil is scheduled to have its next presidential election in October of this year. Canuto explained that an election year does not have to be a year of turbulence. In fact, he showed that the economic and political



Dr. Canuto delivers his presentation

outlook for 2006 and 2007 is positive, making the following predictions for the upcoming year: a slowdown in export growth but a very high trade surplus; favorable balance of risks and continued progress on inflation; significant decline in nominal interest rates without jeopardizing the achievement of inflation targets; real interest rates declining gradually; and a continued decline in the net debt/GDP ratio.

Canuto offered several suggestions for the future government to raise Brazil's GDP. For example, he said that the

government should reduce its spending to reduce the public sector's share of the economy and increase the private sector's contribution. He added that tax reform and greater trade liberalization by Brazil would also serve to increase Brazil's GDP. He also expressed the importance of furthering negotiations with other nations in the form of bilateral agreements and working with international organizations such as the WTO and the European Union. It was notable that Canuto chose not to comment on how the market might fare under a new president. Instead, he showed that Brazil's economy should remain stable through the election period and should continue to grow under any future president who follows the pillars of economics and the policies that Canuto outlined.



CLAI-IBI Director Jim Ferrer presents Dr. Canuto with a GW School of Business T-Shirt

[Click here for a copy of Dr. Canuto's presentation.](#)

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