

Magni Client Commentary

Talking Points on International Governance Research and Investing

May 2016

Country Ranking Trends

- The temporary stall of governance improvements around the world continues. During May Magni Research identified no changes in scores for any of the countries in the developed or emerging markets.
- Magni is looking to see the extent to which the global trend of populism among political figures, along with their rhetoric, is a major contributor to the stall. The combination of strong emotions, vague policies, and “ends justify the means” language becomes more successful when citizens are unhappy or concerned. These same “success” factors for populist politicians can be used to weaken rather than strengthen governance.
- Austria is the latest country to experience these populist reverberations. The Green party candidate narrowly defeated what would've been the first far-right wing head of state elected in the European Union. This came after the earlier round of voting eliminated the two mainstream parties, which had dominated post-war Austrian politics.

Will the Philippines Demonstrate That Populism Can Improve Governance?

- The election of Rodrigo Duterte as Philippine president marks another populist victory. His campaign focused on a get tough on crime message modeled after his lengthy time as mayor. His rhetoric calling for extrajudicial killing and vigilante justice has alarmed observers, but his tough talk resonated in a country which has reported a large increase in crime nationwide. Despite six years of stable economic growth under President Benigno Aquino, there is still discontent among the poor, who make up the majority of the electorate, over their share in the rewards of this growth.
- The last administration enacted several positive macroeconomic reforms, and it will be important to see whether there will be policy continuity in order to maintain the governance improvements. Longer-term if corruption can be reduced, the Philippines could become a more attractive place to doing business; an important aspect of commercial activity where the country has heretofore lagged.

Has “Kick the Can Down the Road” Replaced Soccer as Europe’s Top Sport?

- The IMF has insisted that the Greeks must be granted meaningful relief to what the IMF views as an unsustainable debt burden. Other Europeans, and in particular, the Germans have been reluctant to take that step fearing a backlash from their own electorates.
- In reality, the recently announced compromise basically kicks the can down the road as debt relief is deferred until the end of the new bailout program and sets the stage for further difficult negotiations in the months ahead. However, it does achieve one short-term goal of European leaders by allowing the 2017 German elections before contentious and probably unpopular debt decisions.
- The European Union is rapidly approaching a fork in the road. Without durable solutions to these and other vexing issues (e.g., disparate member-specific fiscal policies matched with a single monetary policy, country-specific versus EU-wide

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immigration policy and practices), the aspirations for European integration cannot be realized and there will be ever stronger forces pushing member countries to leave the EU (e.g., Brexit and other potential exit votes). While nothing is imminent and the Brexit referendum is likely to be defeated, an eventual unwinding of the EU would have significant consequences.

- From a Magni perspective, the EU strengthens key aspects of governance in some of the European countries. In broad terms, northern Europe including Scandinavia receive relatively modest governance benefits from the EU, while southern Europe receives much greater benefits from matters such as better monetary policy and stronger shareholder rights.

A Promising Economic Reform in India

- India's Parliament has passed a new and consolidated bankruptcy law that promises to make it easier to address troubled businesses. The proposed intra-year timeframes for issue resolution would represent a marked and welcome improvement to the current business environment where the resolution of insolvency cases currently averages over four years. The challenge for India will be to set up the necessary infrastructure.
- Several years may be required before we can evaluate whether the new bankruptcy regime has made lasting positive change, but if effectively implemented it would strengthen shareholder rights, improve governance, and improve India's relatively low current score for resolving insolvency.

Will a Good Start in Brazil be Derailed by More Scandals?

- Michel Temer, Brazil's vice president, became acting president when as expected the Senate voted to proceed with an impeachment trial, resulting in the suspension of President Rousseff. Her suspension will last up to 180 days during which time a trial is to be conducted in the Senate. If two-thirds of the senators vote to convict, then Temer will serve the remainder of Rousseff's term, which concludes at the end of 2018.
- After taking office, Temer moved quickly to try and restore confidence in the Brazilian economy by appointing internationally respected figures to be the finance minister and central bank governor. He also has set a 30-day deadline for his administration to unveil an overhaul plan for the country's badly underfunded pension system and called for a constitutional amendment imposing a ceiling for public expenditures. However, his political capital to pursue the fiscal austerity Brazil so badly needs has already been eroded following the resignation of his close political ally. Planning Minister Romero Juca was caught on tape allegedly conspiring to obstruct the country's Petrobras corruption investigation. The scandal threatens to call into question the real purpose of the Temer administration and how much willingness it has to tackle Brazil's dire economic situation.
- If Temer can implement economic and related reforms, Brazil has a chance to put its scandals behind it, improve its weak governance, increase its Magni Country Score, improve its economy, and most importantly make life better for the average Brazilian.