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What lies ahead?

As Dilma Rousseff prepares to take office as president of Brazil in January, she is probably pondering what lies ahead. Brazil has a long history of populism, and the threat to economic stability that raises persists because social inequality remains extremely high. The president-elect will need to resist the populist appeal that other Latin American leaders have fallen for. The public accounts that the president will inherit are in worrying condition, barely disguised this year by accounting gimmicks. Her first test will be negotiating the minimum wage while keeping in mind how the new wage will affect public finances. She will be pressed hard by the demands of the governing coalition for more spending and large investments for the World Cup. She will therefore need to exercise great fortitude and determination to control and improve public spending.

The currency issue has been occupying much of the news media lately, both in Brazil and abroad. At the G-20 meetings in Seoul, the "currency war" was a major focus of debate, especially for developing countries. This month The Brazilian Economy delves into the subject. In the opinion of former Finance Minister Antonio Delfim Netto, adjusting the public accounts is the way for the country to align domestic and international interest rates. He believes that would reduce the appreciation of the real against the dollar, one of the challenges president-elect Rousseff must deal with. In the view of economist Raul Velloso, unless Brazil veers onto the wrong path, the U.S. dollar will continue coming in by several doors, so Brazil must learn to live with exchange rates at current levels.

The currency issue is also addressed in an interview with Li Daokui, one of the most influential economists in China and a member of the Monetary Policy Committee of its Central Bank. In Li's view, the economies of China and Brazil are separating from the U.S. and a new cycle of trade and investment has started between the two countries. He explains that while the Chinese government still must pay attention to the possibility of speculative bubbles in real estate and financial areas, the Chinese economy has begun to adjust toward a model of development that is less dependent on exports. This, he believes, should allow for some kind of agreement between China and the U.S. on the imbalances in the global economy, despite the controversy about the existence of a "currency war."

Meanwhile, high domestic interest rates and the prospect of further currency appreciation are factors that increase the interest of foreign investors in Brazil. However it seems inevitable that measures to curb the exchange rate appreciation will be needed, possibly including capital controls and some fiscal adjustment.