From the Editors

NO ONE IS NAIVE ENOUGH to believe that a simple change of economic team will instantly improve Brazil's economy, but the new administration is making efforts to give greater transparency to government accounts and ending the accounting gimmicks that have left Brazil with a much larger public deficit than was expected. New state governors will also face difficult fiscal adjustments (p. 18). Left unchecked, the anemic economy and large public deficits would destroy Brazil's international investment grade ratings, with obvious serious consequences.

Though Congress has yet to approve the measures announced—from abolition of tax rate breaks to reduction of pension benefits for surviving spouses, salary bonuses, and unemployment benefits—they appear to pave the way for replacing the previous policy of stimulating consumption at any cost with a policy based on increasing savings to finance investment.

But economic recovery and sustained growth will not come easily. The economic adjustments will inevitably reduce demand, and therefore production. The possibility of recession is looming, and 2015 may close with zero or negative growth. Unremitting drought and disruptions in electric power supply could make current growth projections even worse (p. 8). The external outlook will probably not help either; the fall in oil prices is not expected to boost growth in the world's major economies. According to market projections, lower prices mean that Brazil could lose US$14 billion on such commodity exports as soybeans and iron ore.

Credit tightening is expected to get even worse, with rising interest rates and resistant inflation, undermining the purchasing power of households (p. 15). Current very low unemployment rates are unlikely to last, as household consumption and manufacturing output, which fell 3.2% in 2014, are still looking feeble.

Brazil will undoubtedly have a rough 2015. However, only when there is fiscal transparency, increased savings, lower inflation, and a healthy business environment will it be able to attract foreign investment and regain business confidence. The medicine may be bitter and the cure prolonged, but Brazil is laying the foundations for more sustainable growth and a more resilient economy.



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