From the Editors

GROWTH, INFLATION, FISCAL ADJUSTMENT, monetary policy, and the country's investment rating are among the issues addressed in this issue. What analysts have expected for some time—that in 2015 inflation is likely to exceed the 6.5% ceiling of the central bank's inflation target range—was confirmed on March 27 by a central bank market survey: the market is forecasting inflation of 8.1% for 2015, and a fall in GDP of 1.0%. Last year, GDP growth was a feeble 0.1%, the worst result since 1999, according to government statistics agency IBGE.

Another piece of bad news is that the unemployment rate, although still low, is now heading upward: in February, it hit 5.9%, up from 5.3% in January—the highest level since June 2013. And consumer incomes were 0.5% lower than in February of last year. Yet another alarming fact is that consumers are still losing confidence: the FGV consumer confidence index declined by 2.9% month-on-month in March, to its lowest level since September 2005.

But there is at least some good news. Despite the deterioration of these economic indicators, the significant decline in President Rousseff's popularity, and the increasing difficulties of the politicians and businesspeople caught up in the Petrobras corruption investigation, ratings agency Standard & Poor's has decided to continue to see the outlook for Brazil's sovereign risk as stable. At BBB-, however, the S&P rating for Brazil is only one step up from speculative grade. If the rating were to drop by that one step, the downgrading of Brazil's sovereign risk to speculative grade would have serious consequences for the economy: interest rates would go up, companies would lose access to external financing, and foreign institutional investors could not invest in Brazilian financial assets. The S&P vote of confidence was an acknowledgment of the government economic team's efforts at long-needed fiscal adjustment, despite enormous difficulties in getting their measures through Congress as they were originally designed. The policy measures are essential for resuming growth, maintaining employment and income, and continuing social cash transfer programs like the Family Grant. If they are watered down, consequences for the country could be dire.



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