Editors' Note

AS THE SERIOUS CRISIS facing Brazil spreads —GDP is projected to fall by 3% in 2016, after closing 2015 down 3.7%, according to IBRE staff estimates—another element of concern and anguish has arisen in the already troubled daily life of millions of Brazilians. That is their health. Late last year, the health crisis in Rio de Janeiro state, in addition to the apparently invincible mosquito, *Aedes aegypti*, laid bare the darker side of the huge fiscal crisis distressing the Brazilian federation. With too little revenue even to pay their employees, Brazilian states are almost totally without resources to maintain basic public services.

For 2015 VAT tax (ICMS) collections, the main source of state revenue, were down nearly 4% through October in the wake of the sharp downturn in the Brazilian economy. Worse, over the years a number of structural problems, mainly caused by the 1988 Constitution, have aggravated the fiscal problems of the states. While laudable in its objectives, the new Constitution adopted a model that created numerous entitlements for all. The federal government now has the obligation to meet these expectations without having the necessary funding base in its budget to sustain, for example, its assigned constitutional responsibilities for health. Now, with the worrisome possibility that GDP could drop by nearly 7% in less than two years, as the media make clear daily the situation is ever more dramatic.

With ICMS income sinking fast, current revenues of the states have plummeted: 2015 was the first year since 2010 that revenues were lower than the states had budgeted for. Estimates are that last year current revenues were 5.9% lower than initially expected. In contrast, in 2010 current revenues exceeded budget estimates by 8%.

Although on a much smaller scale, the downturn in the economy has also affected the private health insurance market. Through September it had fallen by 0.3% compared to the same period in 2014. Amid forecasts of rising unemployment and deteriorating household incomes, insurance operators expect a gradual worsening for the sector as costs rise and the population gradually ages.



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