Editors' Note

GDP FELL BY 0.3% in the first quarter of the year, government statistics agency IBGE announced earlier this month. The fact that this was below market expectations of a reduction of 0.8% may signal the beginning of a tenuous economic recovery. However, there are still many uncertainties as the interim government struggles to establish its popular legitimacy and restore the confidence of investors and businesspeople in Brazil.

In addition to the immediate troubled political situation and the fact that the country as plunged into a major recession — GDP is expected to shrink about 8% in two years — there are serious distortions in the economy that have accumulated for years. One is the very low efficiency with which Brazil uses its resources. One of the most glaring examples of this glaring inefficiency is the infrastructure sector, more specifically, basic water and sanitation services. Poorly designed projects, lack of monitoring and supervision, and missed deadlines as well as misallocation of resources have put Brazil at a disadvantage in relation to other Latin American countries: Among the 16 countries in the region, Brazil ranks ninth in water services and twelfth in sewerage services in urban areas, according to the Trata Brazil Institute. At the current level of investment under current regulations it can only achieve universal basic sanitation by 2052, 19 years after the National Sanitation Plan deadline. On the eve of the Olympics in Rio de Janeiro city, the goal set at the Eco92 conference of reducing pollution of the Guanabara Bay by 80% will not be met.

Inadequate regulation is another obstacle to enhancing productivity and reducing waste. The digitalization and decentralization that are changing Brazil's energy and transport markets hold promise of providing more efficient services while lowering carbon emissions. This transformation would appear to open opportunities for investors, but the opportunities will not be attractive without better regulation and legal security.



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