

Global Economy

# Worsened economic prospects for Brazil

El País (Spain)

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The Brazilian economy saw a clear slowdown at the end of 2018 and growth in economic activity for the year was only 1.1% – the same rate recorded in 2017. Therefore, last year the country continued to recover too slowly from the strong recession that knocked almost seven percentage points off Brazil's GDP between 2015 and 2016.

Many had hoped that the start of the Jair Bolsonaro government on January 1 would bring about a turning point for Brazil's economy. The increase in confidence generated by the change in government and the adoption of major economic reforms would boost economic activity and allow the country to bounce back and leave the recession behind definitively.

However, just over 100 days after the start of Jair Bolsonaro's presidency, these expectations are already beginning to seem optimistic. In this short space of time, government approval has fallen significantly and confidence in the economy has deteriorated once again—erasing the improvement seen after the presidential elections. Furthermore, economic indicators suggest that at best, GDP growth in the first quarter of the year was equally as slow as in the last quarter of 2018.

Despite this short honeymoon, Jair Bolsonaro still holds the key to spur on Brazil's economy—social security reform—which for years has been the key economic reform that no Government has been able to implement. If the proposal submitted by the Government is approved by Congress, it would create conditions to make public debt sustainable and as a consequence, allow economic recovery to accelerate in the coming years, with growth close to 3%.

However, recent political noise has raised doubts about the Government's ability to ensure that a highly fragmented and polarized Congress supports its proposal. Thus the most likely outcome is that Congress approves a less ambitious version of the social security reform which would require additional fiscal adjustment and impede economic growth from exceeding more than 2% in the coming years. In addition, the current Government's process for adopting economic reforms would be slow and limited.

In this climate of gradual economic expansion, which is also supported by the prospect of moderate global growth, Brazil's GDP will not recover its 2014 level until 2022, the last year of Jair Bolsonaro's presidential term.

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