Brazil as a Rising Power 2003-17: Economic cycles and future economic scenarios[1]

Introduction

Brazil has experienced two main economic cycles since 2003. The upward cycle that started in 2003 led to great optimism about Brazilian economic development prospects and to a broadly shared view of Brazil as a rising power and as an emerging market with the potential to climb the ladder to become the fourth of fifth biggest national economy in the world in the foreseeable future. The upward economic cycle occurred in a global economic context that led to a commodity price boom that contributed greatly to Brazil's economic dynamism. It was, however, followed by the worst economic downturn in Brazil during the last hundred years provoking an economic crisis that is still ongoing.

This analysis seeks to explain the two economic cycles, the first from 2003 to 2013 and the second from 2014 to 2017, seeking the causal mechanisms behind the unstable dynamics. The analysis carries out a two-gap analysis of the domestic fiscal and external economic balances. It considers economic and political factors as well as the evolving context of the global economy. Finally, the author discusses the most likely scenarios for the Brazilian economy in the near future based on an assessment and characterization of Brazil's current economic situation as well as on other relevant factors.

Brazil's economic development 2003-2013: the upward cycle

The Lula government faced a complex and difficult economic situation from the outset in 2003. At that time the Brazilian economy was in a very vulnerable position vis-à-vis international financial markets that were worried about Brazil's ability and willingness to honor its foreign debt. A central goal for the government was therefore to stabilize the economy in an attempt to establish Brazil's creditworthiness and credibility. This was seen as necessary to reignite economic growth and development. In fact during the presidential campaign Lula had promised that if he became president he would honor Brazil's debt and pursue strict budget policies. At the same time, however, in his campaign Lula rejected the neoliberal market-oriented economic policies pursued during the Cardoso government (1995-2002) (Roett, 2010: p. 104).

Once in power, Lula's government maintained the orientation favorable of responsible macroeconomic policies by increasing the aim for the primary budget surplus, i.e. the surplus before accounting for interest payments on the public debt, in order to reduce the public debt/gross domestic product ratio. He increased the primary budget surplus target from 3.75 percent to 4.25 percent of GDP (Fishlow, 2011: p.71). This policy was part of his effort to stabilize the economy and reignite economic growth. His government furthermore pursued a strategy of export expansion as another element in its

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stabilization strategy. The aim of his government was to assure high trade surpluses in order to reduce Brazil's foreign economic indebtedness (Mercadante, 2013: pp. 156-163). In other words, the government's stabilization policy aimed at reducing the fiscal and the external gaps as a tool to create the conditions for economic growth.

The Lula government coupled this strategy with a social orientation and a new focus on state-business dialogue as structuring elements. The aim was to assure improved social conditions for the population, not the least for the poor sectors, and to promote investments and productive activity. The government sought to improve social conditions through social spending programs such as "*Bolsa Familia*", which gives a small cash transfer to poor families, and through the government's economic growth-oriented strategy that was to help create jobs. Furthermore, the government pursued a policy of gradual rises in the minimum wage. As Arbix and Martin argue (2010: pp. 4-5) the social dimension was at the heart of the government's development strategy (Arbix and Martin, 2010: pp. 4-5). The Brazilian finance minister Guido Mantega argued that Brazil under Lula pursued a social developmental model that sought to reduce Brazil's secular extremely unequal economic development (Arbix and Martin, 2010: pp. 7-8).

At the same time, the government saw state-business dialogue as a way to advance the Brazilian productive capacity with active state interventions in the economy rather than a neo-liberal strategy of state passivity. This meant a return to industrial policies from the outset of the Lula government (Boschi and Gaitán, 2008: pp. 3-4). Similarly, the government introduced a more activist international economic strategy aimed at increasing Brazilian exports, international competitiveness and foreign investments as well as to attract foreign direct investment to Brazil (Cervo, 2012: p. 50). Companies in the sectors of energy, mining and construction or engineering dominated Brazilian outward foreign investments, while the agricultural sector was also relevant in this tendency. In these sectors, Brazil had retained a strong domestic capacity and significant corporate players (Fishlow, 2011: p. 73) or "national champions" such as Petrobras, Vale and Odebrecht.

These policies turned out to help fostering new economic growth, high export surpluses, a major reduction in poverty figures and reduced economic inequality. Brazil thus entered an extremely positive economic cycle that helped to stabilize the economy and to raise living standards and reducing Brazil's foreign indebtedness and the indebtedness of the public sector. Between 2004 and 2008, Brazilian annual economic growth averaged 4.8 percent (Brazilian Central Bank, 2016: p. 16).

However, successful government policy does not explain, at least not on its own, the positive economic cycle. The global economic context was also quite relevant. Between 2003 and 2008, Brazilian export income gradually rose from US $ 60 billion to approximately US $ 198 billion. These high export figures were in large part a consequence of rising commodity prices between 2002 and 2008. Brazilian exports diversified geographically with growing shares going to the developing world rather than the traditional markets of the United States and Europe (Christensen, 2012: pp. 238-239). The diversification of exports was part of the government's strategy but at the same time also responded to global economic development trends with high economic growth in parts of the

developing world. For instance, the value of Brazilian exports to China increased by 780 percent between 2003 and 2009, when China became Brazil's largest export destination (Li and Christensen, 2012: p. 47).

Higher commodity prices and current account surpluses helped to stabilize the economy and assure economic growth. At the same time, this development led to the strengthening of the Brazilian currency, the Real. Annual economic growth of 4.8 percent may not sound like much, but when one takes into account also the effect of the strengthened Brazilian Real, the Brazilian GDP grew much more strongly in US dollar terms. From a GDP of 508.101 billion US $ in 2002 GDP experienced quick growth in dollar terms, and reached almost 1.7 trillion US $ in 2008 at current prices (Brazilian Central bank, 2016: p. 16), i.e. more than a trebling. Brazil was experiencing a successful economic development cycle with a number of positive impacts that reinforced each other: substantial economic growth, strong export growth, economic stabilization, a reduction in foreign indebtedness and thus reduced external economic vulnerability, rises in budget revenues, a major reduction in the public debt/GDP ratio, rising employment, falling poverty levels and lower economic inequality. This development led to a boom of Brazilian middle classes experiencing upward social mobility and higher living standards (Mercadante, 2013: pp. 168-193). Brazil seemed to be on the way to creating the social development model that Guido Mantega and the government were envisioning based on the pillars of mass consumption, a growing middle class and surpluses on the state budget and on the trade balance (Christensen, 2010: p. 87). Of course, a benign global economic context of relatively high levels of global economic growth as well as improved terms of trade for Brazil in its function as a commodity exporter was helpful in producing this positive economic cycle. The trade surplus rose from US $ 2.6 billion in 2001 to US $ 46.1 billion in 2006, while the current account moved from a deficit and gradually improved to a surplus of US $ 13.5 billion in 2006 (Roett, 2010: p. 114).

The positive social and economic developments helped Lula to win the presidential elections in 2006 giving him and the government coalition led by the Workers' Party (PT) another four years in power. Economic growth continued in a global economic context that remained very benign from a Brazilian perspective. Furthermore, the government introduced a growth-oriented investment policy, the program of accelerated growth (PAC) that helped further to assure higher economic dynamism. In this context, Brazil gained an investment grade rating from the rating agency Standard and Poor's. This assured lower financing costs for Brazil in international financial markets (Roett, 2010: p. 106).

Brazil's economy was thus experiencing a positive cycle in which a number of positive developments reinforced each other. Brazil's economic development success led to a growing recognition of Brazil's rising centrality in the international economy. A book on Brazilian development published by The Brookings Institution in 2009 and edited by Lael Brainard and Leonardo Martinez-Díaz was entitled *BRAZIL AS AN ECONOMIC SUPERPOWER? Understanding Brazil's Changing Role in the Global Economy*.

Brazil's newfound economic strength also contributed to a greater Brazilian role on the international political scene, a role that the Lula government had started to carve out for Brazil already

from the outset in 2003 when Brazil's economic capacity was much more limited. In the realm of international politics, the Lula government pursued a strategy aimed at increasing Brazilian political influence regionally and globally. The foreign policy strategy was very ambitious. Its main aims were to create a South American regional space under Brazilian leadership (Burges, 2008; Bernal-Meza and Christensen, 2012) in a quest for assuring regional autonomy from the United States as well as to gain greater influence globally through a strategy that emphasized South-South cooperation and coalitions (Vigevani and Cepaluni, 2007). The ultimate aim of this strategy was to gain a permanent seat at the UN Security Council. Furthermore, the strategy aimed at promoting the de-concentration of global political power, promoting a multipolar global order in which Brazil would play a greater role than in the past. The strategy also aimed at contributing to Brazilian economic development, e.g. through an increase and geographical diversification of Brazilian exports as well as through the internationalization of Brazilian businesses supported by the BNDES, a huge public development bank that is influenced by official government policy. Apart from this, Brazil became increasingly involved in South-South cooperation helping other countries to develop technical capacity in areas where Brazil had strong capacities, such as in health, poverty reduction, bioenergy as well as in other fields. In this way, Brazil under Lula sought to manage its global political rise in an effort to gain greater centrality on the international political scene. Clearly, Brazil's economic success provided an important basis for the pursuit of this greater centrality, and scholars started to increasingly emphasize Brazil's growing *soft power* (Casanova and Kassum, 2014).

The Brazilian development strategy seemed quite successful until the outbreak of the international financial crisis in 2008. Initially this crisis, which hit the developed world the hardest, presented Brazil with some difficult economic challenges in terms of assuring economic growth. It also introduced a period with a gradually growing current account deficit for Brazil. This eventually created a high level of external economic vulnerability, as I will discuss in the analysis of the downward economic cycle between 2014 and 2017.

Brazil had a small contraction in its GDP in 2009, where falling commodity prices and a crisis-ridden global economy led to a sudden steep fall in Brazilian exports. However, Brazil managed to turn this situation around already in 2010, where the country experienced GDP growth of 7.5 percent, followed by a 3.9 percent growth rate in 2011. This led to a historical record of Brazilian GDP in US dollar terms in 2011, where Brazil's GDP had risen to more than US $ 2.6 trillion (Brazilian Central Bank, 2016: p. 16) making Brazil the 6.th biggest economy in the world. This development also resulted in record GDP per capita in US dollar terms in 2011, where income per capita reached US $ 13.237 in current prices up from less than US $ 9000 in 2008 and in 2009.

In part, Brazil achieved this result due to improvements in the global economic context such as rising commodity prices and rising global trade. Another major factor behind Brazil's strong economic growth, however, stemmed from the government's own anti-cyclical and expansionist fiscal and social policies as well as strong rises in the lending of public sector banks such as the BNDES (Mercadante, 2013: pp. 180-184). From the outbreak of the international financial crisis in September 2008 to

January 2010 public sector bank credit surged by 50 percent (Arnold, 2011: p. 21). This highlights the important active role that the state was playing in the economy.

A downside to this development was the strengthening of the exchange rate and rising deficits on the current account of the balance of payments. Initially, this development did not really get in the way of Brazil's dynamic economic growth. The strengthening of the Brazilian currency was not only a consequence of Brazil's expansionist policies but also due to loose monetary policies in the United States. This led to a strengthening of the Brazilian Real vis-à-vis the US dollar and the Chinese Yuan hurting the competitiveness of the Brazilian manufacturing sector (IPEA, 2011: pp. 3-4; Mercadante, 2013: pp. 191-192). High interest rates in Brazil furthermore contributed to a high level of inflows of speculative capital that put further upward pressure on the exchange rate (Christensen, 2013). The strong exchange rate and the dynamic economic growth led to a major rise in Brazilian imports and to a growing current account deficit. After the record current account surplus in 2006, Brazil experienced a deficit of US $ 28 billion in 2008 (Baumann, 2010: p. 50) and a deficit of US $ 47.3 billion in 2010 (Brazilian Central Bank, 2012: pp. 86-87). These developments provoked a strong tendency towards de-industrialization and re-primarization of Brazilian exports. Carol Wise (2016) points out that this development was not solely a consequence of a *Dutch Disease* type development, where high levels of commodity exports strengthens the national currency hurting the competitiveness of the industrial sector. It was also in part a consequence of financial dynamics such as the high level of speculative inflows to Brazil, she argues. This development raised concerns in the industrial sector as well as in the government (Vadell, 2013: pp. 52-53. In the context following the outbreak of the international financial crisis, the Brazilian government pursued a number of other activist economic policies than the expansionist fiscal and financial policies discussed earlier. The Lula government for instance introduced a policy that made Petrobras participation mandatory in all oil exploration in the new deep-sea oil finds (Abreu, 2016a – Marasmo Medíocre) and it introduced a "buy national" public procurement policy aimed at favoring national producers (Fleischer, July 30, 2010). The new government of Dilma Rousseff introduced a new industrial development policy, Greater Brazil, after having reached an understanding with the industrial sector through government-business dialogue initiatives (Ogier, 2013). The initial success of these active state policies strengthened the view favoring a kind of state-oriented economic development model in which there was significant collaboration between government and business rather than a more market-oriented strategy of economic openness and *laissez-faire*. This strategy also had detractors, though, who favored a more liberal economic strategy. Following this line of thought, Marcelo de Paiva Abreu, furthermore has criticized the PT-led governments for pursuing overly expansionist policies since the beginning of the second mandate of ex-President Lula (Abreu, 2016).

From the end of 2011 Brazil's terms of trade started to fall after having boomed between 2009 and the end of 2011 (Brazilian Central Bank, 2014: p. 83). This contributed to provoke a record high current account deficit of US $ 81.4 percent in 2013 (Brazilian Central Bank, 2014: p. 81). Economic growth, however, continued. The Brazilian Central Bank's significant reduction in the monetary policy

determined credit rate, the Selic, in 2012 and 2013 (ECLAC, 2015/6?: p. 183) contributed to the economic growth as well as to the weakening of the exchange rate. In 2012, economic growth was at a 1.9 percent, but in 2013, it rose again to 3.0 percent (BCB, 2016: p. 16).

Brazil's economic development 2014-2017: the downward cycle

The tendency towards worsening terms of trade continued in 2014 as agricultural and metal prices continued their negative development (Brazilian Central Bank, 2016: p. 85). This led to economic stagnation with economic growth of just 0.1 percent in 2014 and a fall in GDP per capita of 0.8 percent (Brazilian Central Bank, 2016: p. 16). Another consequence was that the current account deficit widened further reaching a massive US $ 104.2 billion, which corresponded to a worryingly high level of 4.31 percent of GDP (Brazilian Central Bank, 2016: p. 82), but now in a context of economic stagnation. Economic stagnation put pressure on the fiscal accounts that experienced their first primary deficit for a decade. These worrying developments of stagnant economic growth and a worsening of the fiscal situation as well as of the current account put Brazil in an increasingly difficult position of external economic vulnerability and difficulties in reigniting economic growth. This situation was not unlike Brazil's economic situation in 2003. Nevertheless, there was one big difference, namely that the terms of trade of Brazil started to improve in 2003, while they suffered a blow in 2015. Oil prices fell by 49.3 percent, iron fell by 48.7 percent and agricultural products also saw significant price falls (Brazilian Central Bank, 2016: p. 85). Various negative consequences were provoked by this. Brazil's Real was devalued by 47 percent over the year, and although the government sought to cut fiscal spending and boost tax incomes by different measures, the result of the downturn led to a primary deficit of 1.88 percent in 2015, up from 0.58 percent in 2014 (Brazilian Central Bank, 2016: pp. 11-13). The primary deficit in 2014 was the first for years and it provoked major nominal fiscal deficits and thus a rising GDP/debt ratio. Brazil thus saw itself in a situation with a vicious economic circle characterized by domestic and external deficits, rising public sector debt, falling GDP, rising unemployment and inflation, falling levels of household demand etc. Brazilian export income fell from its historical record of US $ 256.0 billion in 2011 to US $ 191.3 billion in 2015 (Brazilian Central Bank, 2016: p. 85), and GDP fell from US $ 2.6 trillion in 2011 to a little less than US $ 1.8 trillion in 2015. Income per capita by 2015 was just US $ 8.651 down from US $ 13.237 in 2011.

Adjusting to this new economic context has proved extremely challenging. Clearly, this development has weakened Brazilian economic power significantly. This in turn also contributes to a change in the perception of Brazil as a rising power. The economic crisis has led to a strong focus on finding ways to stabilize the economy and less of a focus on strengthening Brazil's global influence as Oliver Stuenkel has argued (Stuenkel, 2016). At the same time, Brazil has been through a tumultuous political period since a major corruption scandal erupted during the presidential election campaign in 2014. Since then Brazil has found itself in a period characterized by major corruption scandals, particularly the so-called *Lava jato* or *Car wash* scandal in which a very high number of high-ranking politicians stand accused

of accepting bribes from some of the big "national champions" that have been favored by government policies and financing from the BNDES. Ex-president Dilma Rousseff has furthermore suffered impeachment based on charges of falsifying economic and financial indicators (Abreu, 2016b: Não esquecer o que de fato importa). The combination of widespread corruption amongst high-ranking politicians and major companies along with a quickly deteriorating economic situation has strongly tainted Brazil's image as a rising power with strong *soft power*. Brazil thus finds itself in a radically different situation in the current period characterized by a strongly deteriorating economy.

Since 2014, the country has found itself in a very negative economic cycle. The government set out its goal for the primary fiscal deficit for 2015 at 95 billion Reais. However, faced with the downturn the government reduced this goal to a surplus of 55.2 billion Reais in April 2015. In order to reach this goal, the government carried out a number of cuts in its fiscal spending, reduced credit lines and cut subsidies amongst other things. It also introduced a number of measures aimed at increasing fiscal incomes. Nevertheless, the deterioration in the economy weakened the fiscal position along the year and in December, the government promoted a law that would allow it to run a fiscal deficit of 51.8 billion Reais, and, if needed raise the roof to 119.9 billion Reais (BCB, 2016: pp. 59-60). As earlier mentioned the primary fiscal deficit ended at 111.2 billion Reais, which corresponded to 1.88 percent of GDP (ibid: p. 61). The economy had entered a deep depression with negative GDP growth of 3.8 percent and per capita income in current prices at US $ 8.651 compared to US $ 11.914 in 2014 (ibid: p. 15).

This result reflected negative trends in most economic sectors, though the agricultural sector and extractive mining experienced growth. The deterioration of the industrial sector, particularly in the area of manufacturing, was the most pronounced (BCB, 2016: p. 17). From the perspective of demand, consumer expectations fell steeply and the volume of sales deteriorated significantly in the commercial area (ibid: pp. 26-27). Unemployment rose from just above 6 percent in December 2014 to almost 9 percent a year later and more than 1.6 million formal jobs disappeared over the year. Industry lost most jobs, followed by civil construction (ibid: p. 33). Consumer prices rose by 10.7 percent in 2015 up from 6.41 percent in 2014. These tendencies continued into 2016, where Brazilian GDP fell by another 3.6 percent (ECLAC, 2016). Unemployment rose to 11.8 percent in the third quarter of the year and real wages fell by 2.45 percent in the year to October 2016. The total public sector deficit was reduced a bit to 7.3 percent of nominal GDP in the year to October 2016 compared to 9.1 percent in the same period a year earlier (ibid) and a whopping 10.38 percent for the year of 2015 (BCB, 2016: p. 63). These outcomes led to a significant rise in the total net public debt. In October 2016 the total net public debt stood at 44.2 percent of GDP compared to 36.2 percent at the end of 2015 (ECLAC, 2016). Similarly, the primary fiscal deficit rose during the first three quarters compared to the year before in spite of deep cuts in federal discretionary spending. This was largely a result of growing spending towards social security benefits and pensions. These grew by 6.5 percent in real terms (ibid). However, continued reductions in tax revenues provoked by the depressed economy were also of great importance (ibid).

In August 2016, Michel Temer, Dilma Rousseff's vice president from the coalition party PMDB took over the presidency as Dilma Rousseff suffered impeachment. After this change in the leadership, the former presidential party PT is now in opposition to the Temer government. The focus of the Temer government in a sense remains the same as that of the Dilma Rousseff government, namely to arrest the economic downturn. Nevertheless, the Temer government seeks to distance itself from the PT and it has introduced some significant policy changes. It has also highlighted differences between itself and the former leadership. These differences are especially clear in the foreign policy realm as well as in the approach to a number of economic reform issues. The Temer government presents itself as a more liberally oriented government with stronger credentials in terms of pursuing deep economic reforms, which the PT and unions associated with the PT resist.

The Temer Government has moved on two main fronts, firstly towards pursuing more liberal economic policies, e.g. through free trade agreements and by altering the tendency towards active industrial policies towards a more liberal approach, and, secondly towards the deepening of fiscal adjustment policies. Temer sees the fiscal question as essential. In order to get the economy moving again he and his government find that a more credible commitment to fiscal stringency than what his predecessor pursued is called for. A number of reforms are on the program, not the least a policy that would provide a 20-year cap on government spending by law. The senate supported this initiative in December of 2016, and his government now seeks to reform the social security system and the pension system in order to get the fiscal deficit and the growing debt/GDP ratio under control (The Economist, February 4.th, 2017). Other reform policies proposed by the Temer government include the flexibilization of the labor code that would make it easier to hire workers part time. Similarly, in December of 2016 Temer signed a law that gives foreign companies greater access to deep-sea oilfields, thus altering the policy introduced by the Lula government in 2010. Similarly, the government invited foreign companies to bid on the right to manage a number of airports (The Economist, December 3.rd, 2017). Currently the government and the new Foreign minister, Aloysio Nunes, seek to promote free trade with Mercosur as well as between Mercosur and the EU and Mercosur and the grouping of the Pacific Alliance (Barreto, Iglesias and Jungblut, 2017).

It is clear that the Temer government pursues an economic strategy as well as a political discourse aligned with economic liberal lines, which the liberal international press as well as powerful market international market actors support. The president seeks to signal a strong commitment to liberal reforms and to promote an image of a president that is willing to go far to push through credible fiscal policies that will get the fiscal deficit and the growing public sector debt under control. The Economist supports the initiatives mentioned above and argues that the Temer government is "*undoing the mistakes*" of his left-wing predecessors Lula and Dilma Rousseff (The Economist, February 4.th, 2017).

On a similar note, Marcelo de Paiva Abreu, a prominent economic scholar from the Catholic University of Rio, argues that the roots of Brazil's current economic malaise has mainly been caused by the policies pursued by the Lula government in his second presidential period as well as by the Dilma government. He criticizes the second Lula administration as well as the Dilma administrations

for pursuing irresponsible, expansionary fiscal policies. Similarly, he criticizes during the Lula the generalization of subsidies, protectionism, the role of the state in the economy, the compulsory participation given to Petrobras in the deep-sea oilfields, and, finally, the way the government used public banks to increase financing for national business champions with financing from the Treasury. Summing his argument up, Abreu argues that the economic crisis has endogenous roots (Abreu, 2016 Marasmo mediocre). In other articles, he has similarly criticized the foreign policies pursued by the Lula government and the Dilma government, especially their support to Venezuela and other left-leaning governments in Latin America, but also a certain anti-American posture (Abreu Itamaraty em busca da virtude perdida). Economic and foreign policy mistakes are thus the main culprits behind the crisis in his view. In this way, he distances himself from arguments that suggest that the current crisis has mainly been provoked by adverse changes in Brazil's terms of trade.

It is hard to prove what the main causal factors behind the economic crisis are, but Abreu's arguments clearly represent one view of the causal mechanisms behind the current economic debacle. The policy position that he defends puts great emphasis on the desirability of liberal economic policies and the need for decisive and deep fiscal austerity measures as the right tool for stabilizing the economy and getting out of the crisis. This position is at odds with other forms of thinking such as those represented by the former governments of Lula and Dilma Rousseff, although they also sought to pursue what they found to be fiscally prudent economic policies. However, their governments put greater trust in an active role to the state in the economy as well as in counter-cyclical macro-economic policies in periods of economic crisis. At a political level, the PT governments and the current position of the PT are less inclined to make as deep fiscal cuts as the Temer government in certain social programs and in the social security area as such. In late April 2017, unions associated with the PT called a general strike in order to counter the reform plans of the Temer government. The protests against the proposed social security and labor reforms were particularly large in São Paulo and in Rio de Janeiro (Fleischer, May 5th, 2017: p. 8). Although the reforms are unpopular, it seems likely that the congress will pass a social security reform that will cut spending substantially in the coming years (The Economist April 22.nd 2017: p. 41; Fleischer, May 5h, 2017: p. 11), since many see this as necessary to get public finances under control and get the economy going again. Reigniting economic growth may depend on the success of the government's attempt at reigning in the fiscal deficit and the growing public debt.

Currently, Brazil's macroeconomic fundamentals are improving on the external side as Brazil has achieved a trade surplus of US $ 21.38 billion in the January-April period of 2017 due to significantly higher export prices, and the Ministry of Development, Industry and Commerce predict a trade surplus of US $ 55 billion for 2017 as a whole. In March, Brazil furthermore achieved a current account surplus of US $ 1.4 billion. On the other hand, the fiscal deficit for 2016 as a whole was a whopping 154 billion Reais, though it is expected to fall slightly in 2017 (Fleischer, May 5th, 2017: pp. 9 and 14-15). At the same time, forecasts show a small GDP growth for 2017 as a whole (The Economist, May 6.th, 2017).

The most likely short-term future scenario: concluding remarks

In this way, the most likely short-term scenario seems to be that Brazil will achieve an initial stabilization of the economy, though at a much lower level than in 2013 and with a much higher unemployment rate. It is important to note that improvements in the country's terms in trade seem to be a significant causal factor behind this likely outcome and that higher export prices are furthermore a significant cause behind a rising import capacity that could help Brazilian industries in need of importing capital goods. A recent poll of the national industrial employers' association CNI show improvements in confidence in the industrial sector. At the same time, though, unemployment rose to 13.7 percent for the January-March 2017 period, while supermarket sales fell by 1.5 percent for the year of 2016 (Fleischer, May 5.th, 2017: pp. 15-16). This shows that private demand is feeble and that many factors weaken the financial health of private households.

Nevertheless, it seems likely that the economy will gradually improve. Much depends on the terms of trade of Brazil and of the ability of the country to assure the credibility of the economy in financial markets to allow for lower real interest rates, growing investments and private consumption, while stabilizing the external account and the fiscal account.

In the mid-term, it is harder to predict the economic scenario, as many factors and economic variables are unknown. However, given the depth of the economic downturn since 2014, Brazil is more likely to improve economic development results and macroeconomic balances gradually, but much depends on developments in the global economy and on Brazil's ability to stabilize the economy and assure renewed economic growth and an improved fiscal capacity of the public sector.