ROUSSEFF’S ECONOMIC POLICY is showing clear signs of fatigue. It has failed either to support vigorous growth or control inflation. Similarly, industrial policy in all its aspects has failed to stimulate industry: Manufacturing production is expected to fall again this year and will be only partially offset by other sectors. Taking into account the latest industrial production data and the poor performance of construction, we estimate that GDP growth in the second quarter was only 0.1% to 0.3% quarter-on-quarter.

The outcomes of the administration’s monetary policy have hardly been remarkable, either. Despite weak growth, inflation is bumping up against the ceiling of the central bank annual inflation target (2.5–6.5%), and continuing price controls on fuels and other utility prices are building pent-up inflation dangerously. Since May 2012, median expected household inflation has risen from 6.3% to 7.4%, according to IBRE consumer inflation expectations.

The administration is also having difficulties meeting its fiscal primary surplus target of 1.9% of GDP, even taking into account extraordinary revenues. Weak growth and generous tax exemptions have depressed tax revenues, and current transfers and expenditures have yet to be checked. Most importantly, numerous accounting gimmicks and off-budget expenditures, such as large transfers to the National Development Bank to subsidize loans, have deeply undermined the credibility of Brazil’s fiscal accounts.

Because of the current stagflation, the confidence of both consumers and businesses has plummeted this year to levels not seen since 2009, when the country was just beginning to emerge from the international crisis. This has lowered both household consumption and private investment.

As the current administration tries to muddle its way through the October presidential elections, the perception is consolidating that the next administration will have to change the approach to economic policy very quickly. What remains to be seen is whether that administration will have the political support to carry out the difficult adjustment of the Brazilian economy immediately or will have to opt for a more gradual approach. Either way, its most difficult task will be to make economic policy credible enough to attract the private investment the economy needs if it is to revive. We can only hope that the president elected, whoever it is, has learned from the experience of last four years.

**Consumer and business confidence drops to levels last seen in 2009.**

(Quarterly seasonally adjusted data)

![Graph of Consumer and Business Confidence](image-url)