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Davos 2015: Brazil warns of austerity

Gideon Rachman in Davos and Joe Leahy in São Paulo [Author alerts](#) ▼



Brazil is in for a period of austerity and supply side reform, including the potentially controversial overhaul of social welfare programmes, such as unemployment benefits, according to Joaquim Levy, the new finance minister.

Speaking to the Financial Times in an interview at the World Economic Forum in Davos, Mr Levy said that, in order to get government finances into order, “we will have to cut in several areas”. He stated his intention to “get rid of subsidies and get prices right”, highlighting “energy and other areas” as potential targets. In addition, Mr Levy wants to see reform of government welfare programmes, arguing that the design of Brazil’s unemployment benefit schemes is “completely out of date”.

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Mr Levy acknowledged that a period of austerity could have an impact on economic growth, saying: “I think flat growth cannot be discarded as a possibility although GDP growth in Brazil is resilient.” He argues that Brazil is now more in need of supply side reforms than a stimulus to demand and expressed confidence that “as we get our house in order, the reaction will be positive”.

The elimination of subsidies and cuts to welfare benefits is a politically sensitive task in Brazil, where mass demonstrations were provoked by an unexpected rise in bus fares in 2013. One of the first acts of President Dilma Rousseff on winning a second term last October was to cut some unemployment and pension benefits while state and municipal governments raised bus fare prices. In an effort to control inflation, the central bank also increased the benchmark Selic rate by 50 basis points to 12.25 per cent, a three-year high. There have already been violent protests in reaction to bus fare increases in São Paulo this month.

But Ms Rousseff has so far not touched the government’s popular “Bolsa Família” monthly stipend programme for the poor and has pledged to continue with minimum wage rises. Mr Levy, who also made clear Bolsa Família would not be cut, argues that “the demonstrations of 2013 were for better government, not for bigger government”. He says that he is confident that “in Brazil most people are ready to pay for services”.

The Brazilian finance minister’s message is likely to be warmly received by many businessmen and financiers in Davos. Brazil’s image has suffered in recent years among investors, concerned by slow growth and government policies that were widely seen as excessively interventionist and spendthrift. Mr Levy indirectly acknowledged the need to keep international financial markets on side, saying: “We always have to be mindful of our credit rating.”

The Brazilian finance minister also believes that his reforms are in line with international trends, in particular the reining in of policies designed to stimulate the economy in the US and China. He says that “the world is changing and it is time for Brazil to change”, adding that: “anti-cyclical policies have their limits, especially when you see the two largest economies in the world also changing their stance.”

While Mr Levy’s talk of fiscal discipline and supply side reforms will be received warmly in Davos, there is also concern about whether Brazil’s finance minister will receive unequivocal backing from Ms Rousseff who is known as an interventionist leader with strong leftwing instincts. But Mr Levy says that such concerns are unwarranted. He says that Ms Rousseff is a “very decisive person and she understands the choices”. He adds that “I am not alone in government” and argues that fellow reformers have also taken on other key portfolios in the new Rousseff administration, including energy and agriculture.

Nonetheless, the appointment of Mr Levy is controversial among the president’s core support in the ruling Workers’ party. In last year’s presidential election, Ms Rousseff did little to prepare her supporters for a period of austerity and free-market reforms. Her finance minister has a doctorate in economics from the University of Chicago, the intellectual home of Milton Friedman and a bastion of free-market economics. Asked about his academic training, Mr Levy smiles and says: “The training I got in Chicago was very good.”

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