Austerity will bite, too, as Brazil's new finance minister, Joaquim Levy, tries to balance the books. Higher taxes on fuel are being phased in, a blow for a car-loving country. If Mr Levy reforms the generous state pension, the incomes of older Brazilians will stall.

Debt payments add to the woes. Total credit to the private sector has jumped from 25% of GDP to 55% in the past ten years. With total household debt at around 46% of disposable income, Brazilian households are much less indebted than those in Italy or Japan. Yet the price of this borrowing is sky-high. Four-fifths of it is punishingly costly consumer credit (the average rate on new lending is 27%, according to the Central Bank). Once hefty principal payments are added in, debt service takes up 21% of disposable income. With the economy slowing and the Central Bank reluctant to cut interest rates because of high inflation, consumers will feel the pinch, says Arthur Carvalho of Morgan Stanley. On February 25th a survey put consumer confidence at a ten-year low.

There are few compensating sources of demand. Investment, which rose in eight of the ten years to 2013, often substantially, will sink in 2015. Petrobras, the partially state-owned oil giant that is Brazil's largest investor, is mired in a corruption scandal that has paralysed spending: the affair may cost up to 1% of GDP in forgone investment. On February 24th Moody's, a credit-rating agency, cut its debt to junk status; if Petrobras fails to publish audited results soon it may be unable to borrow at all.

Exporting is no answer, despite the falling real. Five countries—China, America, Argentina, the Netherlands and Germany—buy 45% of Brazil's exports. Ten years ago these economies' average GDP growth, weighted by their heft in Brazilian trade, was 12%; this year 5% would be good.

Yet the biggest worry is not that Brazil has a bad year, but that its broken policy levers mean that it gets stuck in a rut. Brazil spent 311.4 billion reais (6% of GDP) on interest payments in 2014, a 25% increase on 2013. This means that even if Mr Levy's fiscal drive works—he is aiming for a primary surplus of 1.2% of GDP—Brazil will be nowhere near the black. The state's outgoings have proved hard to control, with benefits payments rising despite falling unemployment. In a recession it will be harder still.

Brazil's parlous finances leave no room for debt-financed stimulus. At 66% of GDP its gross public debt is the highest of the BRIC countries. Its bonds yield 13%—more than Russia's. Rates could rise further. Fitch, a credit-rating agency, puts Brazil one notch above junk, but it has more debt, bigger deficits and higher interest rates than most countries in that category. If growth evaporates, a downgrade would be a certainty, raising debt costs even more.

Such predicaments are not uncommon, but Brazil's monetary problems are. The governor of the Central Bank, Alexandre Tombini, must choose between two nasty paths. The first is a hard-money approach: keeping interest rates high despite the weak economy. This would prop up the real and boost the bank's inflation-bashing credentials. But it is not just households that are hurt by high rates; firms are, too. In aggregate the big Brazilian firms Fitch rates have had negative cashflow since 2010. They have plugged the gap by running down savings and issuing debt. Borrowing is up by 23% in five years. With the risk of default rising, a fifth of these firms face a downgrade, in many cases imminent.

In reality, a tough monetary stance would have to be softened by an extension of Brazil's lavish financial subsidies. State-owned banks like BNDES, a development bank, and Caixa Econômica Federal, a retail one, made 35% of loans in 2009. Today their share is 55%. Since many Brazilian firms cannot pay private market rates (the average rate for new corporate loans is 16%) BNDES lends at a concessionary rate, currently 5.5%. That makes banking in Brazil a fiscal operation, says Mansueto Almeida, an expert on the public finances. The funding comes from the state, which borrows at a much higher rate than firms pay. The difference, a loss, is borne by taxpayers.

The alternative path for Mr Tombini to go down is to cut rates despite rising inflation—a daring move given Brazil's history. The cause of price increases, after all, is not an overheating economy, but the real's fall, rising taxes and the drought. The textbook response would be to "see through"—ie, ignore—this inflation.

But soft money would hurt, too. It would cause the real to fall further, and thus accelerate increases in the prices of imported goods. Foreign debts, which Brazilian firms and local governments have accumulated due to the lower interest rates on offer, would become harder to bear. Data collected by the Bank for International Settlements show dollar debts rising from $100 billion to $250 billion over the past five years. But the burden in local-currency terms has jumped much more, from around 210 billion reais to 655 billion reais (see chart 2). The state lends a hand here too, with the central bank offering swap contracts to insure firms against a falling real. The scheme cost the bank 38 billion reais in the second half of last year alone.

Faced with these poisonous options, a middle path is most likely. Interest rates will be too high for households and firms, so subsidised funding will grow. But they will be too low to protect the real, so swap costs will rise, too. Both subsidies put extra pressure on the government's finances. By mixing monetary and fiscal policy in this way, Brazil is slowly rendering both ineffective. In an economy heading for recession, that is not a good place to be.