



BRASIL

Brazil

October 2017

Economic Outlook

- **The Brazilian economy recovers despite the political situation.** Although the political problems that have been hinted in previous reports continue, the beginning of the recovery is taken for granted. In quarter-on-quarter growth, GDP has already registered two quarters of growth. As for domestic demand, it gains strength thanks, on the one hand, to the improvement in the labor market with a slow decline in the unemployment rate, which in August stood at 12.6%, and on the other, to inflation in a minimum of 2.5%. For its part, the global context is favoring the behavior of the current account balance via exports.
- **Persistence of the problems to achieve fiscal goals.** Although several measures to control deficit have been made since the arrival of the new government, interpreted postibly from the outside, the truth is that today the problem continues. Although Temer has been able to approve some of the announced reforms, his star pension plan remains in abeyance and is already admitted that it may not be approved until next year. Thus, it was not surprising that last August the finance minister announced a change in its fiscal targets until 2020 that become more lax than originally planned.

Forecast Scenario

- **Improved perspectives.** Once the begining of the recovery has been taken for granted, the economy's forecasts also show an improvement. For the current year, growth is expected to be around 0.6% and for the next year over 2%. The prospect of inflation under control - currently far below target - would lead to a period of stability in the SELIC rate that could close 2017 and 2018 at 7% in line with the Central Bank's objective of maintaining low levels both indicators. The main risk of the economy will be deficit control, a complex task in a context where President Temer is constantly linked with cases of corruption while he tries to carry out unpopular measures.
- **Lula's possible return to presidency.** Although the improvement in the economic situation could change the perspective of success of the various candidates for next year's presidential elections, polls place the former president for several months in the lead. According to a survey by the Datafolha Institute at the end of September, he would obtain support in the first round of 35% with a lot of chances of success in the second, where he could be measured with federal judge Sergio Moro who sentenced Lula to nine and a half years in prison for corruption in relation to the Petrobras case. This justice problems could frustrate his candidacy, since this would not be possible in case of being condemned in second instance.

Also in the news...

- State oil company Petrobras is still in thenews for its divestment process to deal with the debt. Among other operations, it has recently announced the sale of two fertilizer plants, 90% of its stake in the "Associated Gas Company" and seven exploration areas.
- According to a recent report from the consulting firm "Economática", the indebtedness of Brazilian companies declined in the second quarter for the first time in the last six years.

- In order to address the budget deficit, last July the Government announced a voluntary retirement plan for public employees, as well as the possibility of cutting working hours.
- Last September, the US oil company Exxon, after several years of absence in the country, won the rights to develop ten blocks of oil in Brazil, several of them in partnership with Petrobras.

Find these and other news in our [press release archive](http://www.cesla.com) at www.cesla.com



Main Economic Indicators

REAL ECONOMY	Latest Data		Previous	Annual Trend ⁽¹⁾
GDP (% Growth of trimester)	II.17	0.27	-0.35	Positive
Trade Sales (PMC)	Aug.17	3.56	3.10	Positive
Industrial Production Index	Aug.17	3.98	2.90	Positive
Consumer Prices (IPCA)	Sep.17	2.54	2.46	Positive
Trade Balance (Thou. Mill \$)	Sep.17	5.18	5.60	Positive
Reserves (Thou. Mill \$)	Sep.17	381.2	381.8	Positive
Unemployment Rate	Aug.17	12.6	12.8	Negative

Annual change rates for GDP, PMC, Industrial production and IPCA.

(1) According to changes observed over the past 12 months.

Financial Data	Latest Data	Growth in		
		3 months	1 year	
Stock Exchange (Bovespa)	20-10-17	76,391	17.64%	19.66%
Exchange Rate Real/\$	18-10-17	3.16	-0.32%	-0.94%
Interest Rate SELIC	18-10-17	8.15	10.15	14.15
EMBI	17-10-17	234	270	319

(*) Basic points (NOT rate) for approx. 3 months and 1 year ago respectively.

Economic Forecast

	2016	2017	2018
Gross Domestic Product (% Growth)	-3.6	0.6	2.4
Inflation (% IPCA)(End period)	6.3	3.7	4.4
Trade Balance (Thou.Mill, \$USA)	45.0	53.1	42.9
Current Account Balance (Thou.Mill,\$USA)	-23.5	-24.1	-34.4
Public Sector Balance (% of GDP)	-9.0	-8.1	-7.0
Reserves (Thou.Mill, \$)(*)	356.8	372.3	353.1
SELIC Rate (End period)	13.75	7.00	7.00
Industrial Production (% Growth)	-6.6	1.5	2.9
Exchange Rate Real/\$ (end period)	3.4	3.3	3.4

(*) Except gold

Risk Evaluation: **MEDIUM-HIGH**

Change Instability: **LOW**

Although political turbulence persists and continues to cause depreciation of the Brazilian real, the currency has moved throughout the year in a stability scenario ranging from 3.0 to 3.4 reales per dollar.

Sovereign Risk: **HIGH**

In the last days, Moody's said that it begins to see signs of improvement in the Brazilian economy that would enable the upward revision of its note; however, this decision will be taken after the agency's visit to the country in the first quarter of 2018. S & P plans to reduce the note to the country - which it currently places in BB with a negative outlook - in case the reform of the pension system does not go ahead.

Public Sector Finance: **MEDIUM - HIGH**

Although concerns about meeting fiscal targets continue to mark the agenda of the Temer government with the proposal for new reforms such as voluntary retirement of public employees, the improvement that the economy is beginning to see will help reduce the deficit by an increase in tax collection.

Socio – political Situation: **HIGH**

Although it could be expected that the favorable change in the economic situation played in favor of the president, the truth is that, according to the latest data from late September Temer's popularity continues to fall. 92% of Brazilians do not trust him and only 3% consider his administration "good" or "very good".

Brazil: general information

Official Name: Federal Republic of Brazil

Area: 8,514,876.6 Km²

Population: 206.1 million (2016)

Government: Presidential Democracy

President: Michel Temer. Brazilian Democratic Movement Party

Next Elections: President and Senate in 2018

Finance Minister: Henrique Meirelles

Central Bank President: Ilan Goldfajn

Currency: Real

Exchange Rate System: Flexible

GDP: 1,799Mill. US\$ (2016)

GDP/h: 15,211US\$ (2016)

Life Expectancy: 74.7 (2015)

Years of Schooling: 7.8 (2015)

Copyright 1999-2016 CESLA. This report was completed and published by the **Centre for Latin American Studies CESLA**, sponsored by the following institutions: **EBN BANCO, GAS NATURAL FENOSA, IBERDROLA, OHL Concesiones, RED ELÉCTRICA DE ESPAÑA, REPSOL YPF, SANTANDER UNIVERSIDADES, TELEFÓNICA & Instituto L. R. Klein**

Report Issued: 20th October 2017

The information presented in this report does not necessarily represent the opinions of the institutions that sponsor CESLA, but rather conveys the valuations of technical staff.

www.cesla.com