



BRASIL

# Latin American Trends

Brazil

December 2017

## Economic Outlook

- **The vote on the pension reform is postponed until February 19.** Although its approval was expected in this month of December, and despite the modification of the initial project, the lack of support in the Congress has forced to transfer the vote to next year. This news is a blow to the confidence in the Brazilian economy, since it puts at risk the control of its budget deficit. Given the situation, Finance Minister Henrique Meirelles will meet with the main risk rating agencies to try to avoid a reduction in the note. This change of agenda means bringing the moment of voting closer to the presidential elections, a fact that increases the doubts about the success of the Government's star plan.
- **The interest rate is at historical minimum.** The Central Bank has lowered the SELIC to 7% without ruling out new rebates in 2018 as a measure to encourage investment and thus support the economic recovery. On the other hand, Brazil's external deficit will end the year with the best data of the last decade thanks to the favorable behavior of the trade balance. With regard to the labor market, the unemployment rate has decreased month after month since April, although the current values are still higher than last year, a fact that could begin to reverse in the following months, taking positive year-on-year changes. Inflation, although still controlled and even below the target, has experienced a slight rebound since September.

## Forecast Scenario

- **The economic recovery continues.** Brazil will close 2017 with growth around 0.7%, and by 2018 the country is expected to grow above 2%. A favorable unemployment rate and the ease of access to credit will make private consumption continue to be the engine of growth along with the external sector. Inflation, although it will suffer a rebound that will make it close to 4% in 2018, is also under control, which will continue to allow room for a further change in the interest rate. The main risk is found in the aforementioned pension reform, since in a scenario of non-approval of the measure, the task of containing the deficit would become more complex and would lead to a revision of growth forecasts downwards.
- **Lula's support grows in the polls for the presidential elections.** The former president has reached a popularity of 45% and leads the intention to vote, ahead of Bolsonaro of the Social Christian Party who is in second place. Among its campaign proposals is to raise taxes on higher incomes or increase the minimum wage. However, his candidacy is conditional on not being convicted in the second instance for the crime of corruption for which he was already sentenced to nine and a half years in prison. In this sense, much of the public opinion opts the candidacy will be frustrated, while Lula's supporters see the whole process since the dismissal of Rousseff as a "political persecution."

## Also in the news...

- As a consequence of various irregularities in contracts with Pemex, the construction company Odebrecht has been disqualified from receiving contracts in Mexico for four years.
- The Chinese railway company CRCC plans to build the East-West Integration railway (FIOL) that would have 1,500 km and facilitate the transfer of soy (a product that China buys from Brazil), as well as being an alternative to the Panama Canal.
- Exxon and Petrobras agreed on an alliance in December to develop projects related to oil and gas.
- In the month of December, Brazil hosts the 51 Mercosur Summit. One of the main objectives to be discussed will be to advance the details of the trade agreement with the European Union.
- The Norwegian Statoil acquires for 2,900 million dollars 25% of the rights on one of the most important oil fields in Brazil with a daily production of 240,000 barrels.

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## Main Economic Indicators

REAL ECONOMY	Latest Data	Previous	Annual Trend <sup>(1)</sup>	
GDP ( % Growth of trimester)	II.17	0.27	-0.35	Positive
Trade Sales (PMC)	Oct.17	2.48	6.19	Negative
Industrial Production Index	Oct.17	5.21	2.42	Positive
Consumer Prices (IPCA)	Nov.17	2.80	2.70	Positive
Trade Balance (Thou. Mill \$)	Nov.17	3.55	5.20	Negative
Reserves (Thou. Mill \$)	Nov.17	381.1	380.4	Positive
Unemployment Rate	Oct.17	12.2	12.4	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)	19-12-17	72,680	-4.34%	27.26%
Exchange Rate Real/\$	19-12-17	3.29	5.11%	-2.66%
Interest Rate SELIC	19-12-17	6.90	8.15	13.65
EMBI	18-12-17	231	245	329

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

## Economic Forecast

	2016	2017	2018
Gross Domestic Product (% Growth)	-3.6	0.7	2.3
Inflation (% IPCA)(End period)	6.3	3.6	3.9
Trade Balance ( Thou.Mill, \$USA)	45.0	53.1	42.9
Current Account Balance (Thou.Mill,\$USA)	-23.5	-12.1	-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	6.75
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**

In addition to the volatility that the real has been registering in the last month, the news of the postponement of the vote for the pension reform immediately had its effect on the stock market and the price of the real, however, the impact on the latter has been limited for the moment.

### Sovereign Risk: **HIGH**

After the month of October, Moody's stated that it could revise upwards the country's note at the beginning of 2018 and that S & P conditioned a reduction to the reform of the pension plan. The latest news on this issue endanger an improvement on Brazil's rating. For its part, Fitch confirmed in November the negative outlook in its note (BB).

### Public Sector Finance: **MEDIUM - HIGH**

The postponement of the vote on pensions jeopardizes Temer's plan to improve the fiscal deficit; and, in case of finally approving the reform, this would be less beneficial for the public coffers than the project presented at the beginning. One of the possible new measures for the reduction of public spending now contemplated by the Government is the privatization of part of the airport company.

### Socio - political Situation: **HIGH**

The approval of the Government has increased slightly since September while remaining at low levels; thus, it has gone from 3% of respondents who considered the Government as "excellent" or "good" to 6% in the month of December.

## Brazil: general information

**Official Name:** Federal Republic of Brazil

**Area:** 8,514,876.6 Km<sup>2</sup>

**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)

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