

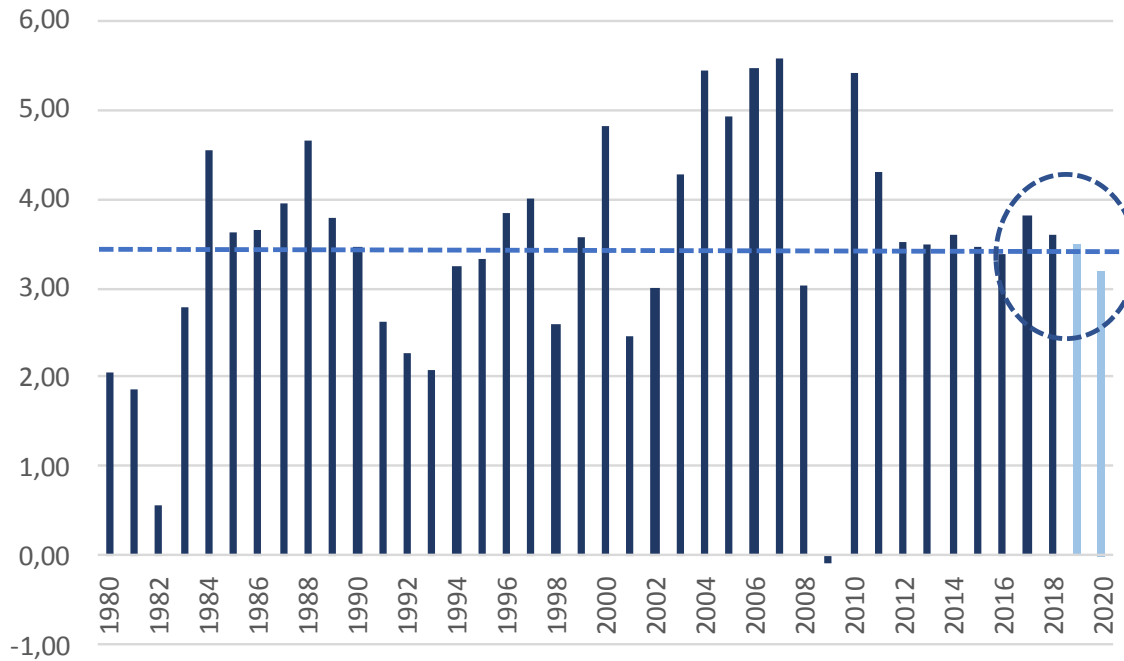


# Brazil: Better Fundamentals

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Felaban 2019

# Global Slowdown: Major Challenge for EM

Global GDP (%)

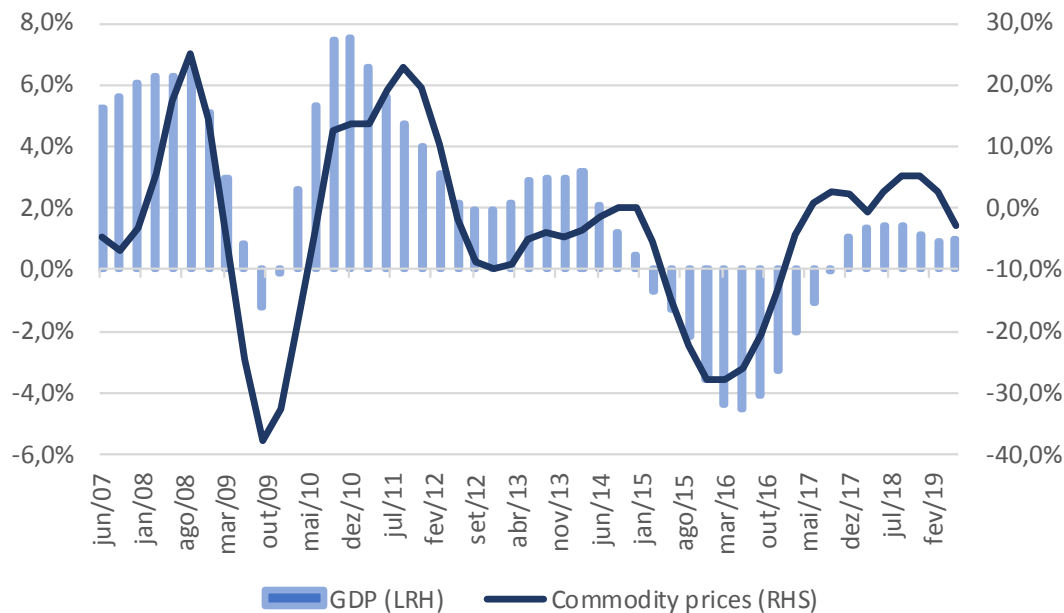


**Global slowdown is headwind against EM and has demanded policies responses.**

Sources: IMF and Banco Votorantim.

# Brazil: Global Growth does Matter

Brazilian GDP and commodity prices (%)

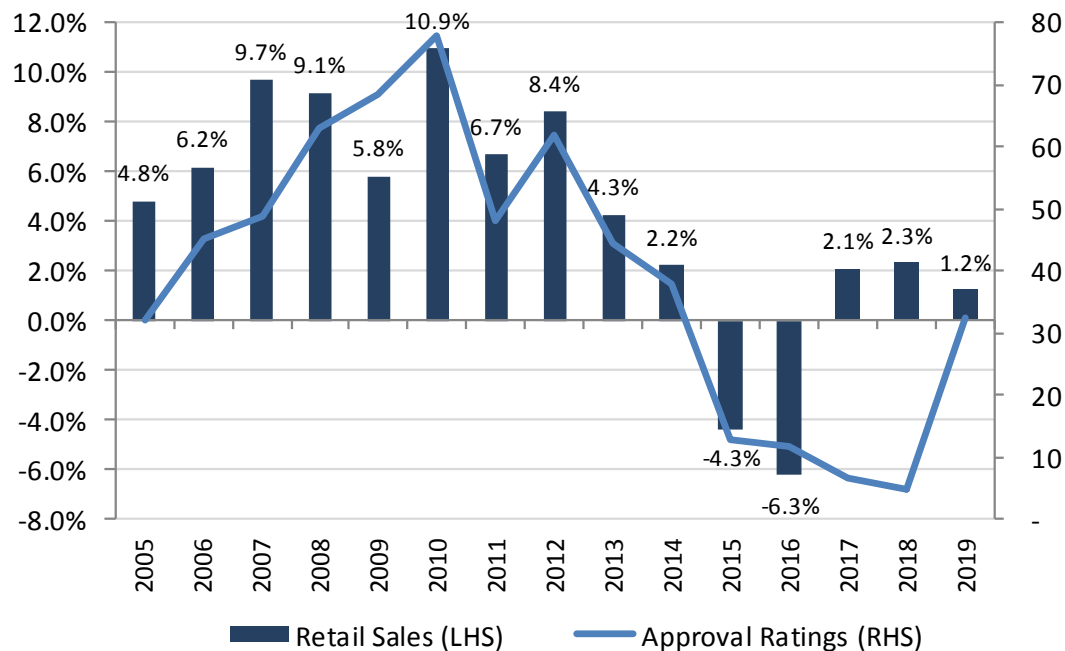


Besides the relevance of confidence, real income and interest rates, commodity prices have been a major drive for local growth

Sources: IMF and Banco Votorantim.

# Crisis has been an opportunity

Approval rating and retail (%)

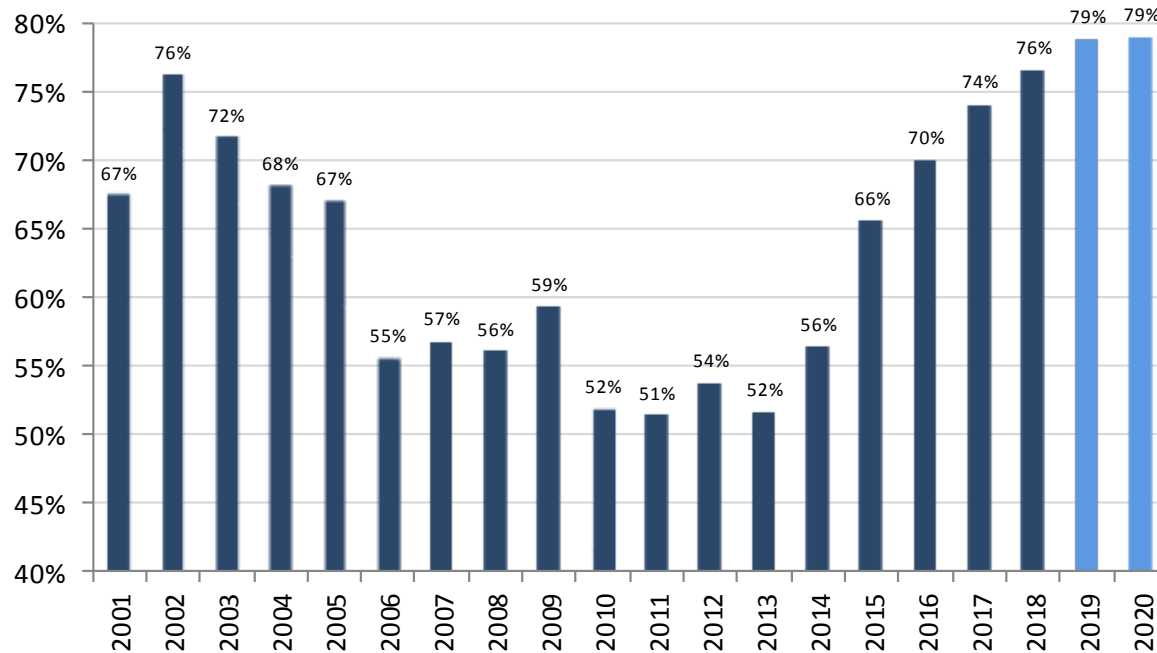


**Brazil has delivered a clear policy response. Due to the relation between economics and politics – that has explained elections, governability and policy choices – crisis has been an incentive for reforming and adopting responsible policies.**

Sources: IBGE and Datafolha.

# Key Challenge is Stabilize Debt

Gross Public debt (% GDP)

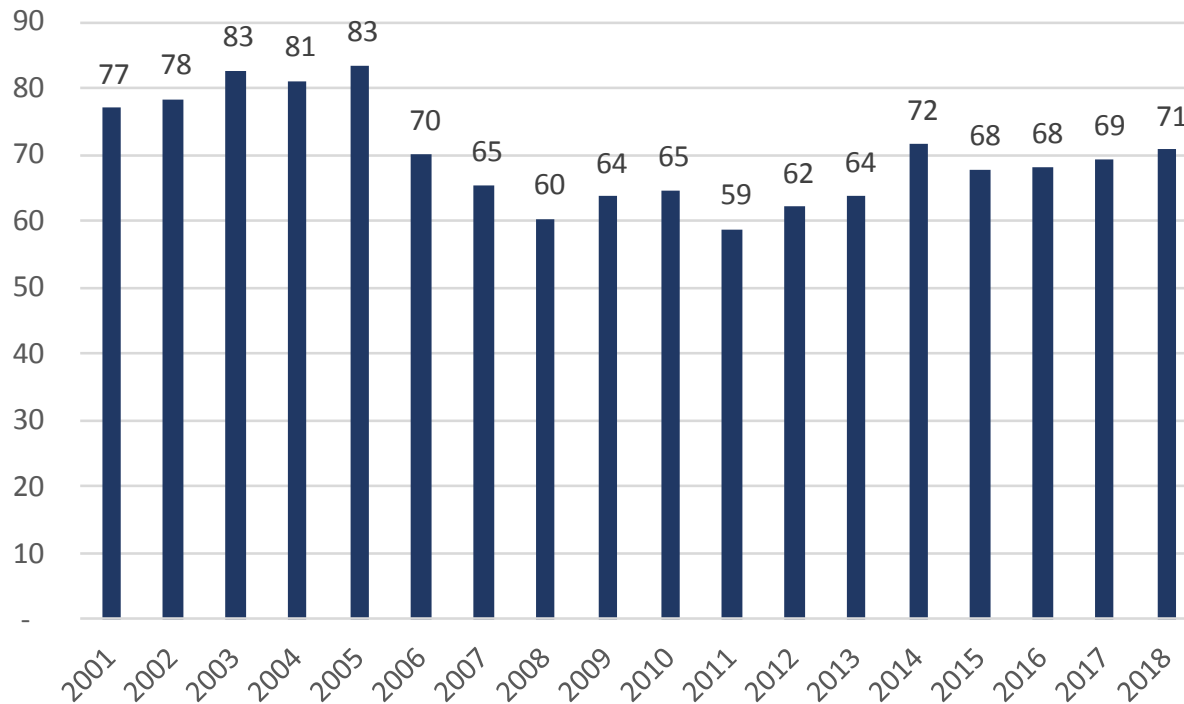


Fiscal reforms have played a relevant role to stabilize the public debt. Pension fund reform, lower local rates and one-off revenues has been key to stabilize the debt. Looking forward, the administrative reform is another relevant step.

Sources: Brazilian Central Bank and Banco Votorantim.

## External Debt: Low and Stable

External debt (US\$ billion)

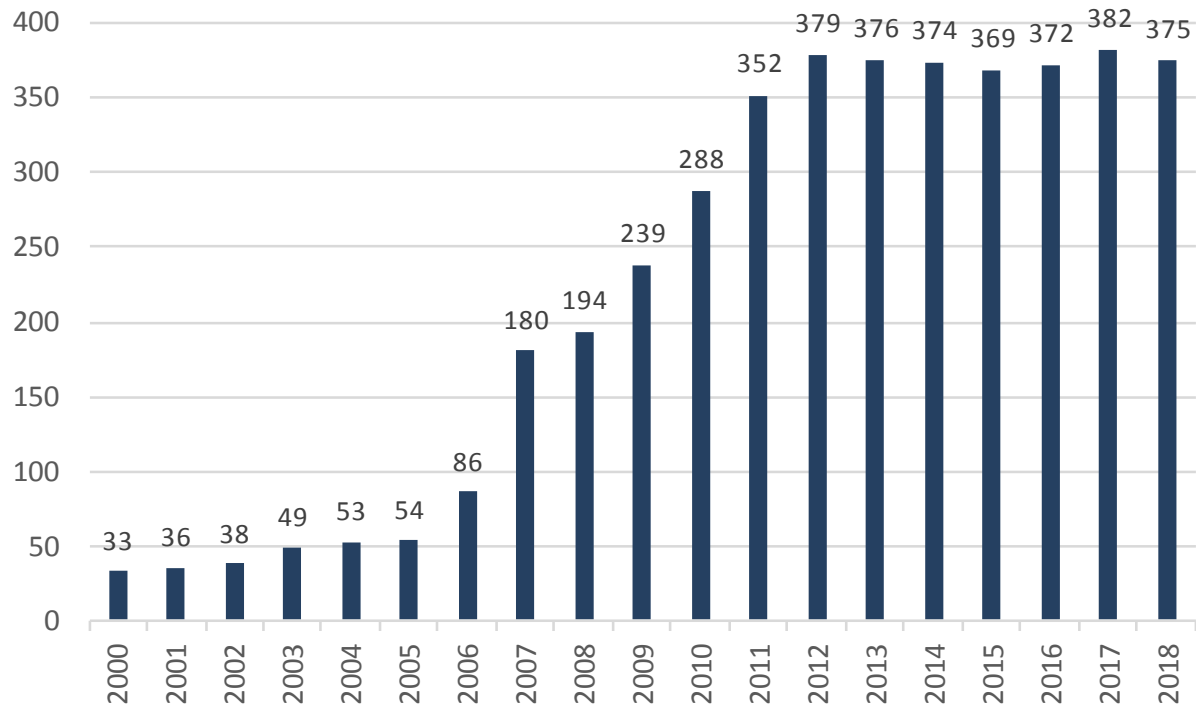


Since external debt has been running around US\$ 70 billion, solvency conditions have improved.

Sources: Brazilian Central Bank.

# External Accounts: Anchoring BRL

International reserves (US\$ billion)

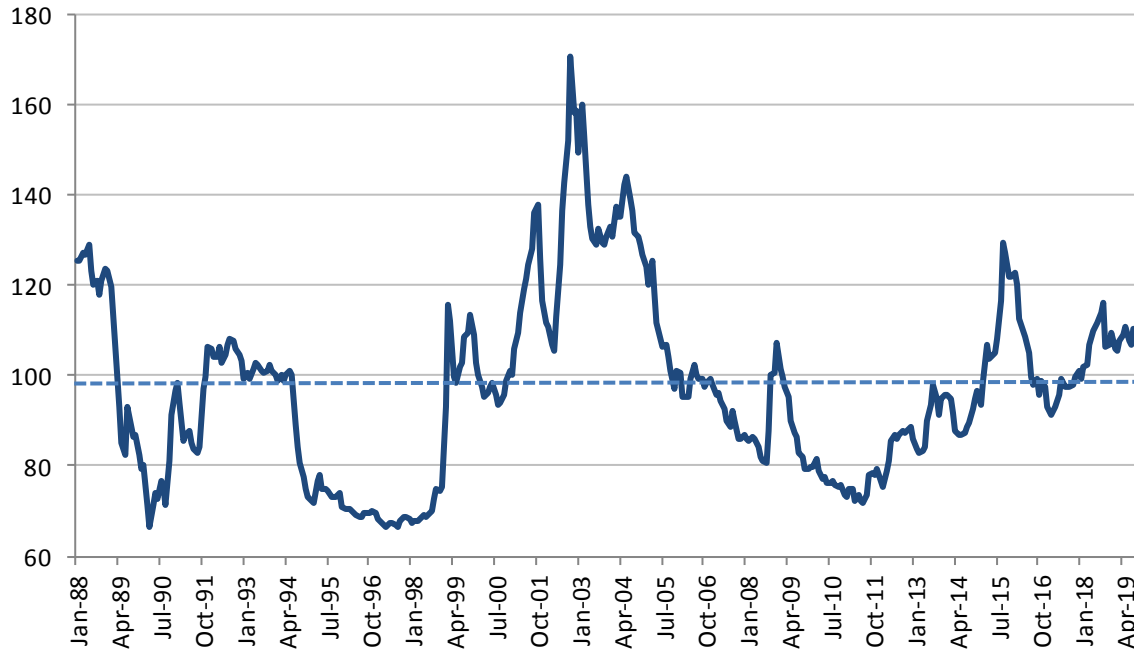


**International reserves contribute to anchor the exchange rate. Markets haven't expected a further devaluation.**

Source: Brazilian Central Bank.

# BRL: Room for Convergence

Real effective rate (1994=100)



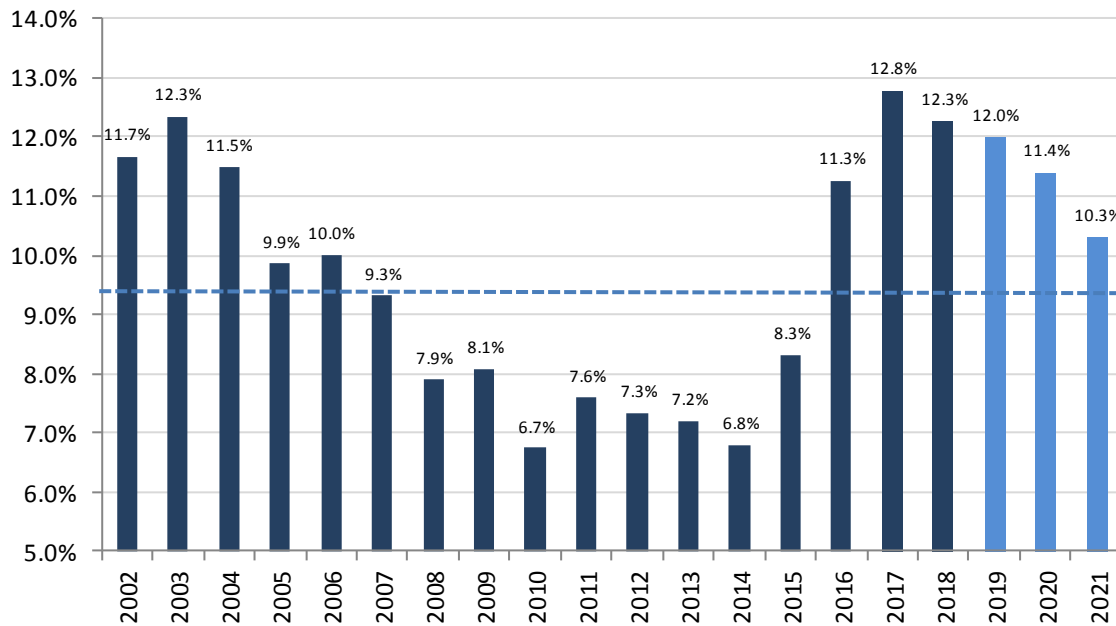
**Controlled sovereign risk allows currency convergence to the historical average, which anchors BRL and open room for an appreciation trend.**

Source: Brazilian Central Bank.



# Unemployment Reduces Costs

Unemployment rate (PNAD %)

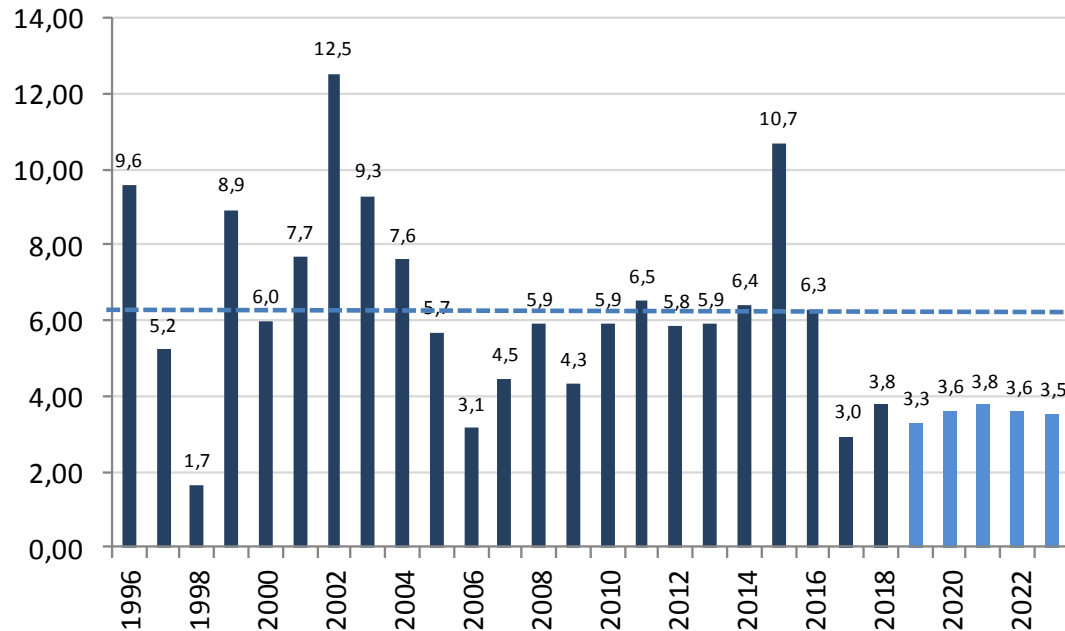


The slow decline in unemployment explains the lower pressure on costs and inflation.

Source: IBGE.

# Recession and Fundamentals Anchored Inflation

Current and expected inflation (IPCA annual %)

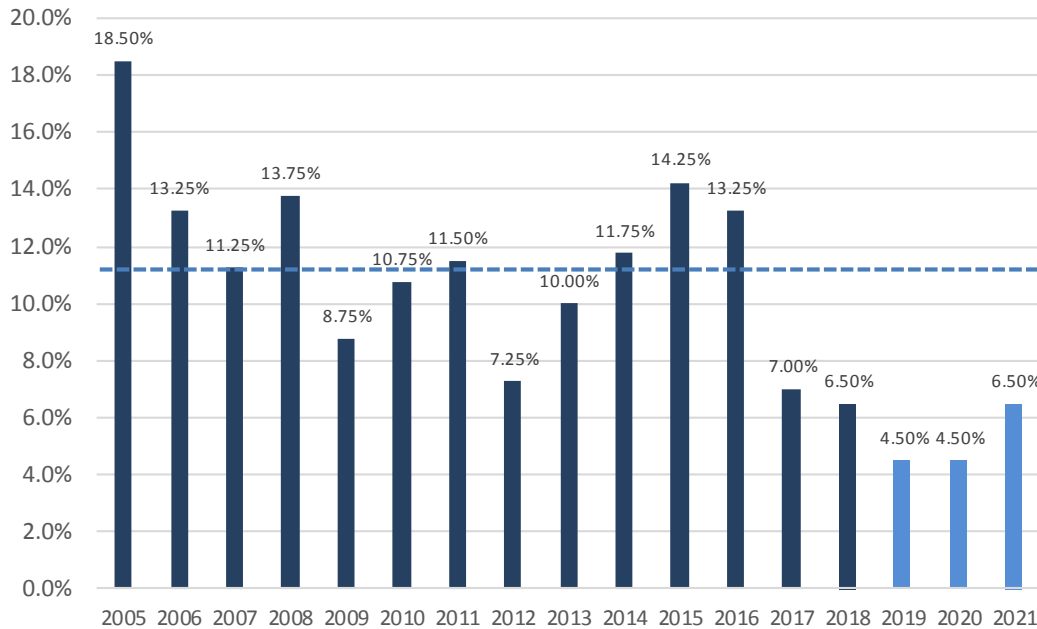


**2014 recession, improving fiscal fundamentals and the Brazilian Central Bank's credibility have led to a new inflationary pattern.**

Source: IBGE and Brazilian Central Bank.

# Inflation Creates Room for Low Interest Rates

Selic rate (%)

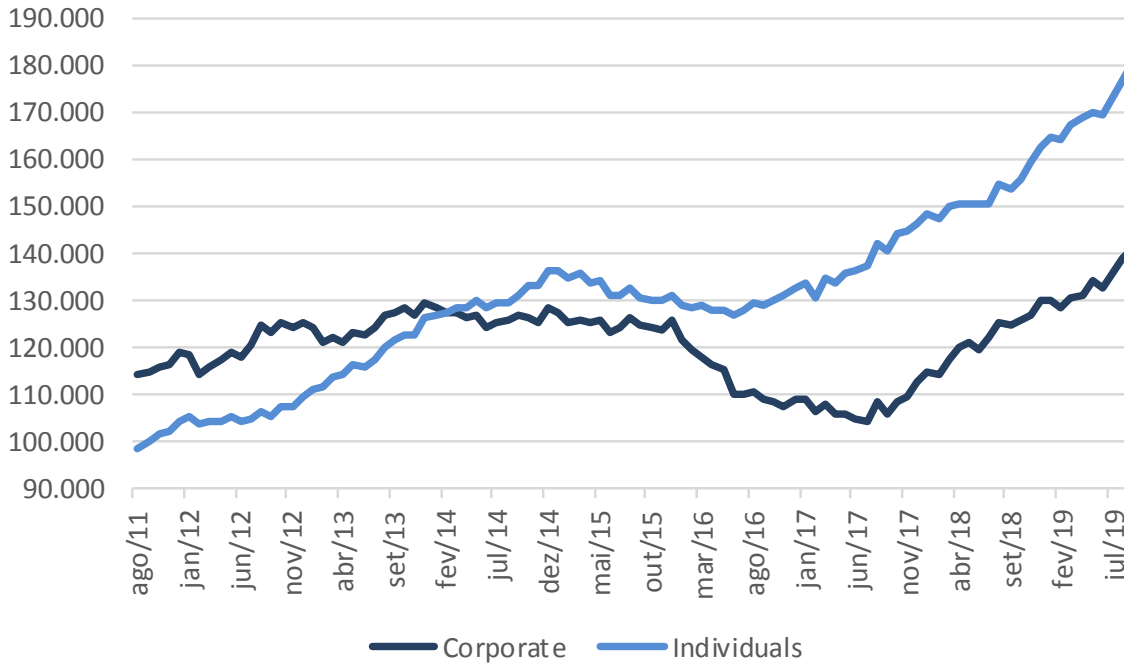


Low growth and inflation have paved the way for low interest rates. However, lower deviations in inflation and output are behind the Selic's convergence to its neutral level.

Source: Brazilian Central Bank and Banco Votorantim.

# Credit Sustains a Clear Rebounding

Lending (real terms 6-month moving average)

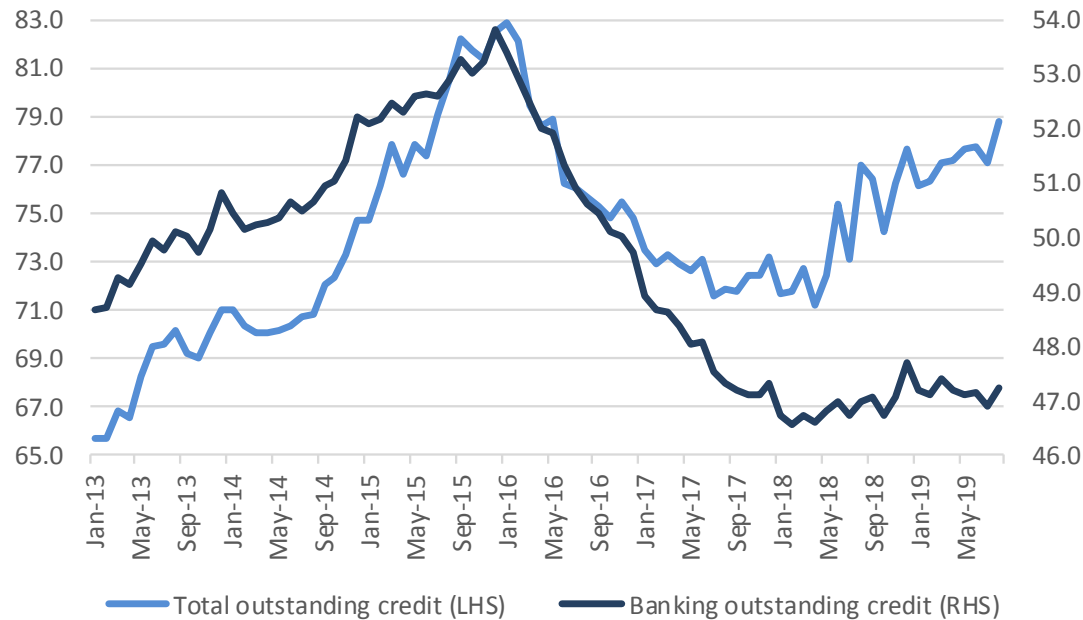


**Credit increases local resilience to global shocks. At this point, corporate credit is poised to be a leading variable for the economic recovery.**

Source: Brazilian Central Bank.

# Credit Sustains a Clear Rebounding

Outstanding credit (% GDP)

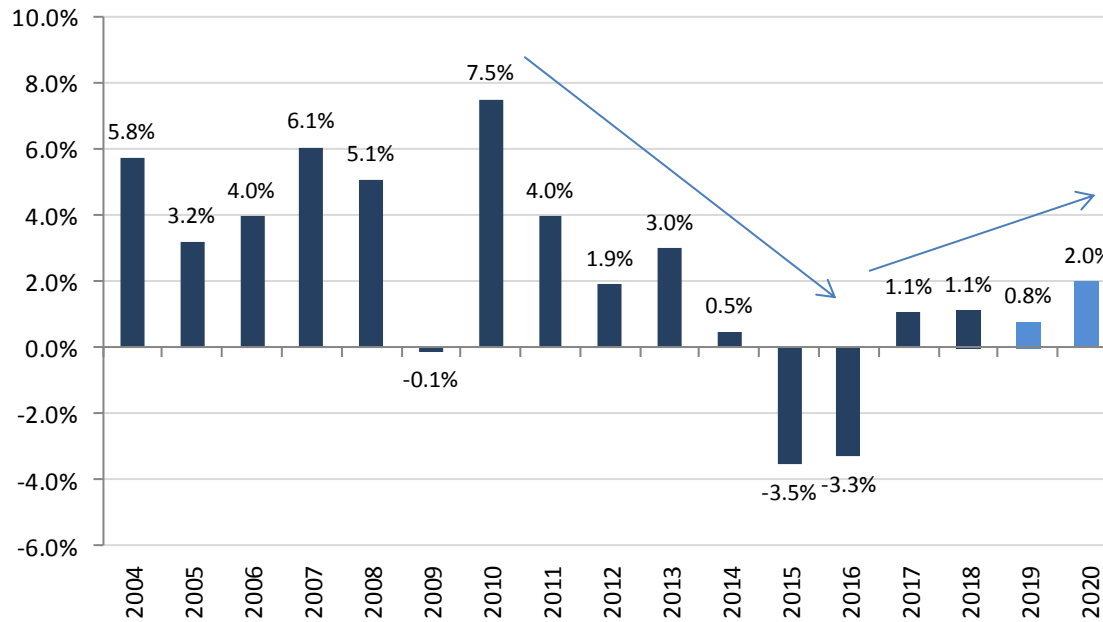


**Capital markets have also helped to sustain growth. Structural economic changes are driving the current strength of local capital markets, pushing non-banking credit.**

Source: Brazilian Central Bank.

# Growth: Gaining Momentum

## GDP (YoY %)

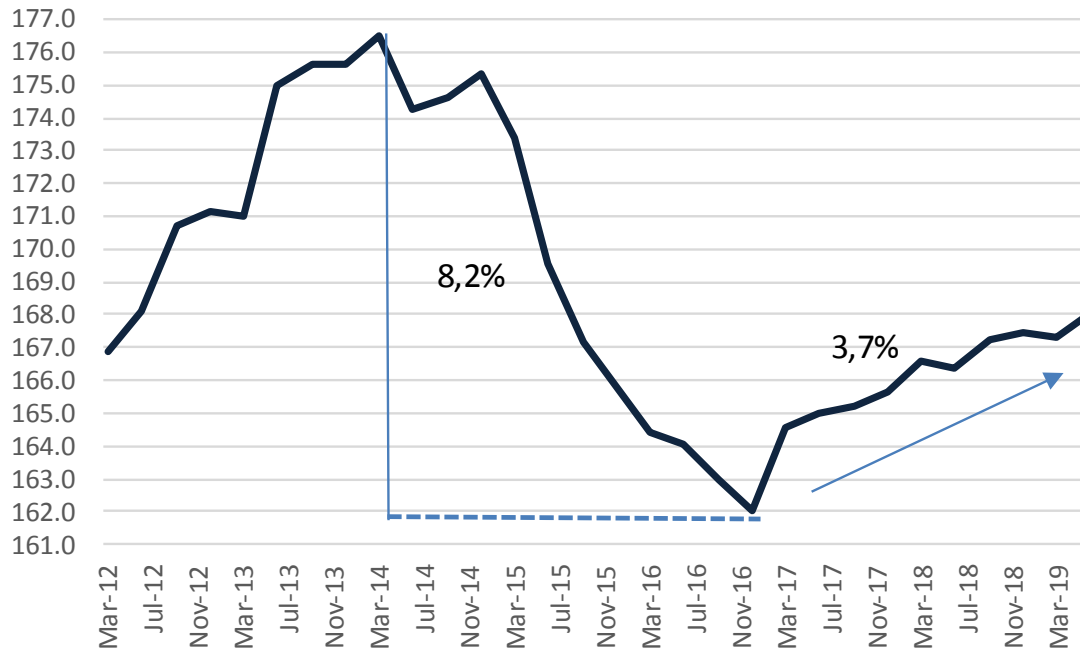


**Economy is set to grow, although fiscal adjustment, global environment and output gap have softened the growth pace.**

Source: IBGE.

# Growth Without Euphoria

GDP level

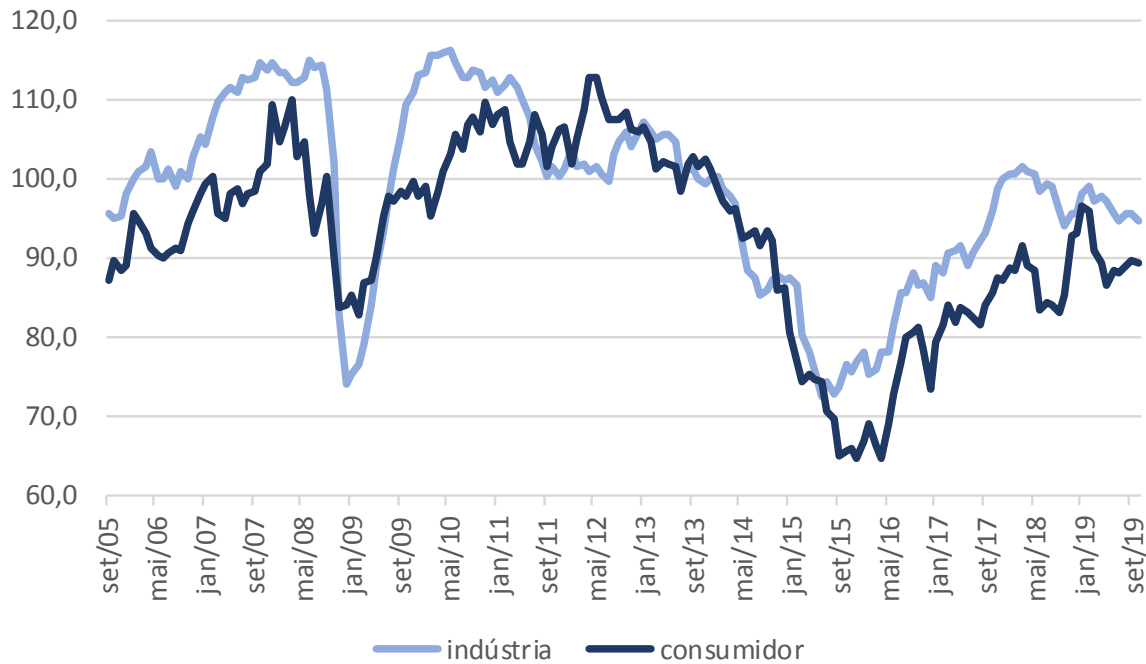


**Cyclical recovery led by consumption is expected to bring the economy back to its potential only in 2021.**

Source: IBGE.

# Confidence: Stability Favors Confidence

Consumer and business confidence



**This year is the first one since 2013 without critical political and economic events ahead.**

Source: FGV.





Economic and Fixed Income Research

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