Brazil:Economic Outlook

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BANCO CENTRAL DO BRASIL

I. Introduction

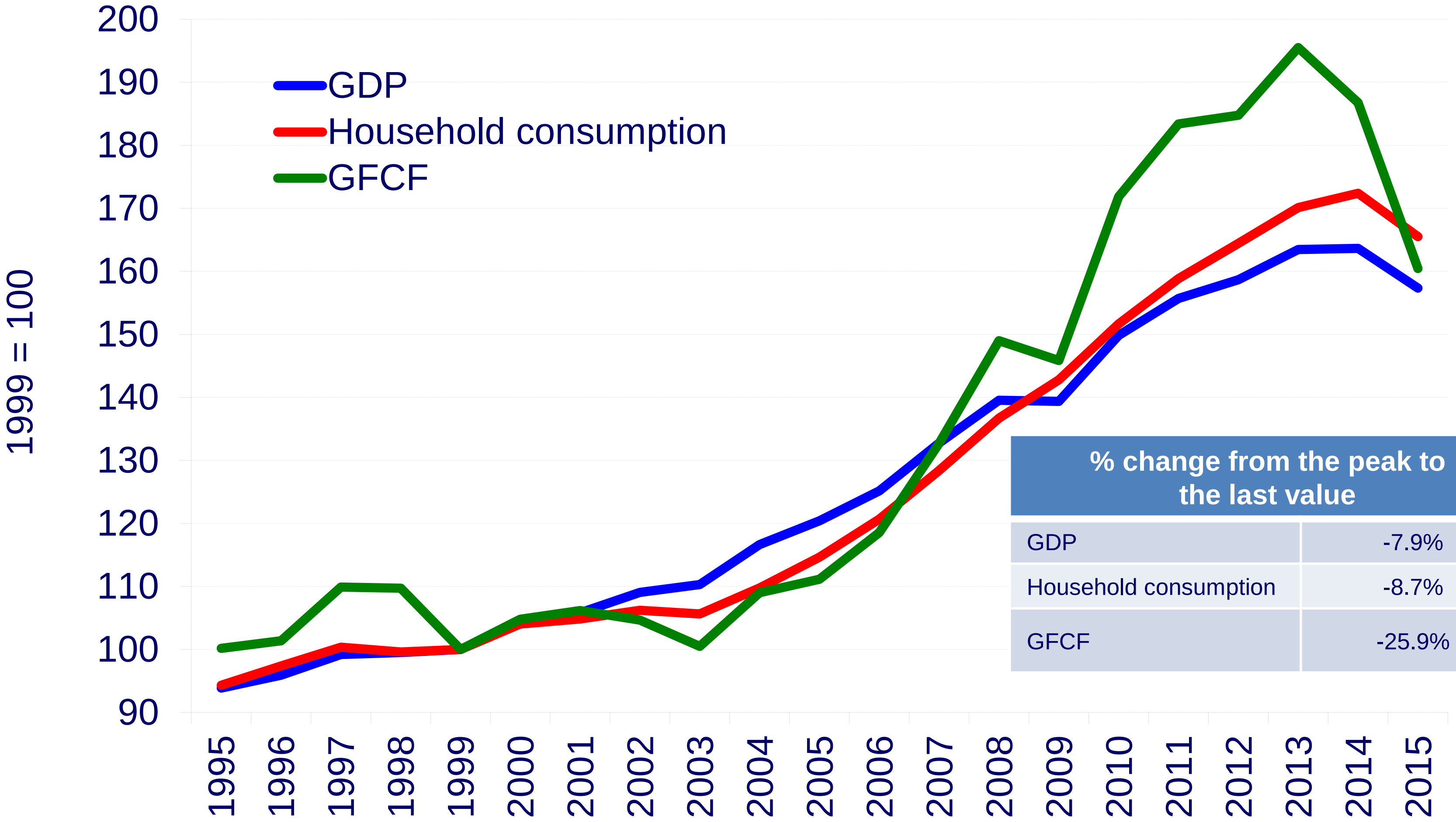
II. Economic Activity

III. External Scenario

IV. Inflation

I. Introduction

Activity – Long Term Perspective



% change from the peak to the last value	
GDP	-7.9%
Household consumption	-8.7%
GFCF	-25.9%

Source: IBGE

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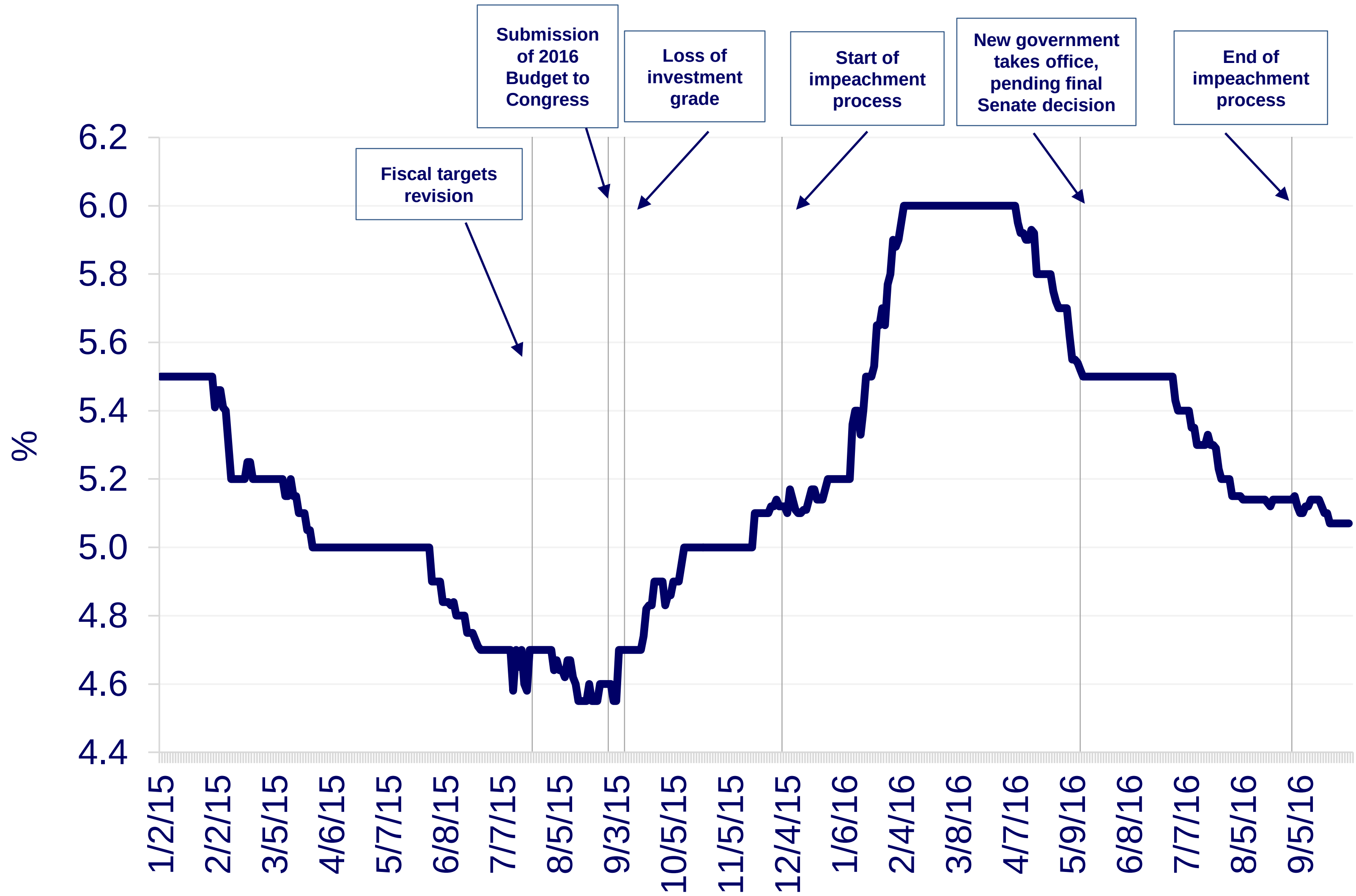
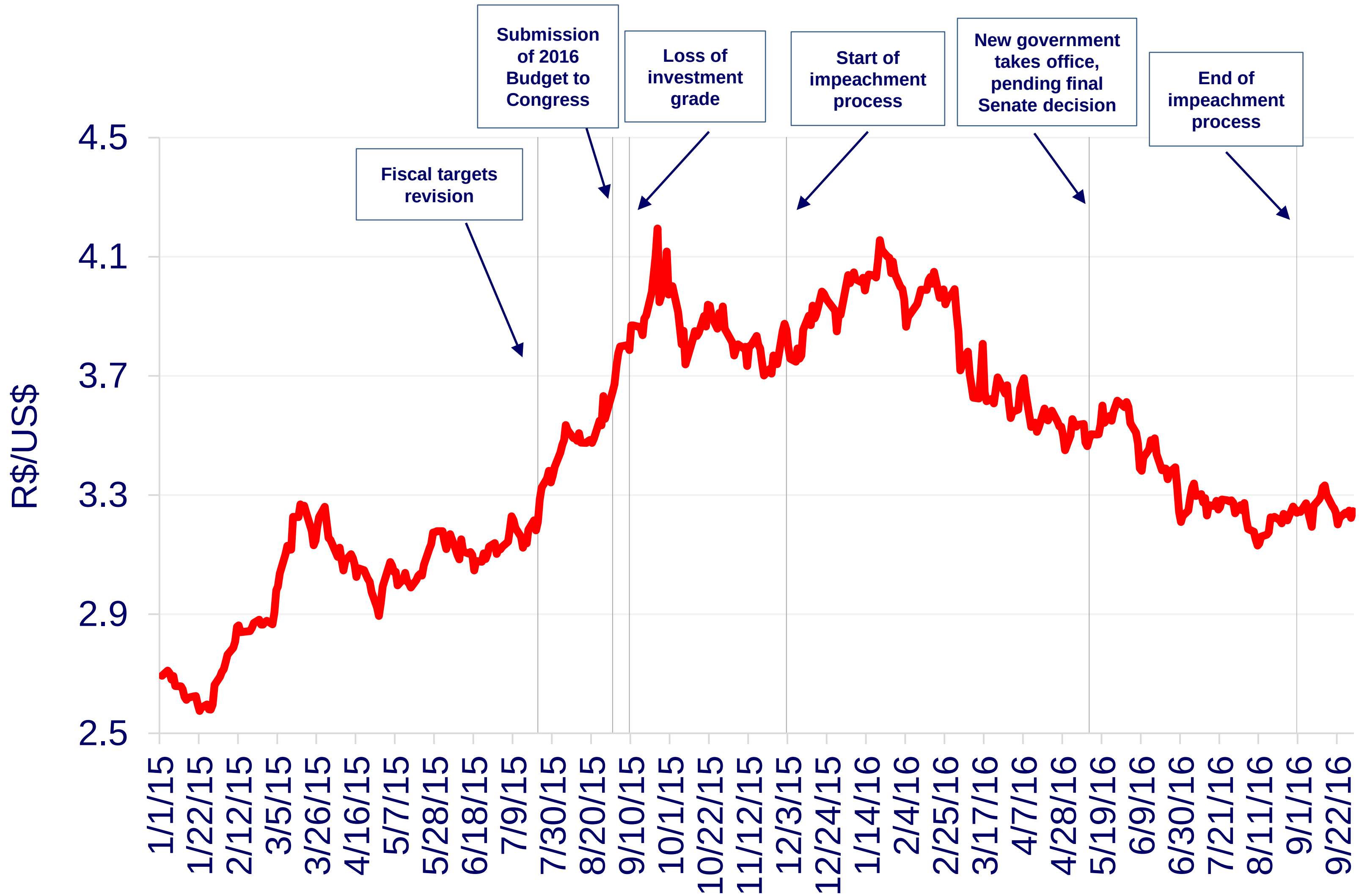
Evolution of Inflation Expectations (2017 IPCA)



data up to 9/30

Source: BCB

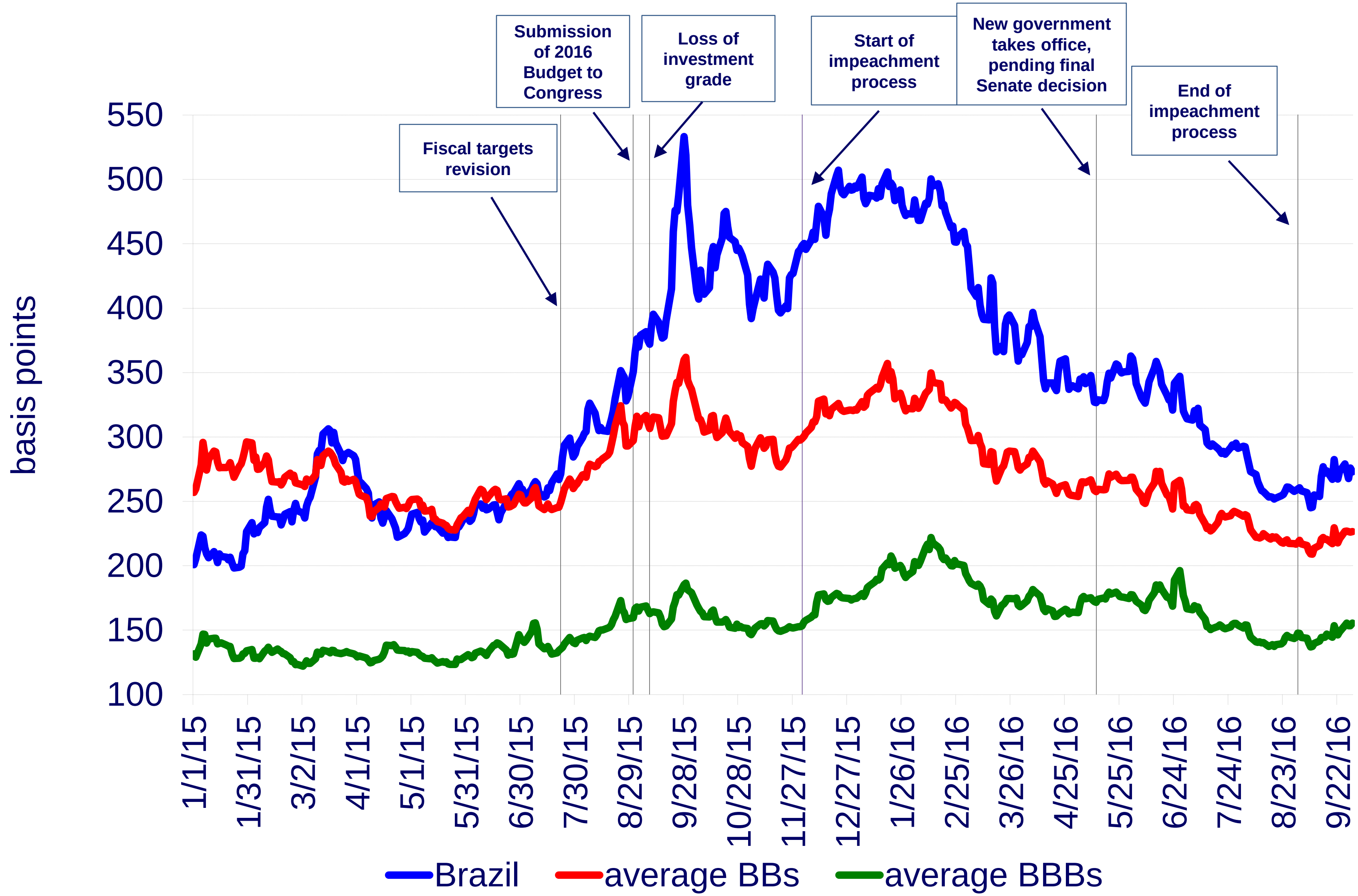
Evolution of the Exchange Rate



data up to 9/30

Source: BCB

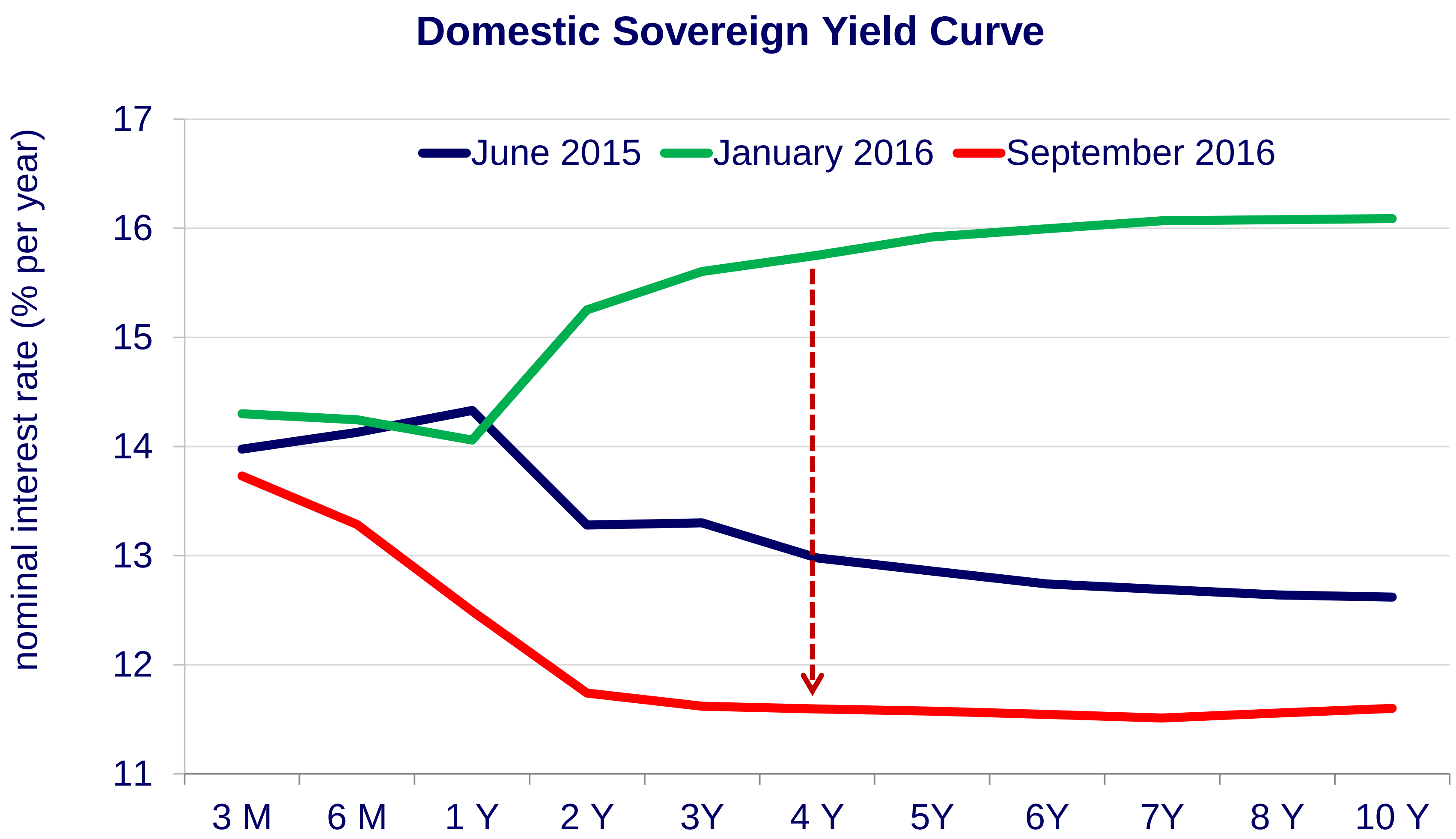
Risk Premia: Brazil, BBBs and BBs (5Y CDS)



*through September 30th

Source: Bloomberg

Nominal Yield Curve (BRL)



Source: Bloomberg

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Major Developments in the last 6 Months

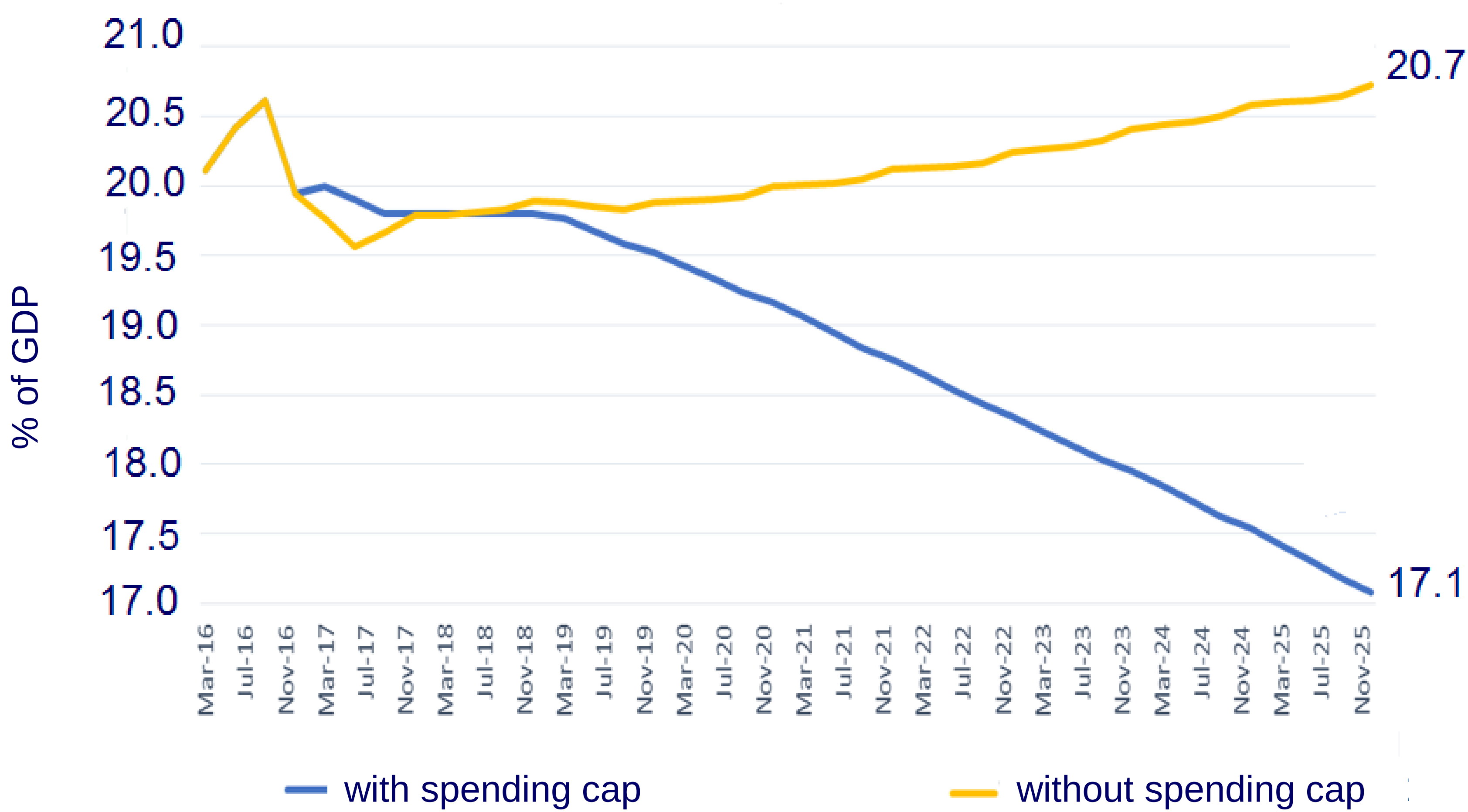
- **Decrease in political uncertainty**
- **Adoption of a comprehensive economic policy agenda, including proposals for key Constitutional Reforms**
- **Evidence of economic stabilization; confidence recovering**

New Comprehensive Economic Policy Agenda

- Structural fiscal reform (public spending cap, pension reform)
- Increased transparency and clear objectives for fiscal and monetary policies
- Strengthening of the economic tripod: inflation targeting, fiscal sustainability and floating exchange rate regime
- Concessions to the private sector:

  focus on infrastructure investment

Scenarios for Public Spending

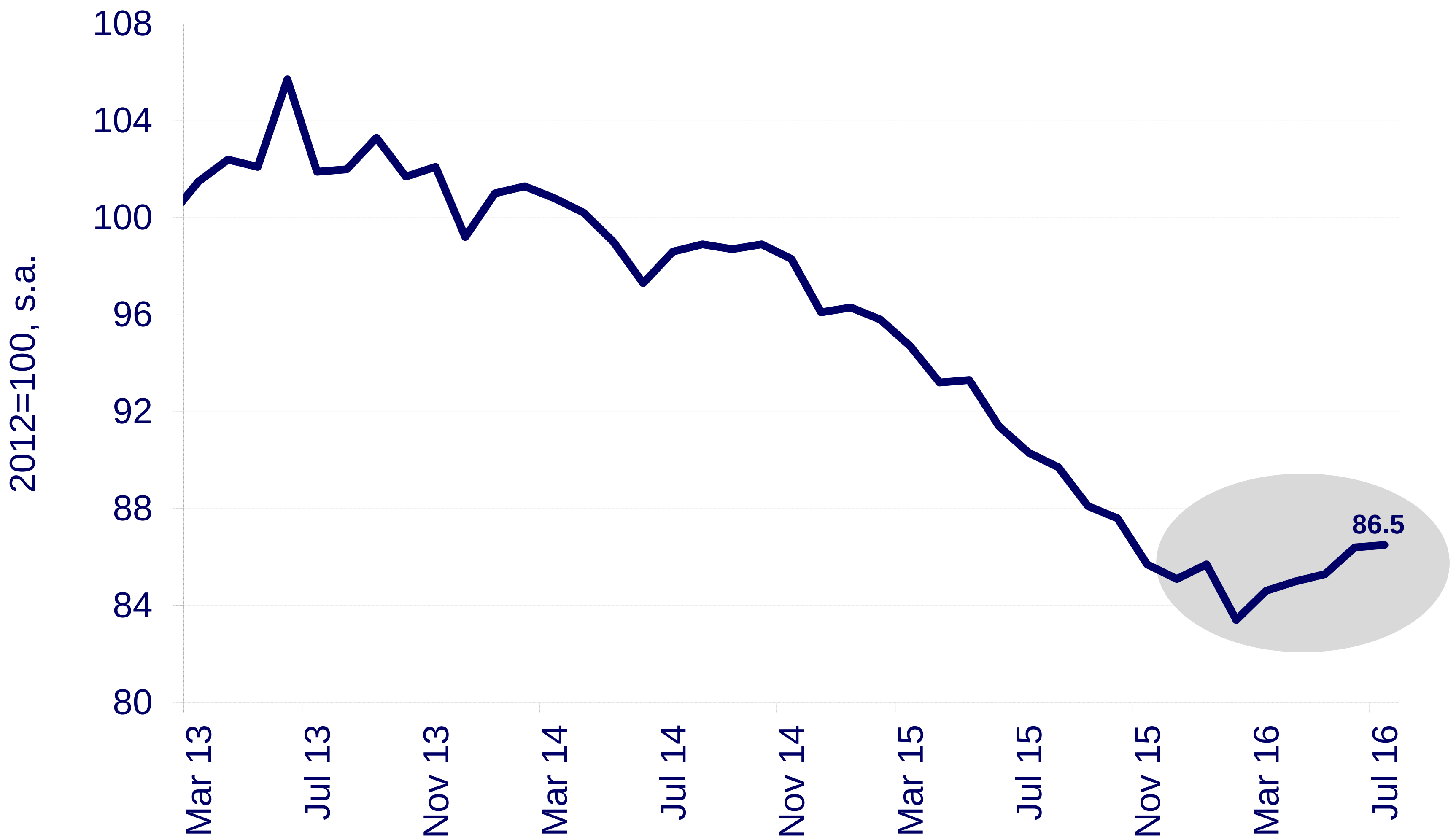


Source: National Treasury

II - Economic Activity:

- **evidence of recent stabilization**
- **high economic slack**

Industrial Production



Source: IBGE

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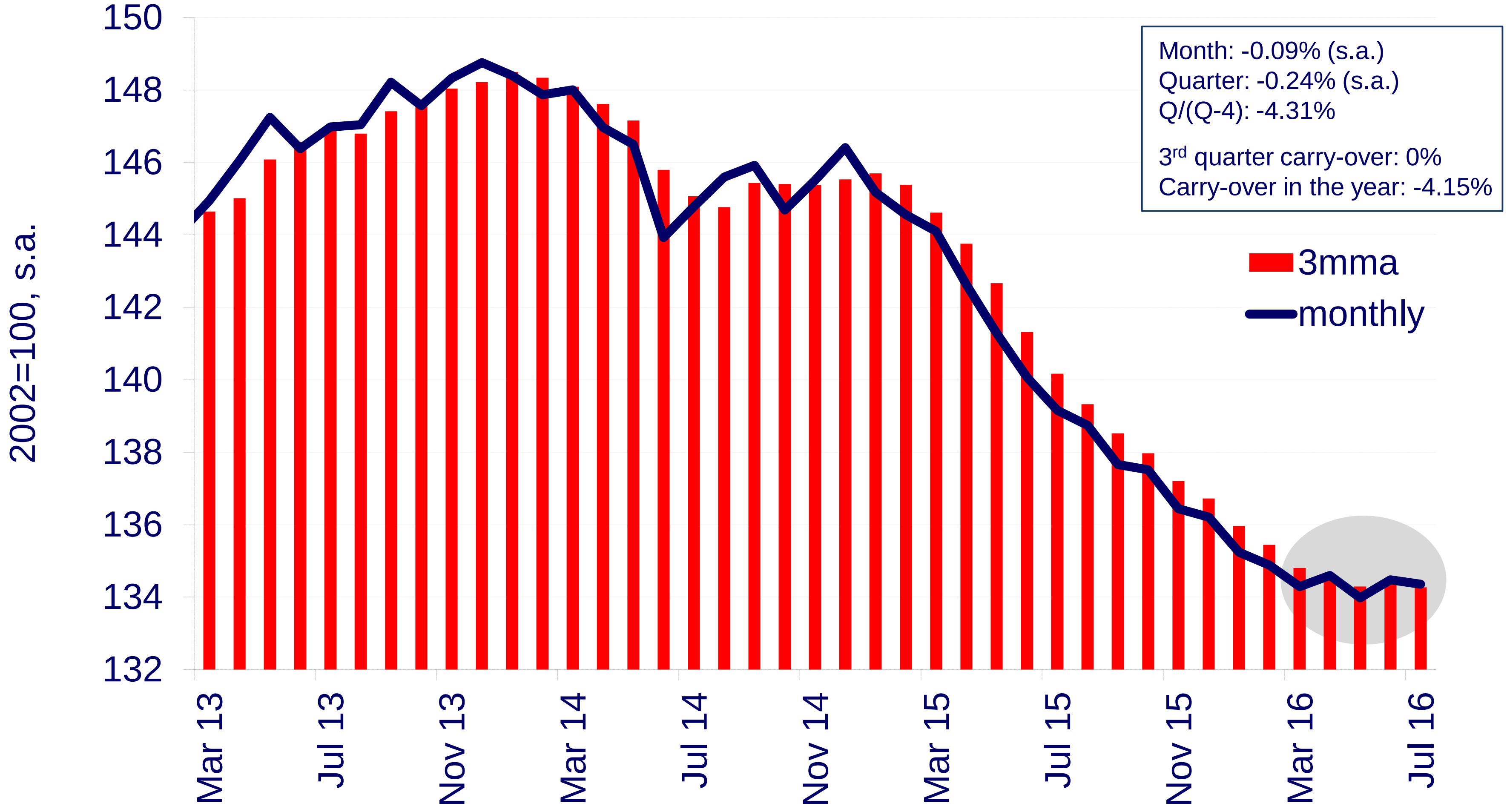
BCB´s Economic Activity Indicator: IBC-Br



Source: BCB

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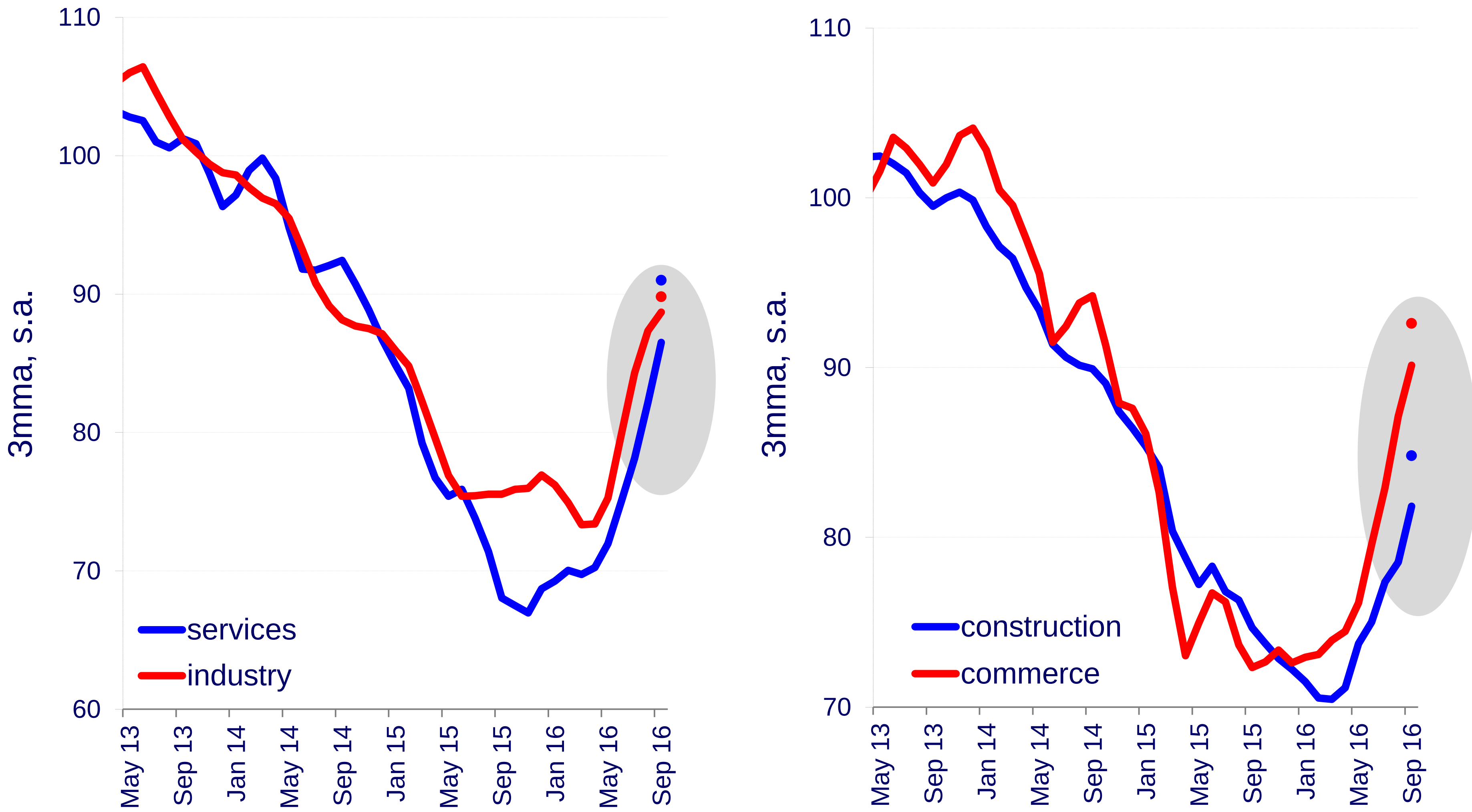
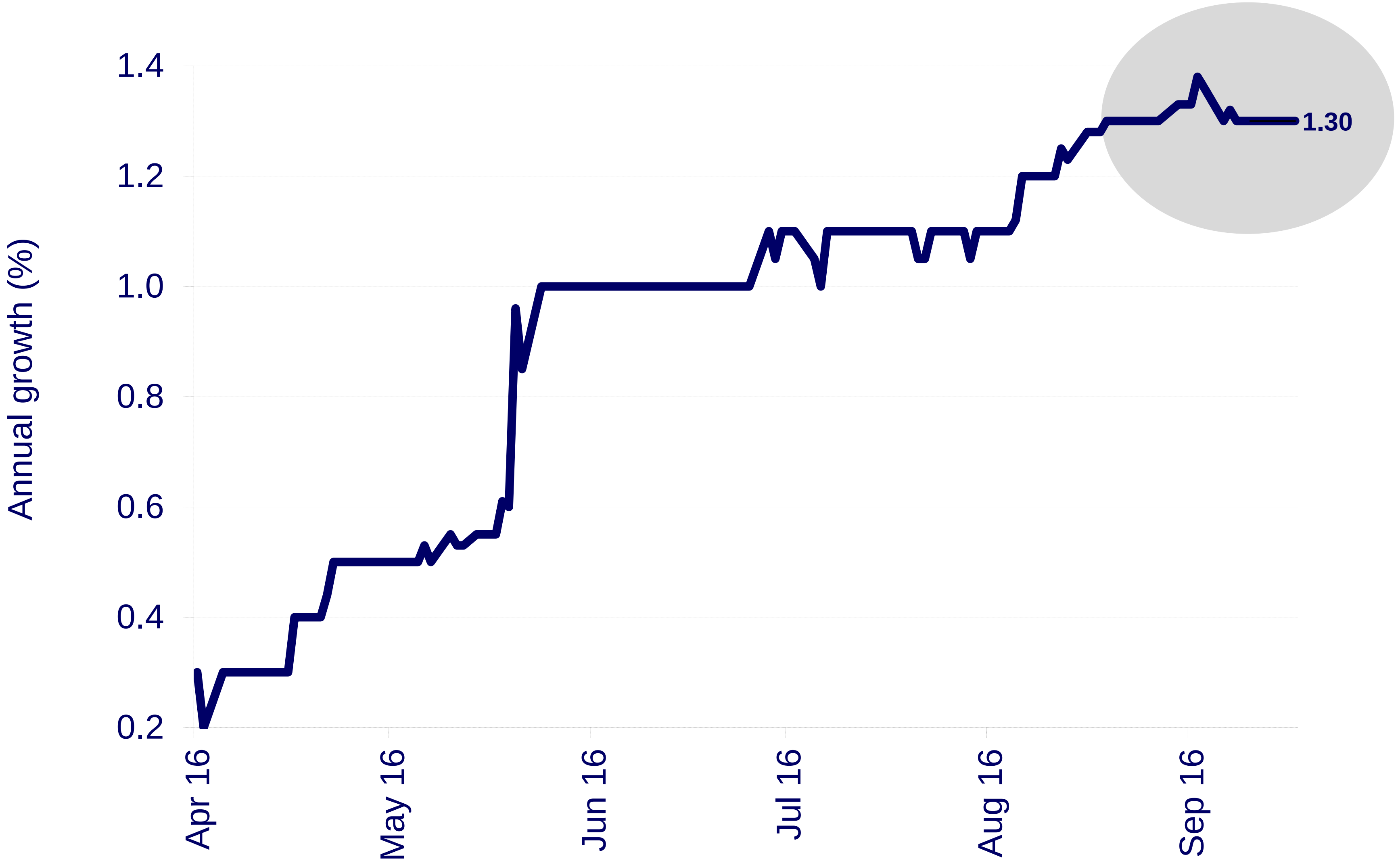
Confidence - Businessmen Expectations



Obs.: proportion of favorable answers – proportion of unfavorable answers + 100 (100=neutral)

Source: FGV

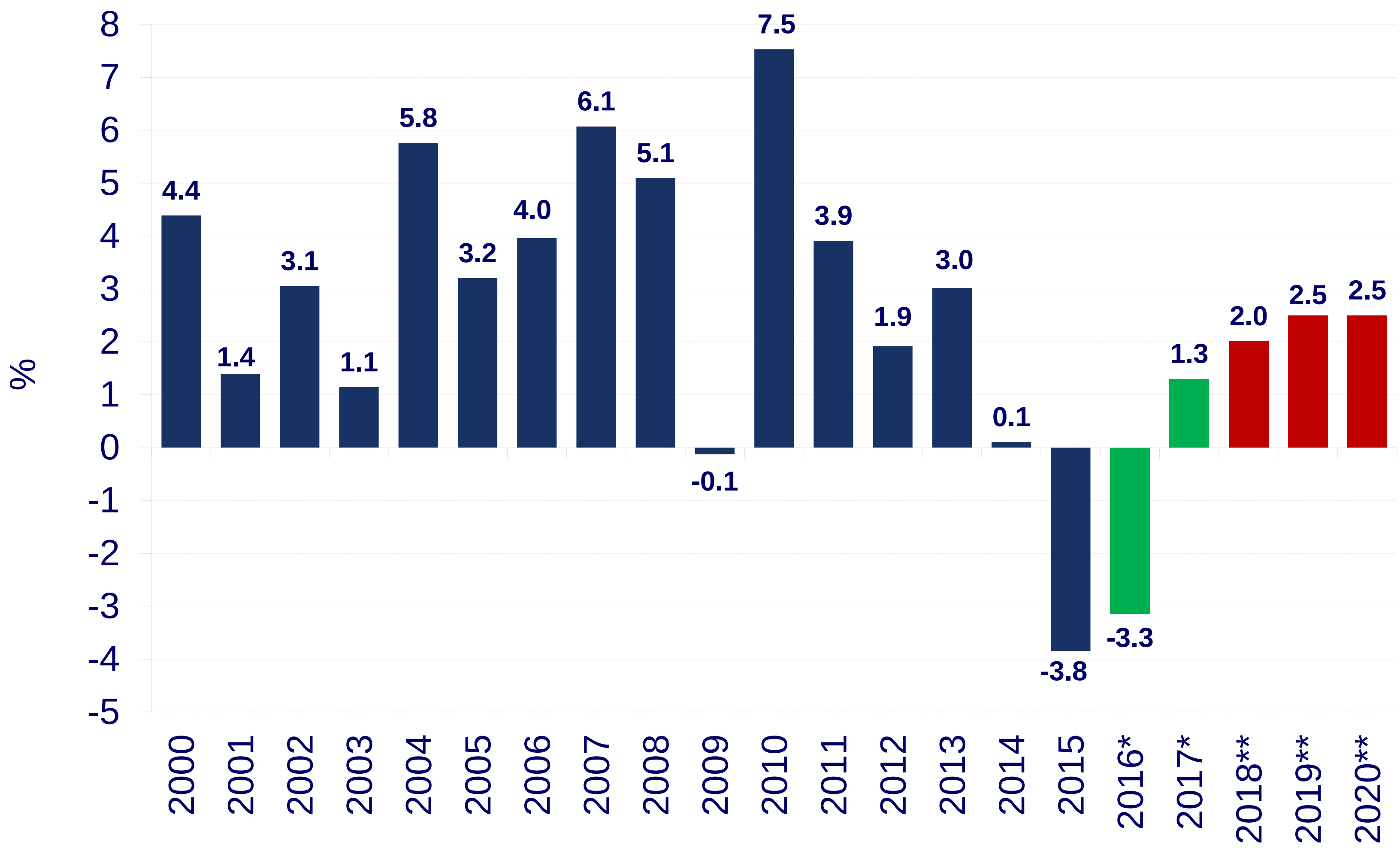
Market Expectations for 2017 GDP Growth



through Sep 30th

Source: BCB (Focus)

Real GDP Growth



* Central Bank of Brazil Forecast (Inflation Report – Sep 16)

** Market expectations as of Sep 30th

Sources: BCB / IBGE

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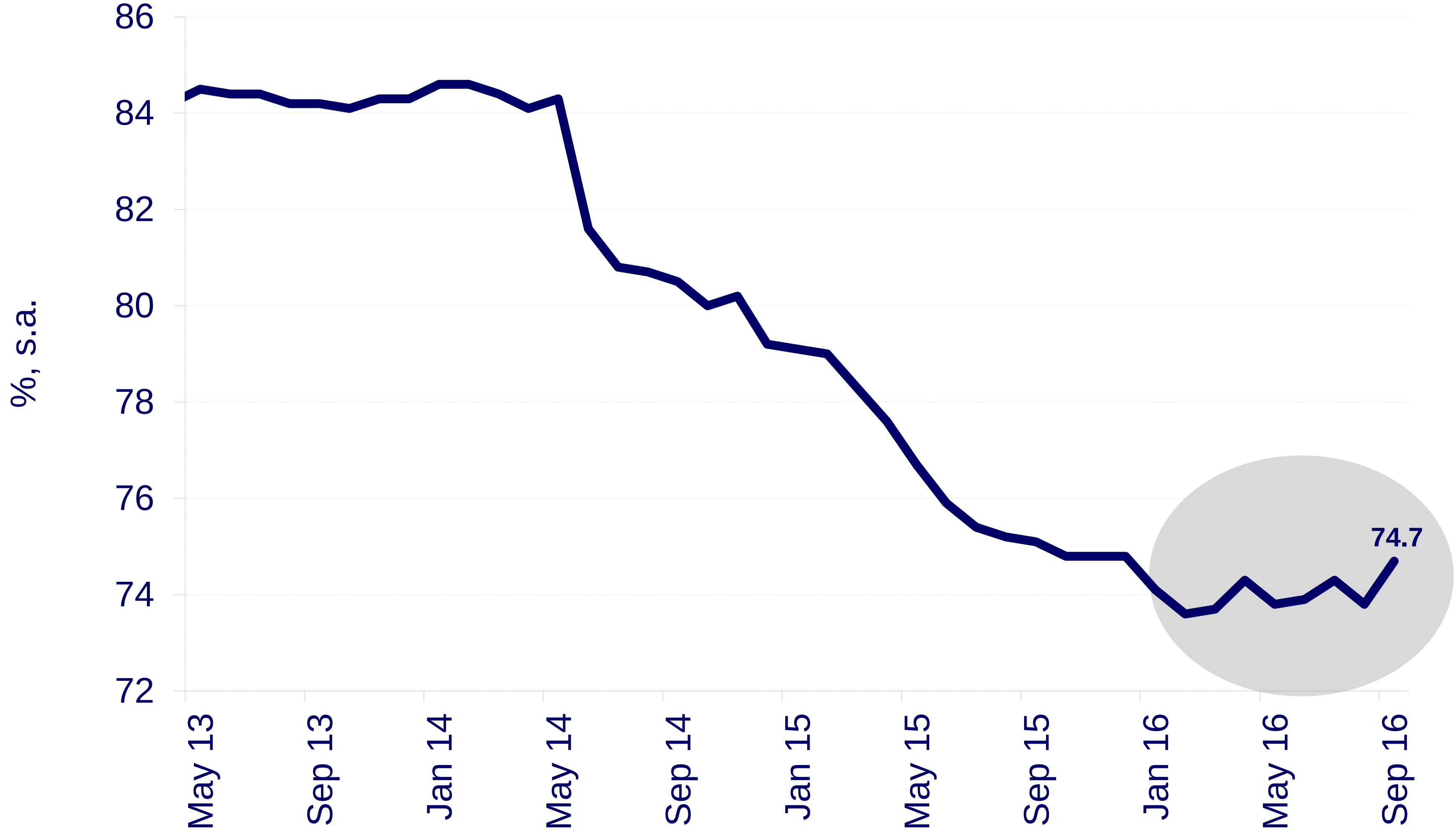
Capacity Utilization (NUCI)



Source: IBGE

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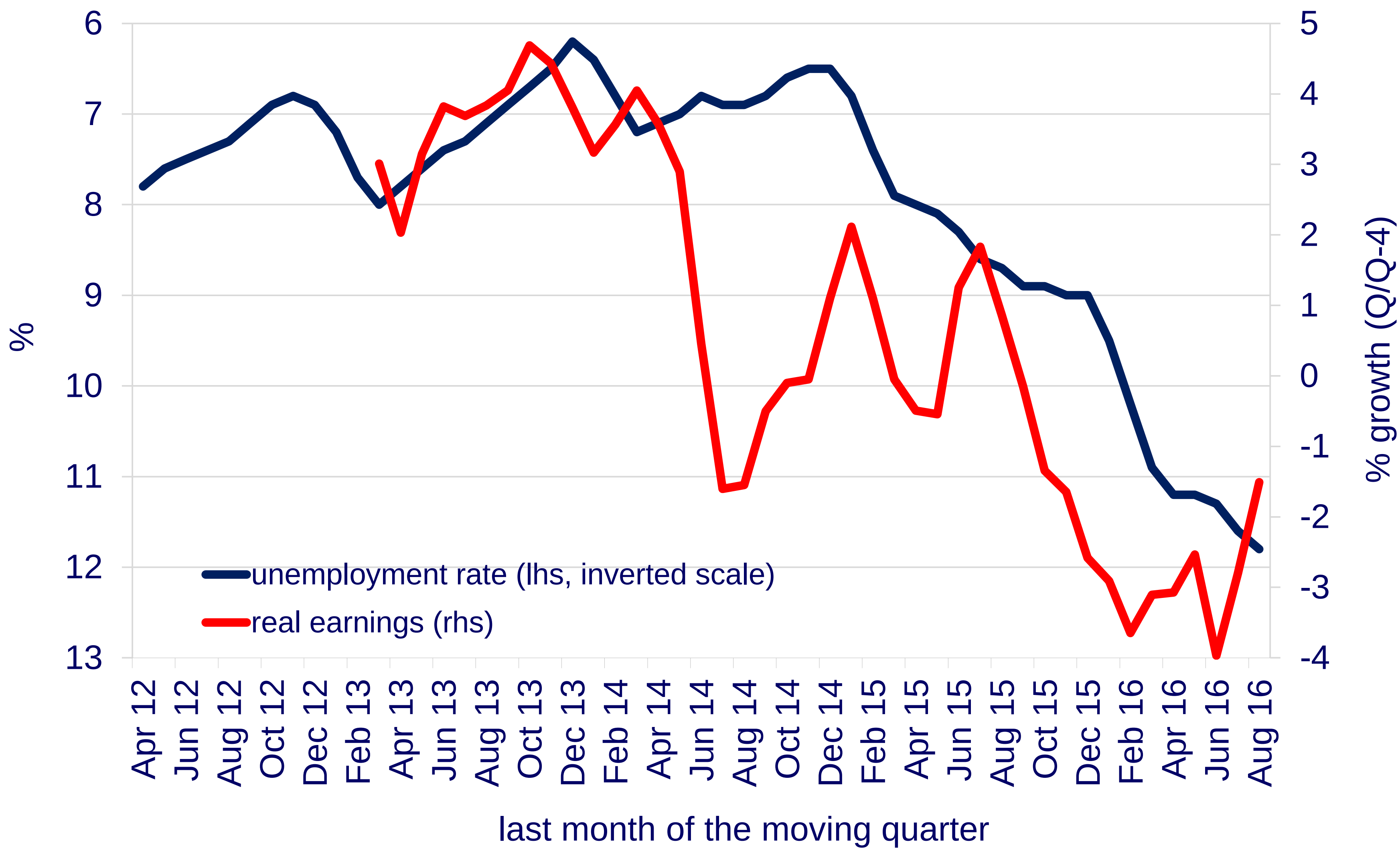
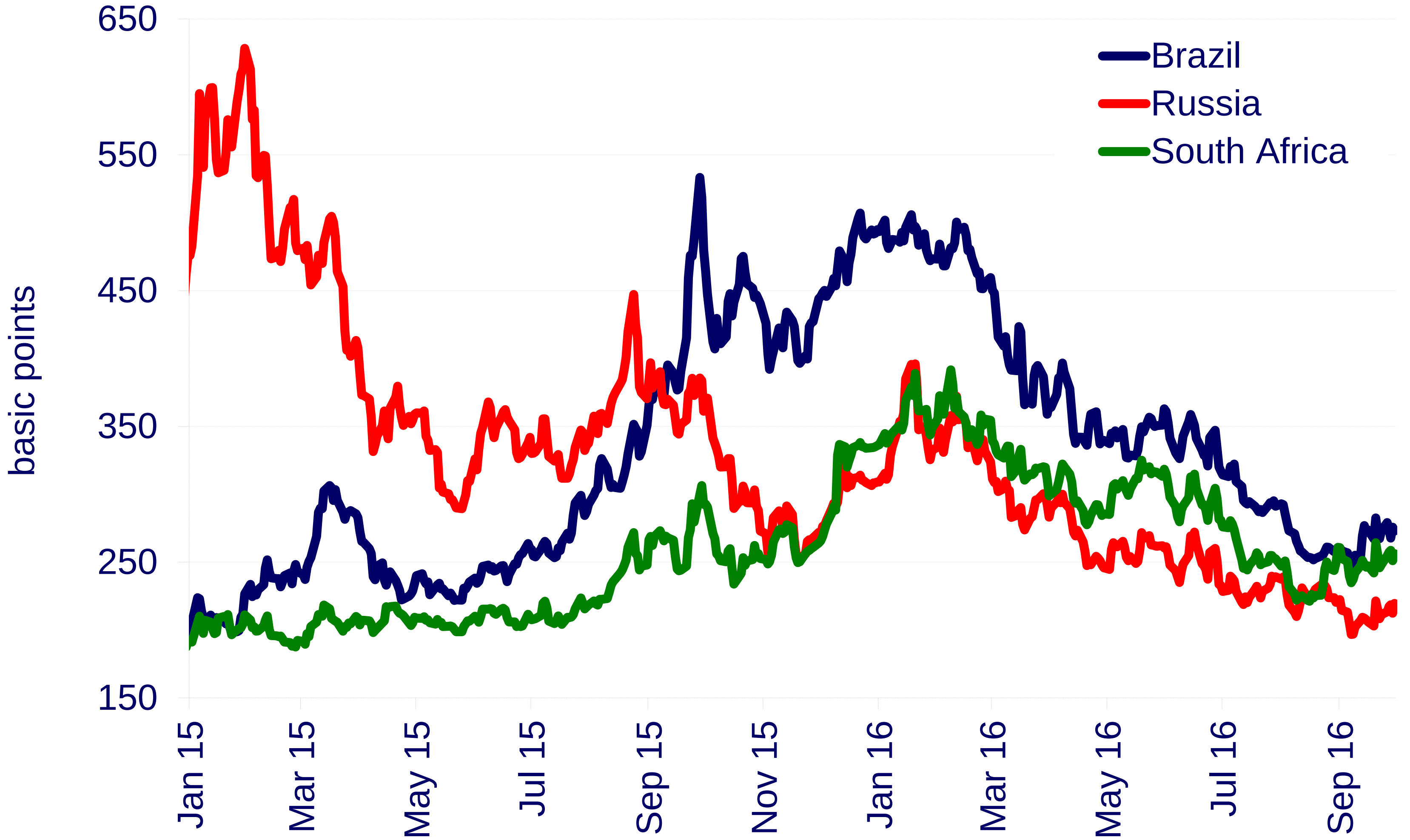
Labor Market Slack



Source: IBGE (Continuous PNAD)

III - External Scenario: “benign interregnum”

5-year CDS



through Sep 30th

Source: Bloomberg

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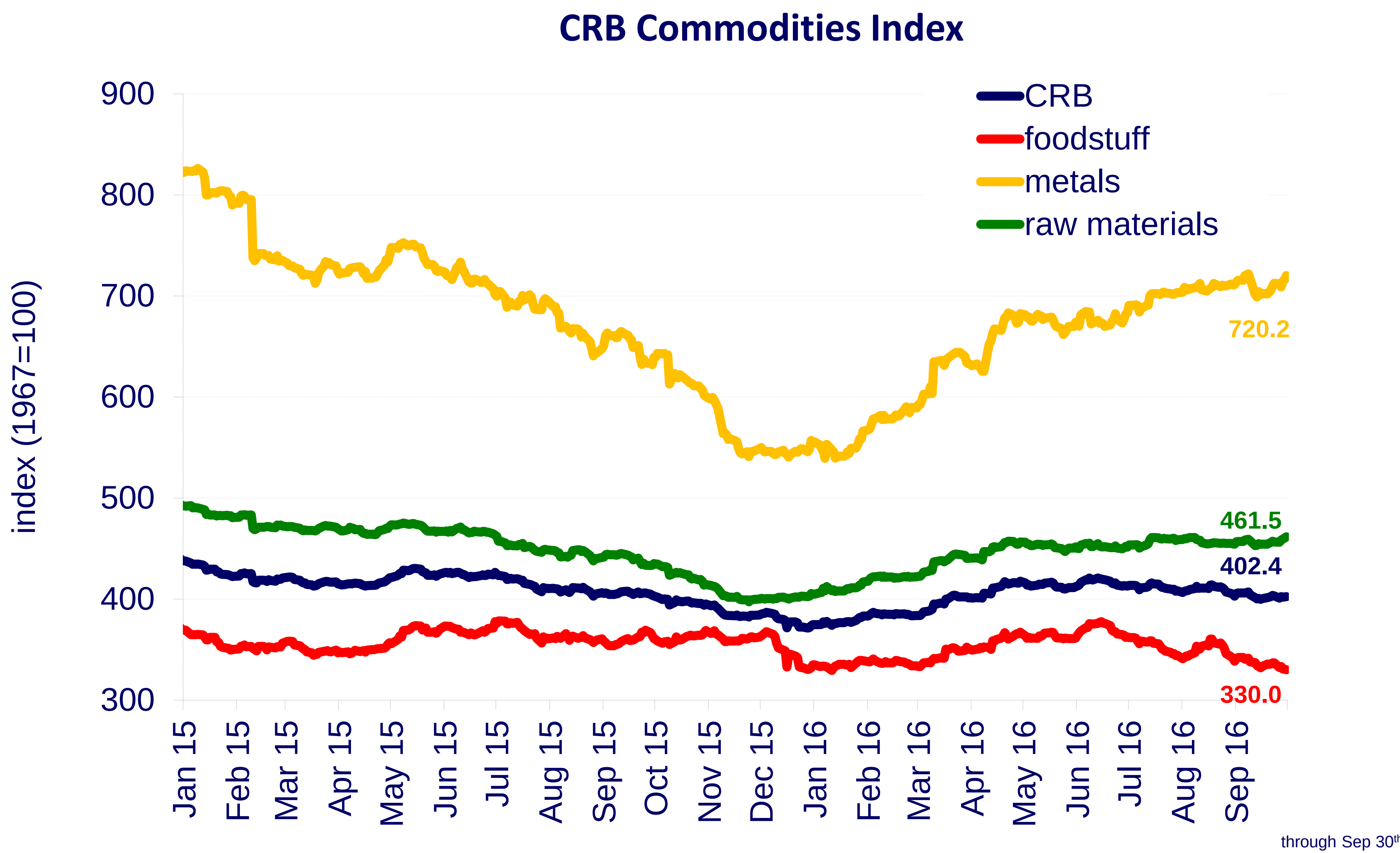
Commodities Prices



Source: Bloomberg

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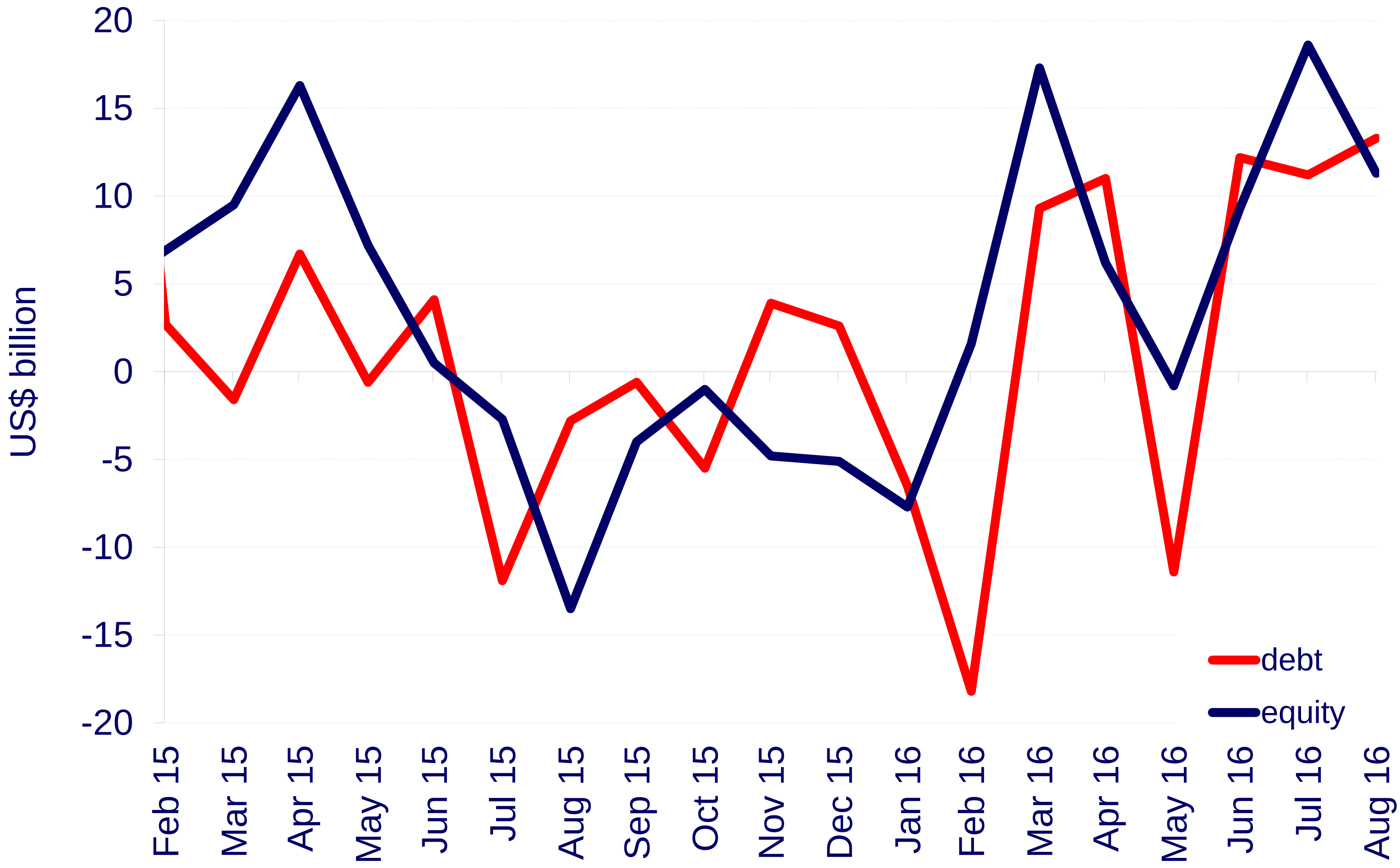
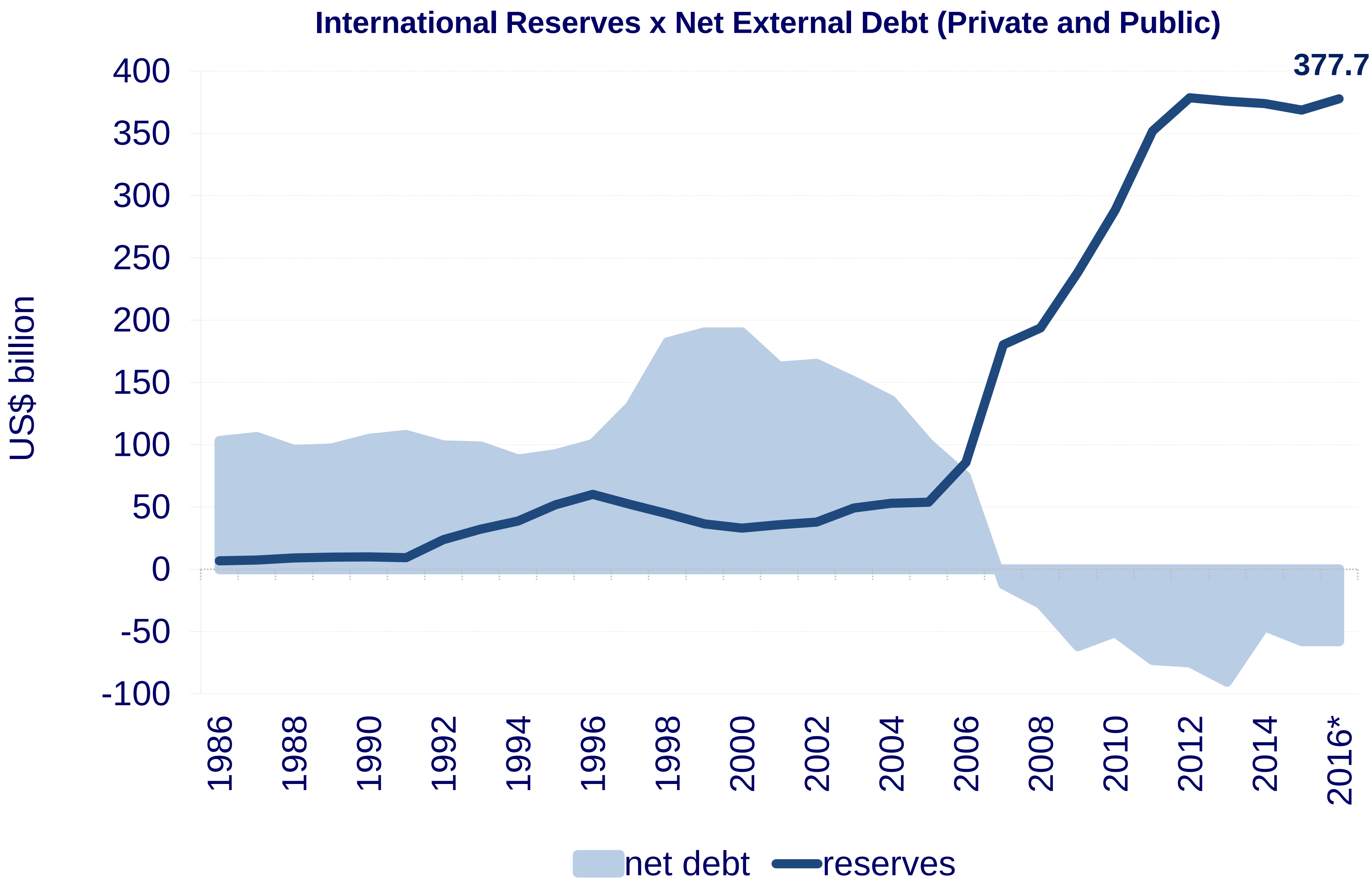
Capital Flows for the Emerging Markets



Source: Bloomberg (from IIF)

Brazil: External Sector Resilience

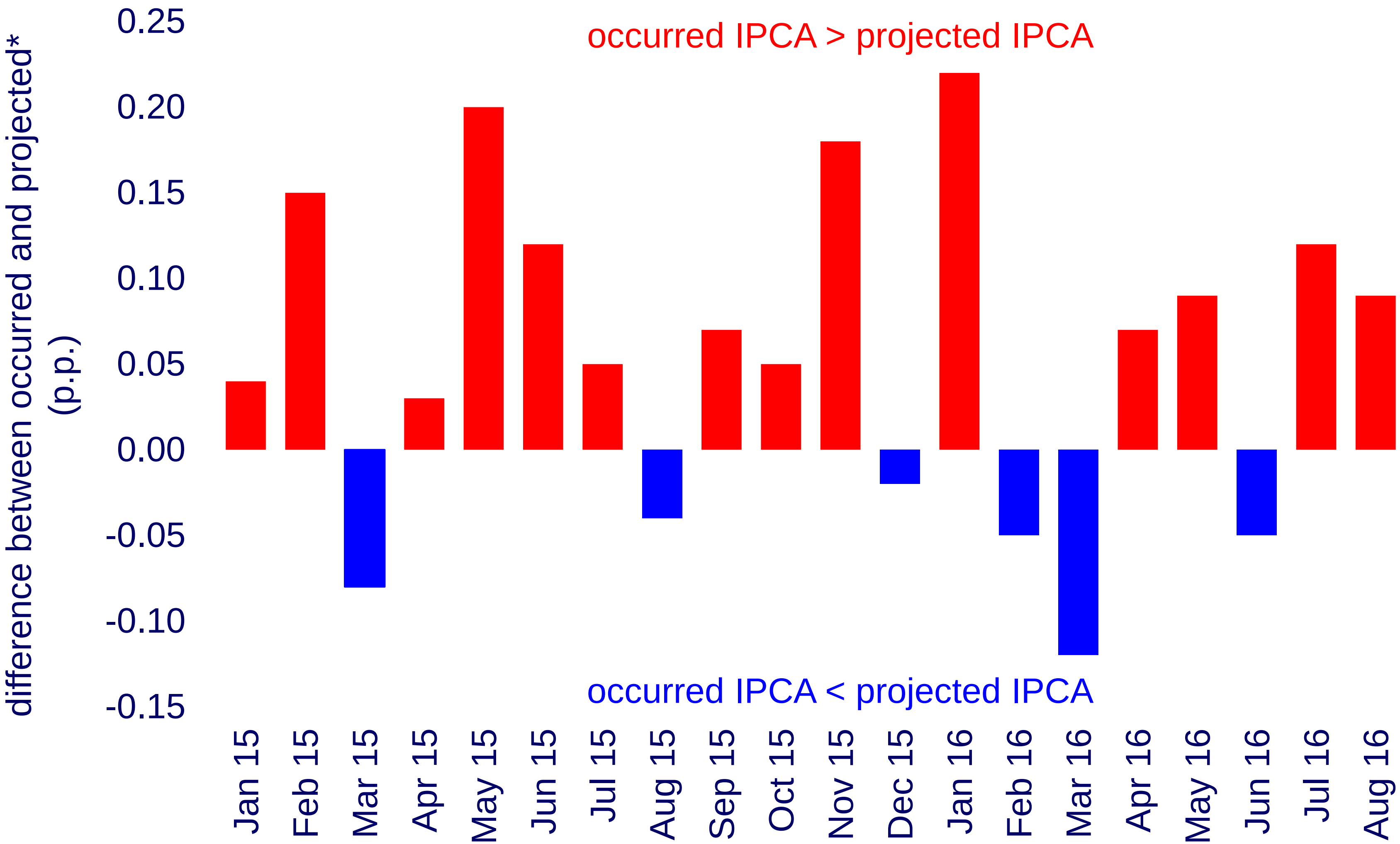


*debt in Aug/16; reserves on September 29th

Source: BCB

IV - Inflation: ongoing disinflation, pace still uncertain

Monthly IPCA – Expectations x Projected



*projected on the IPCA Top 5 reference dates

Sources: BCB (Focus) / IBGE

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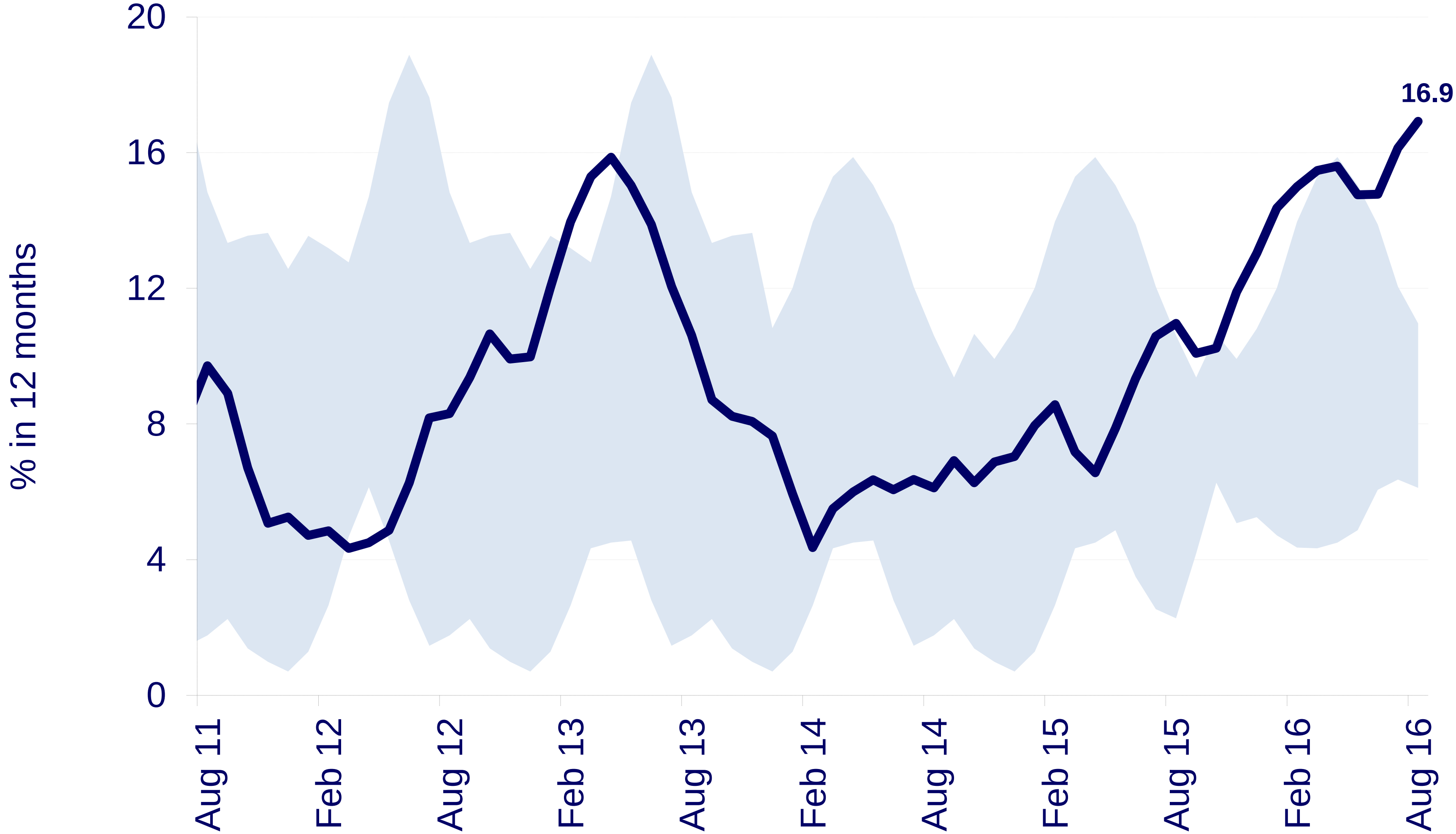
IPCA - Food



shadowed area: highs and lows for each month in the last 5 years

Sources: BCB / IBGE

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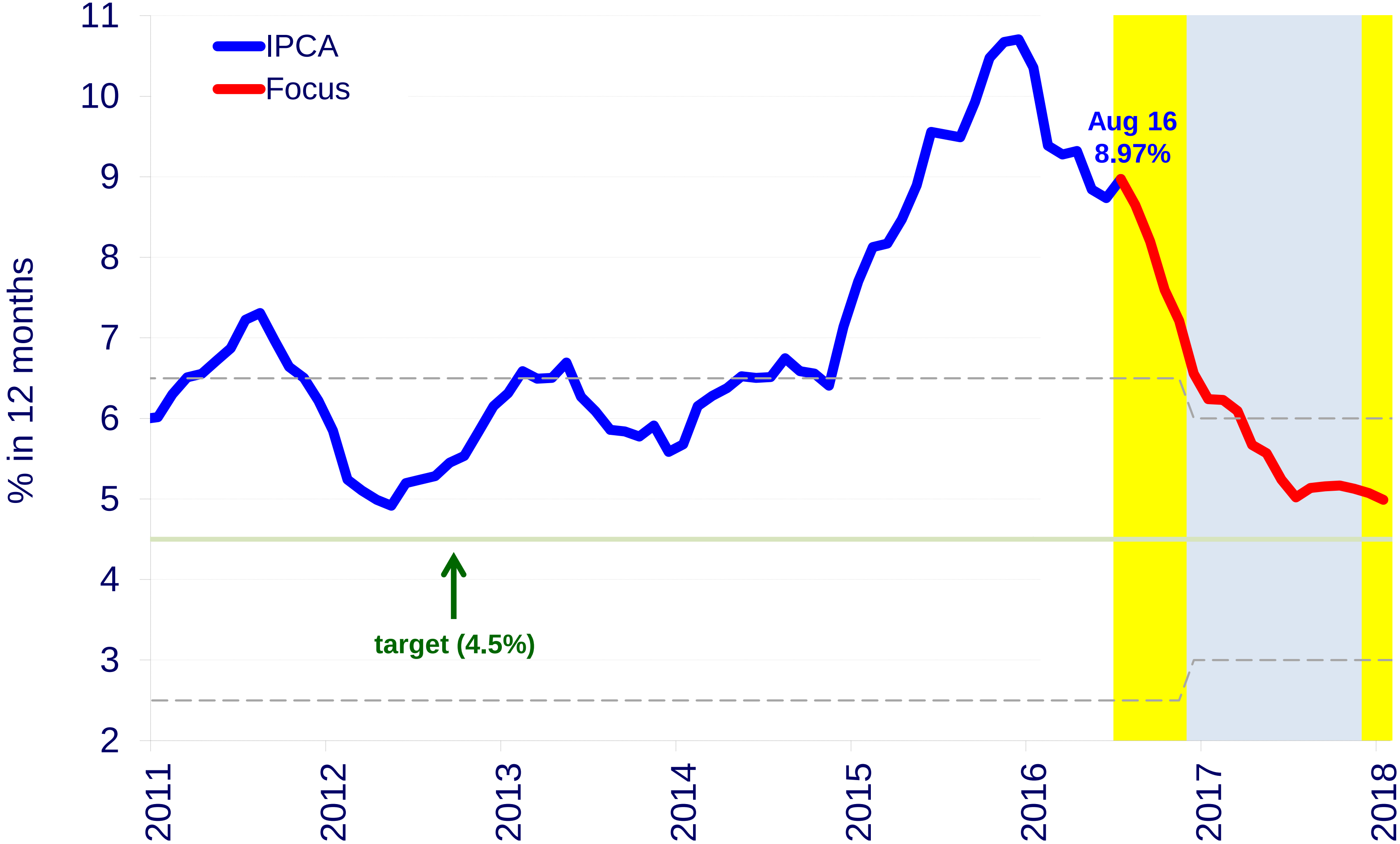
Consumer Price Inflation



Focus: expectations as of Sep 30th

Sources: BCB / IBGE

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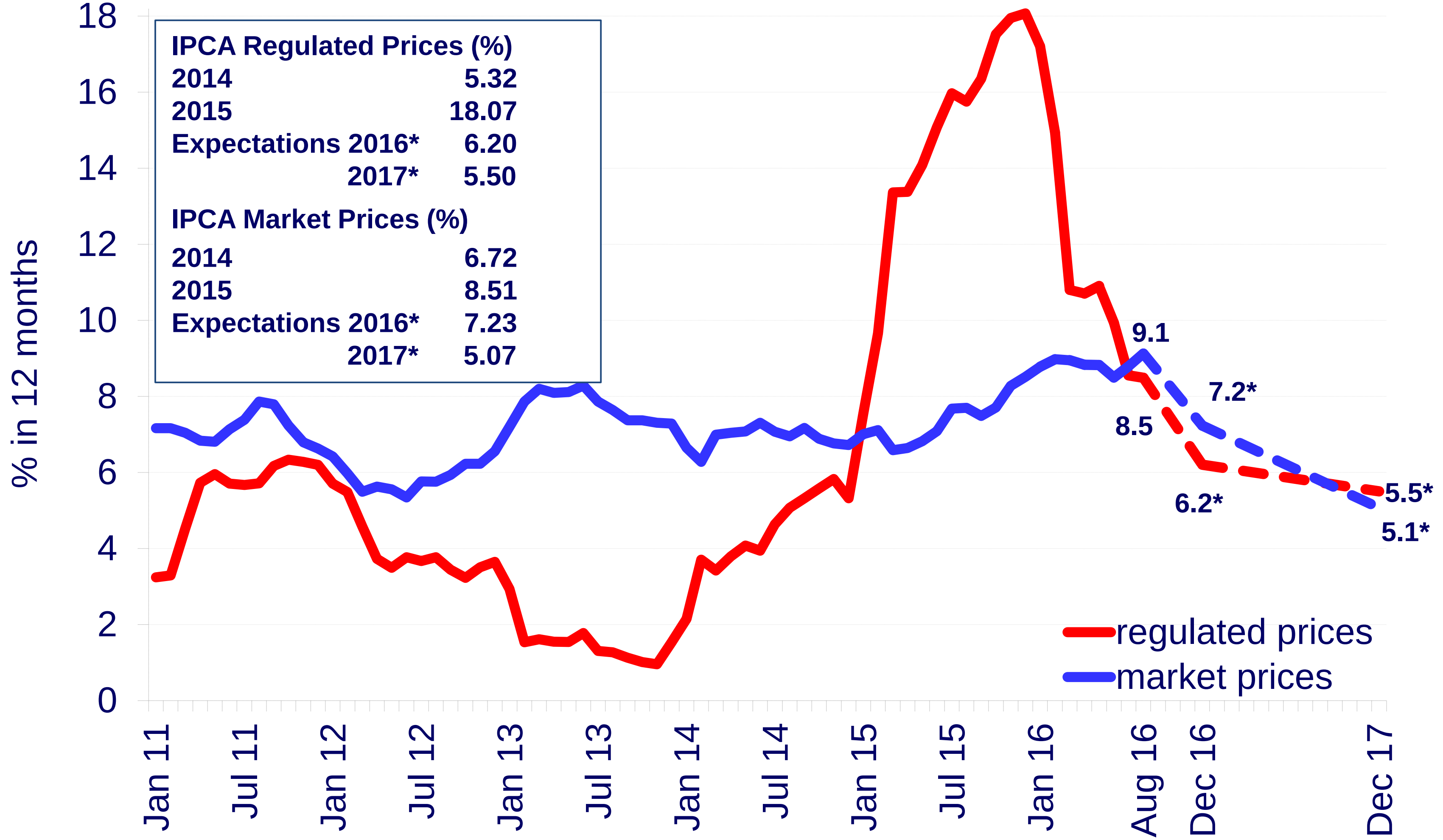
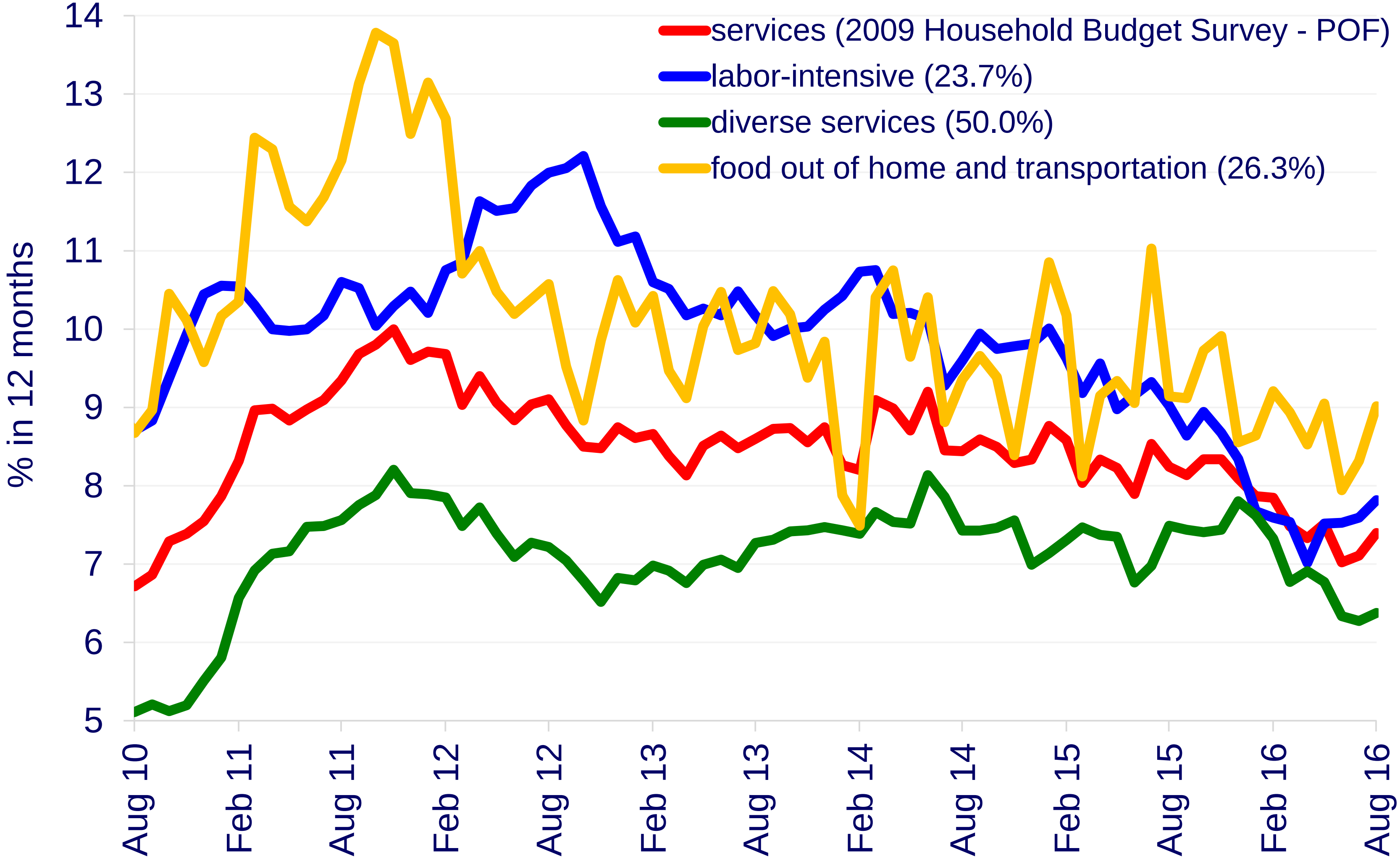
Market Prices and Regulated Prices



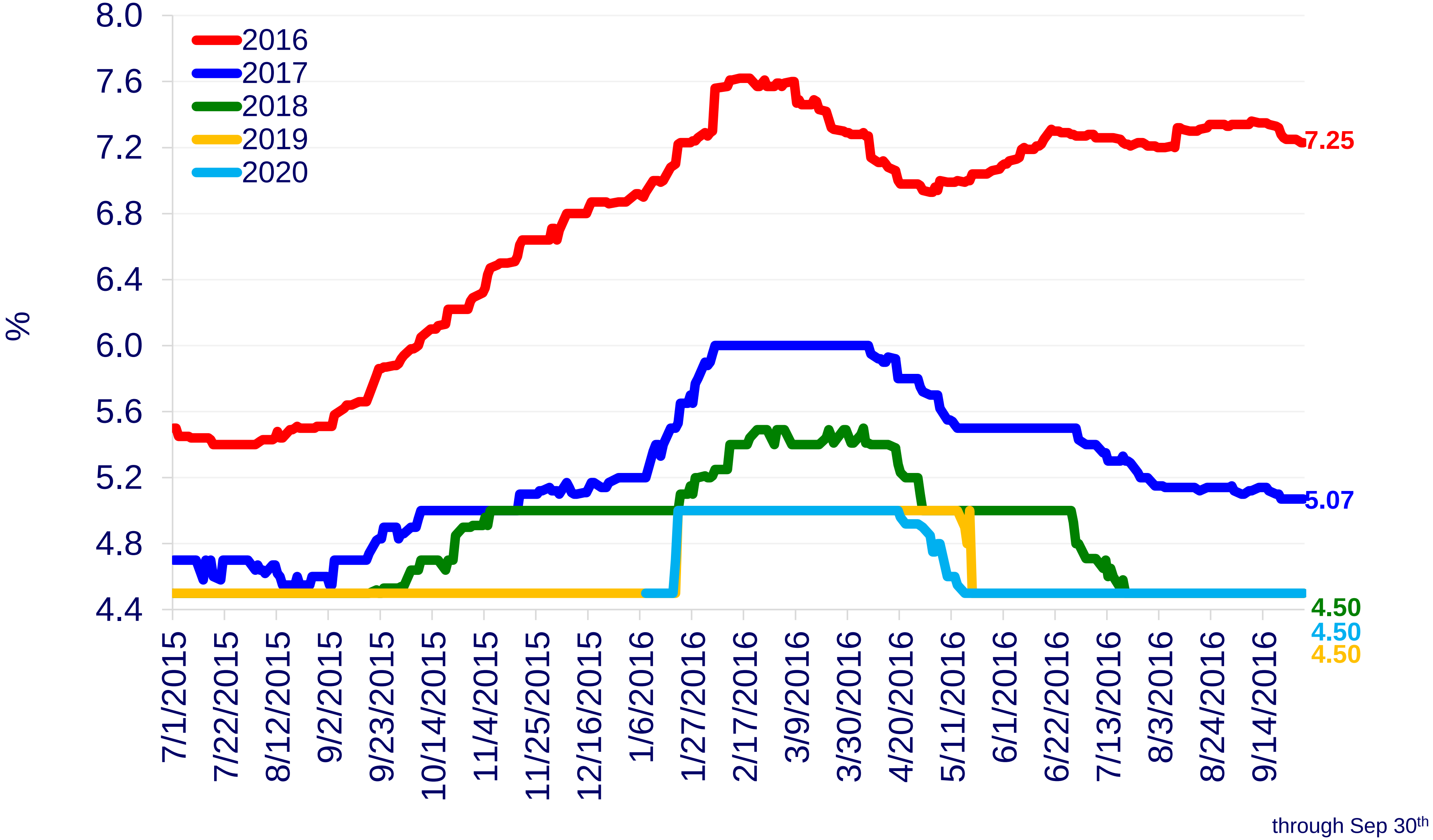
*expectations on Sep 30th

Sources: BCB (Focus) / IBGE

Services Sector Inflation



Evolution of 2016-2020 IPCA Market Expectations



Source: BCB (Focus)

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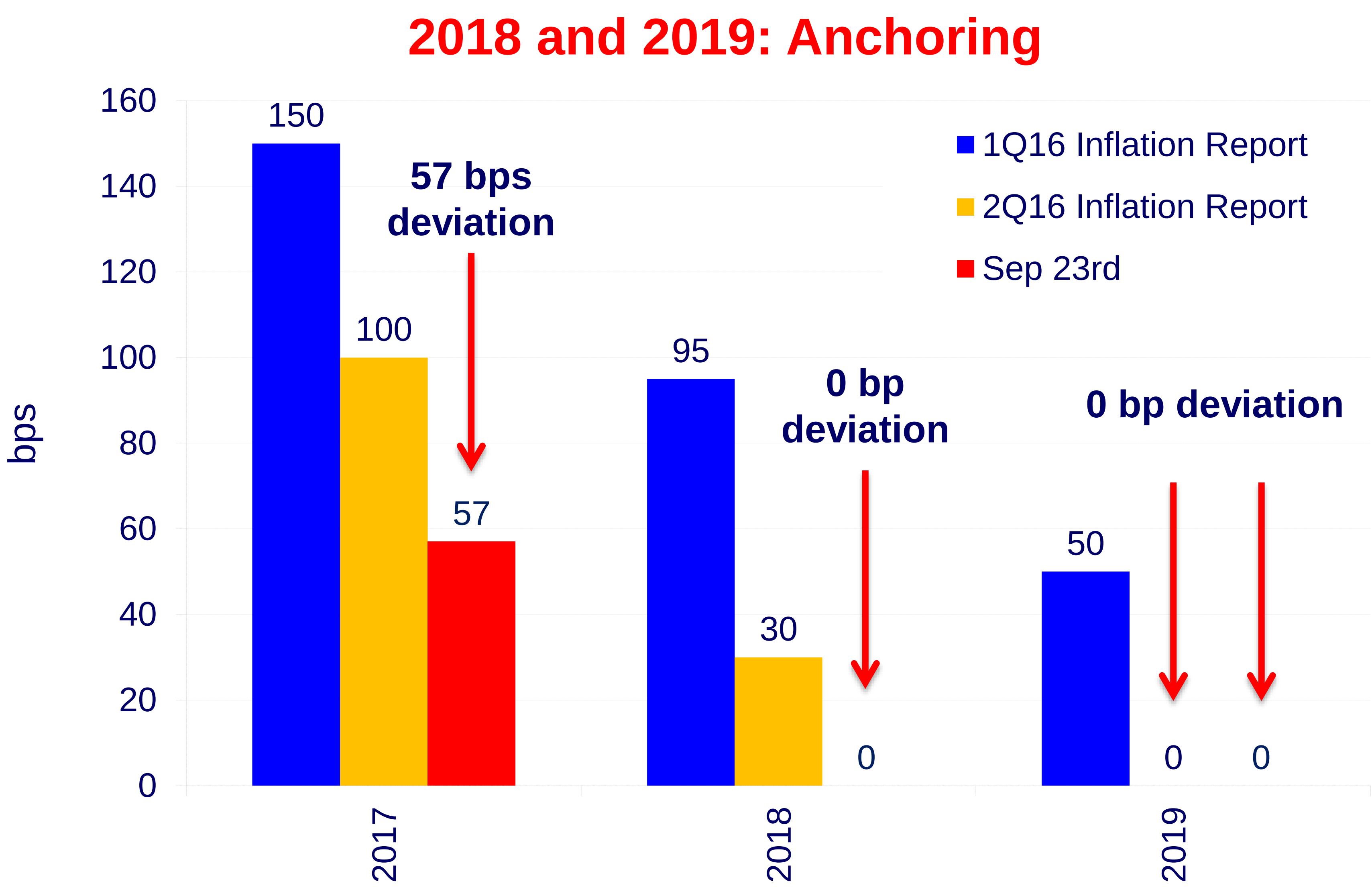
Deviation of Market Expectations to the 4.5% Target



Source: BCB (Focus)

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