

Global Outlook: A Slowdown Is Under Way

Leandro Rothmuller
Chief Economist
leandrorothmuller@bocombbm.com.br

The global outlook deteriorated significantly in 2018. Monetary normalization in the United States drove a sharp dollar appreciation and led to a reduction in risk appetite toward emerging markets. In addition, trade tensions intensified as the US imposed tariffs on imports from China. Finally, fears of a global economic slowdown triggered a correction in the markets at the end of the year.

While in January global markets recovered enough to claw back part of December's correction, a slower pace of growth in 2019 appears inevitable. The US economy is set to decelerate from 3.0% in 2018 to around 2.0% in coming quarters as the impact of Trump's fiscal stimulus loses steam and tighter financial conditions begin to bite.

China continues to face downward pressures amid a complicated external environment. The Chinese economy decelerated at the end of the year and is expected to slow further towards 6.0% in 2019. Trade negotiations with the US appear to be moving well, but an escalation of trade tensions still represent a risk for the economy.

Europe has also decelerated and is set to continue growing less than 2.0% in 2019. Brexit remains a major source of uncertainty, given UK Parliament's rejection of the withdrawal agreement proposed by Prime Minister Theresa May. Furthermore, several supply shocks have shaken the German industrial sector, Italy entered into a technical recession and the French economy will be hamstrung by the street protests.

Slower global growth is negative for emerging markets, but this headwind has so far been mitigated by the response of monetary authorities in developed countries and China. The Fed has already changed track, revising its communication to signal a pause in the interest-rate normalization and a likely revision to its balance sheet reduction strategy. China's central bank (PBOC) cut reserve requirements yet again early in the year, continuing to keep liquidity in the economy high.

Risk appetite toward emerging markets has started to improve again in recent weeks, especially after the last FOMC meeting. However, a deterioration may happen again if the global slowdown proves more acute than expected or the authorities' response falls short.

A global economic slowdown also does not help Brazil, but the outlook for the Brazilian economy continues to depend most of all on domestic factors as its external accounts remain very solid.

Brazilian markets continue to take an optimistic view of the prospects for pensions reform: Paulo Guedes will present a broad and ambitious proposal and Rodrigo Maia's re-election as Speaker of the lower house was seen as positive. However, the election

of Davi Alcolumbre as president of the Senate was turbulent and its consequences are unclear.

Battle in Congress for pension reform has yet to start, and its approval remains the key determinant of Brazil's prospects in the medium term.

| ECONOMIC FORECASTS | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 F | 2020F |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|--------------|
| GDP Growth (%) | 3,0% | 0,5% | -3,5% | -3,3% | 1,1% | 1,2% | 2,6% | 3,0% |
| Inflation (%) | 5,9% | 6,4% | 10,7% | 6,3% | 2,9% | 3,7% | 3,8% | 4,0% |
| Policy Rate (%) | 10,00% | 11,75% | 14,25% | 13,75% | 7,00% | 6,50% | 6,50% | 8,00% |
| Unemployment Rate (%) | 6,8% | 7,1% | 9,6% | 12,6% | 12,4% | 12,2% | 10,7% | 9,9% |
| Trade Balance (US\$ bn) | 3 | -4 | 20 | 48 | 67 | 58 | 51 | 39 |
| Current Account Balance (US\$ bn) | -75 | -104 | -59 | -23 | -10 | -13 | -22 | -39 |
| Current Account Balance (% of GDP) | -3,0% | -4,3% | -3,3% | -1,3% | -0,5% | -0,8% | -1,1% | -1,7% |
| Fiscal Primary Balance (% of GDP) | 1,7% | -0,6% | -1,9% | -2,5% | -1,8% | -1,6% | -1,1% | -0,6% |
| Government Gross Debt (% of GDP) | 51,7% | 57,2% | 66,2% | 69,4% | 74,0% | 76,7% | 76,5% | 76,9% |