

## Pension Reform Makes Progress

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The pension reform bill has made surprising progress in recent weeks. It passed the lower house of Congress on the first of two readings by a comfortable margin before the July recess. In its present form the saving would amount to BRL930 billion in ten years. The second reading is set for August, after which the bill will have to pass two readings in the Senate, which is not expected to make significant changes.

This progress is positive because it attenuates a major source of uncertainty, making room for a gradual resumption of economic activity in the quarters ahead. The economic team also announced a new program to allow withdrawals from two worker funds (FGTS and PIS/PASEP) in a bid to stimulate growth. The program will inject BRL30 billion and BRL12 billion into the economy in 2019 and 2020 respectively, which should bump up consumer spending at the end of this year and throughout next year. Lower interest rates will also help: as expected, the Central Bank lowered its policy rate (Selic) to 6.0% from 6.5% and indicated that it sees leeway for more cuts in the coming months.

A vigorous recovery still appears distant, however. The public spending cap and pension reform will keep the fiscal adjustment going strong for some time. In addition, the national development bank (BNDES) and other state-owned banks are reducing their balance sheets. This and the lack of tax reform will continue to restrict growth. Movement on tax reform has begun, and Congress should start discussing this reform before the year is out.

It is important to recall that the global outlook also remains challenging, with a slowdown in all the leading economies and important risks to be monitored. The US and China announced a ceasefire at the G20 summit and have since resumed negotiations, but President Trump announced that on September 1 the US will impose a 10% tariff on another USD300 billion worth of Chinese imports not in the first round, threatening to ramp this tariff up temporarily to 25%. The Chinese currency weakened with the announcement, increasing market volatility.

Brexit also returned to center-stage. Boris Johnson took office as the UK's prime minister promising to end the impasse on the withdrawal agreement. The diarchy that runs the EU appeared to lack a uniform response to the new PM's vow to take the UK out of the EU on October 31 with a "deal or no deal". On one hand, the Germans moderated their tone for fear Johnson might persuade Parliament to approve a hard Brexit, but the French remained skeptical and stuck to their tough stance, saying they would not renegotiate the Irish backstop.

Central banks continued to wield fresh monetary stimulus measures to shore up the global economy. The Fed cut its policy rate by 25 bps on the same day as Brazil's

rate cut, and the ECB hinted that it may lower its rate in September. Additional policy stimulus is expected in the months ahead, but the risk of a sharper global slowdown persists.

<b>ECONOMIC FORECASTS</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019 F</b>	<b>2020F</b>
GDP Growth (%)	3,0%	0,5%	-3,5%	-3,3%	1,1%	1,1%	0,7%	1,9%
Inflation (%)	5,9%	6,4%	10,7%	6,3%	2,9%	3,7%	3,8%	3,7%
Policy Rate (%)	10,00%	11,75%	14,25%	13,75%	7,00%	6,50%	5,00%	5,00%
Unemployment Rate (%)	6,8%	7,1%	9,5%	12,6%	12,4%	12,2%	11,4%	10,7%
Trade Balance (US\$ bn)	3	-4	20	48	67	58	56	44
Current Account Balance (US\$ bn)	-75	-104	-59	-23	-10	-13	-21	-38
Current Account Balance (% of GDP)	-3,0%	-4,3%	-3,3%	-1,3%	-0,5%	-0,8%	-1,0%	-1,7%
Fiscal Primary Balance (% of GDP)	1,7%	-0,6%	-1,9%	-2,5%	-1,8%	-1,6%	-1,6%	-0,9%
Government Gross Debt (% of GDP)	51,7%	57,2%	66,2%	69,4%	74,0%	76,7%	78,3%	79,3%

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