



MACRO OUTLOOK

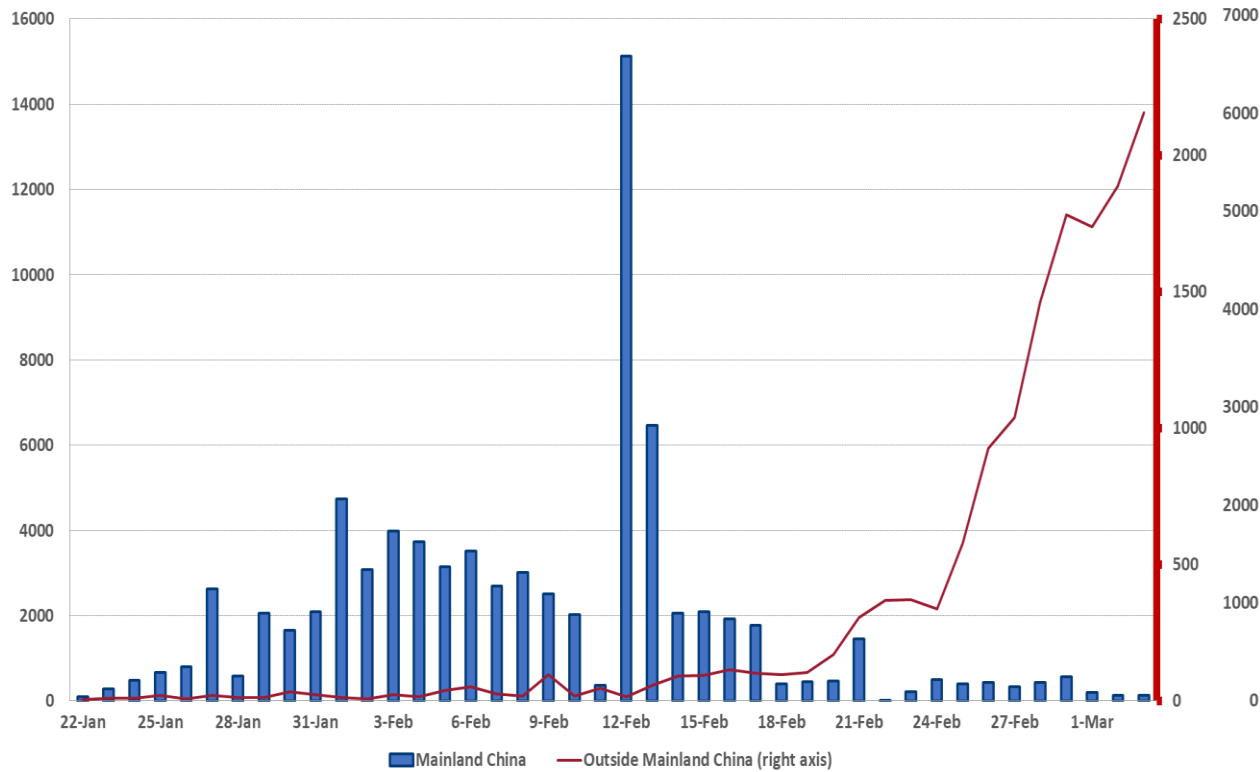
Fernanda Guardado
Chief-Economist

- » Negative impacts of Covid-19 extend temporarily and geographically; China is posed to have negative growth in the first quarter
- » Spread of the epidemic in Europe and Asia increases the downside risks to the global economy
- » Governments and Central Banks act to accommodate the shock to the economy; but global growth is being revised downwards
- » Brazil: We have revised our forecast for the Selic rate. Growth of 1.9% in 2020 reflects domestic limitations and impact of global shock.

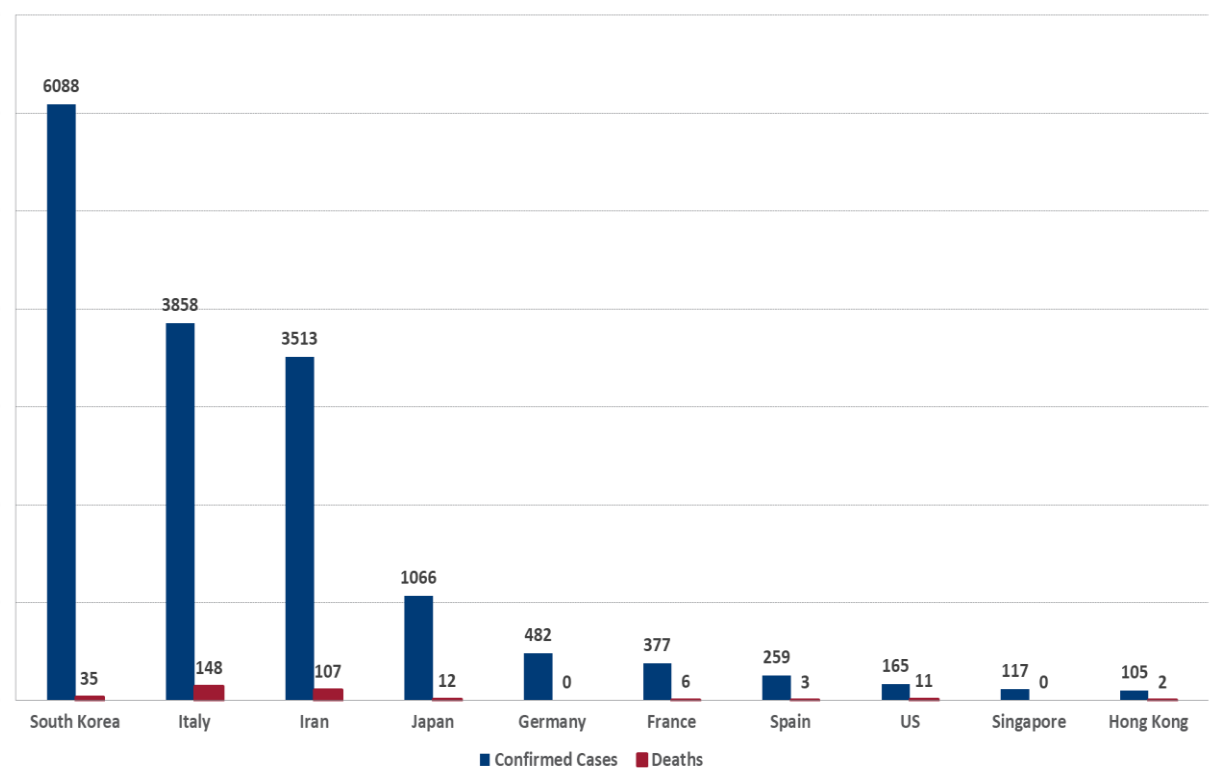
Covid-19

» Epidemic decelerates in China, but spreads fast in European and Asian countries

Number of daily newly confirmed cases



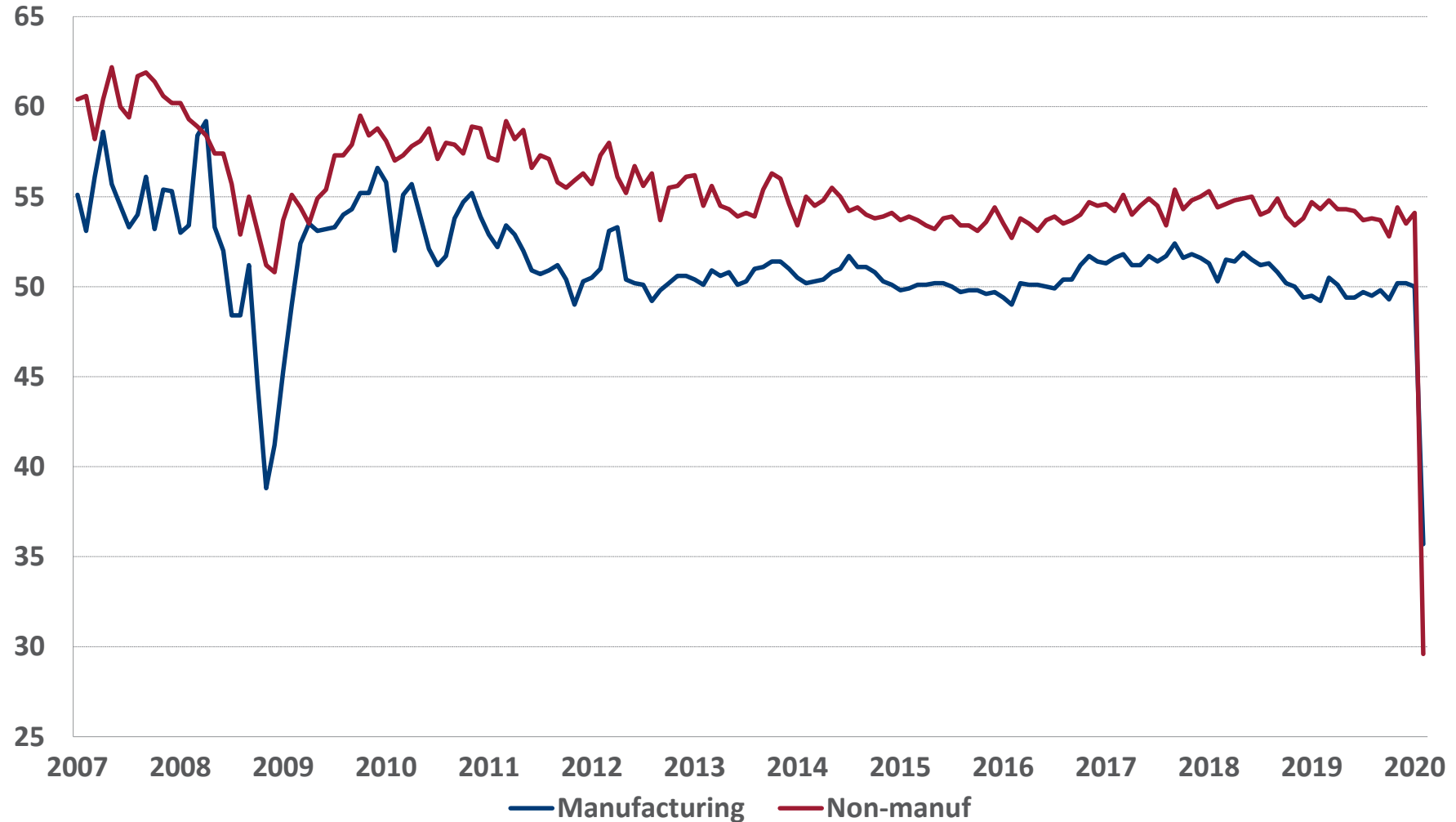
Top 10 Countries by confirmed cases - Ex Mainland China



Covid-19: China

»» Febraury's PMIs confirm strong contraction in Chinese activity, with impacts to extend to March

China - PMIs



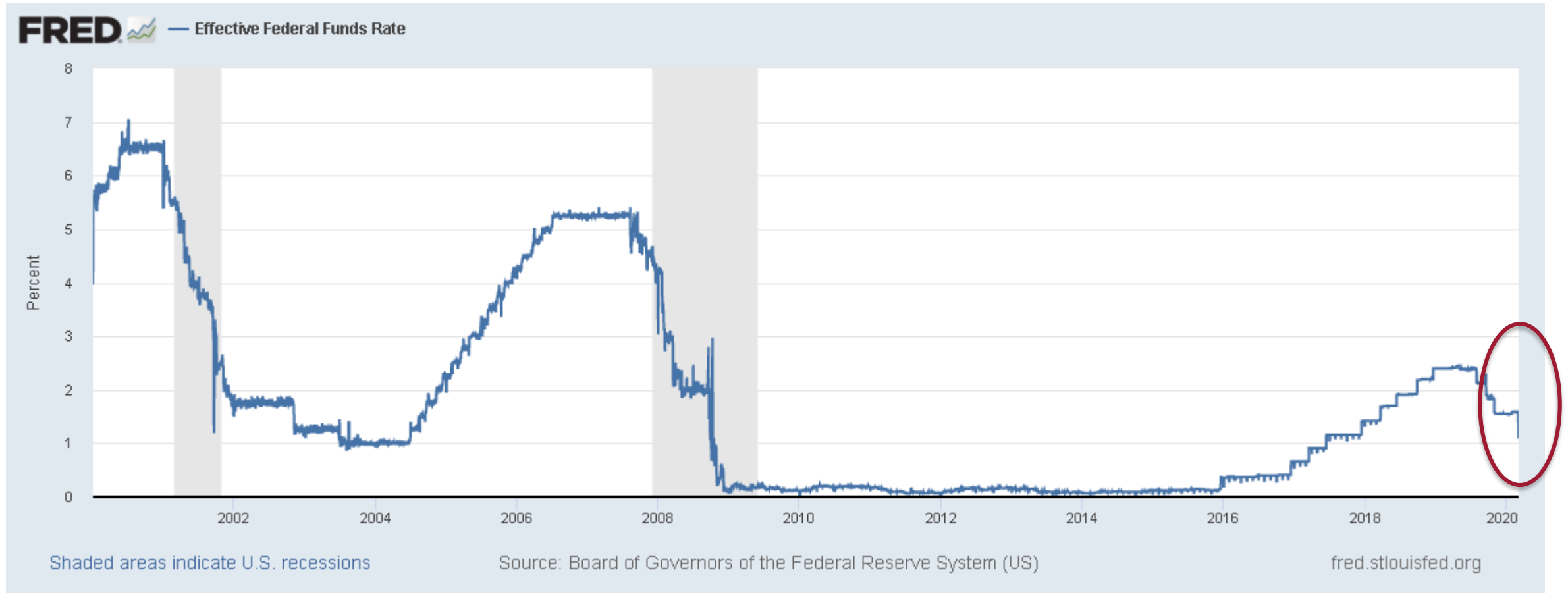
Covid-19: Global Growth

- » Global growth should be below 2019, reflecting the impact of the epidemic on consumption and production chains



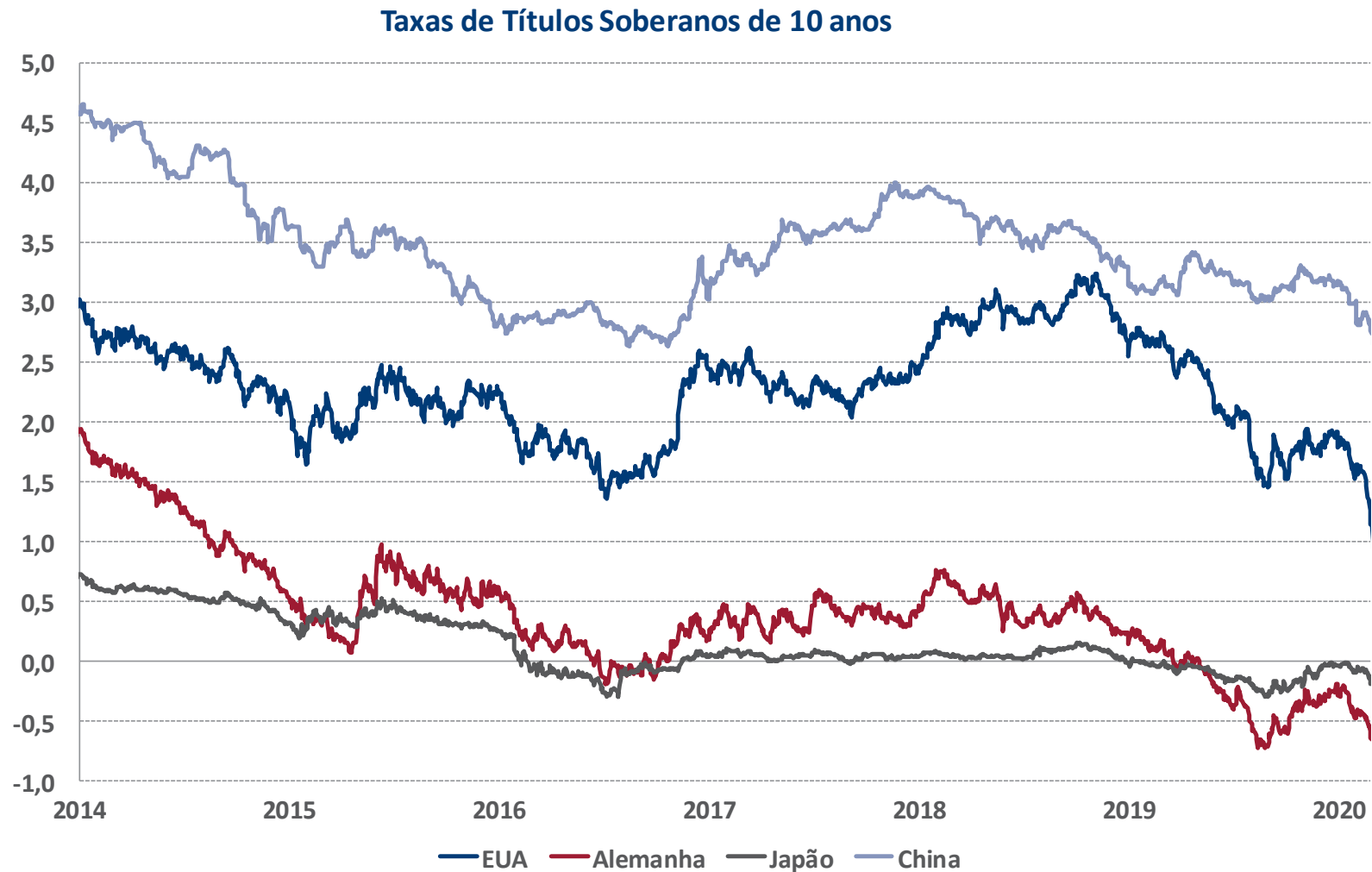
Covid-19: USA

»» FED cut rates, in rare intermeeting decision, but room to accomodate further is limited



GLOBAL INTEREST RATES

»» 10 year Treasury reaches historic low, below 1%



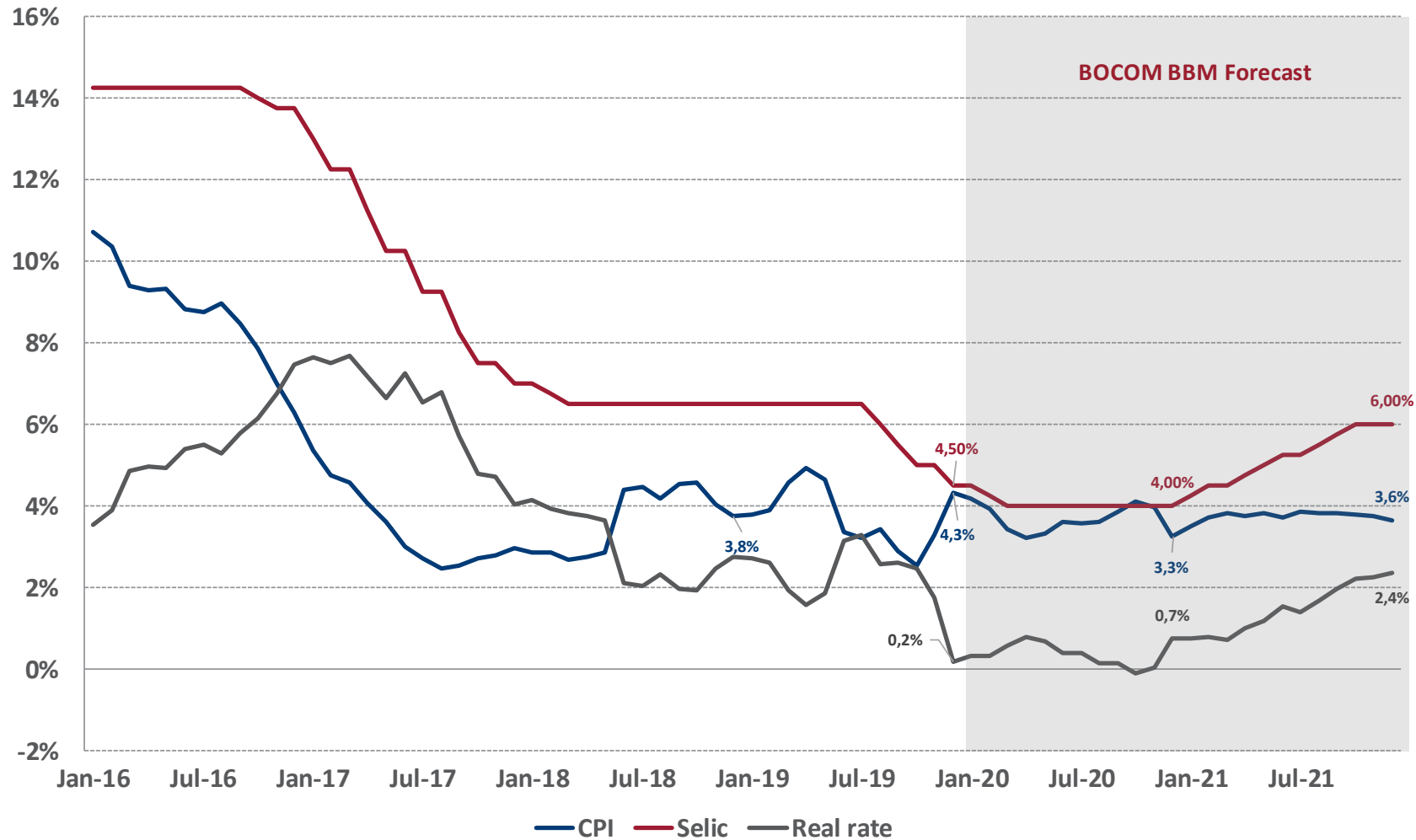
BRAZIL: FORECASTS

ECONOMIC FORECASTS	2014	2015	2016	2017	2018	2019	2020F	2021F
GDP Growth (%)	0,5%	-3,5%	-3,3%	1,3%	1,3%	1,1%	1,9%	2,5%
Inflation (%)	6,4%	10,7%	6,3%	2,9%	3,7%	4,3%	3,3%	3,7%
Unemployment Rate, SA (%)	7,1%	9,6%	12,6%	12,4%	12,2%	11,7%	11,0%	10,7%
Policy Rate (%)	11,8%	14,3%	13,8%	7,0%	6,5%	4,5%	4,0%	6,0%
External Accounts								
Trade Balance (US\$ bn)	-4	20	48	67	53	39	37	40
Current Account Balance (US\$ bn)	-104	-59	-23	-10	-42	-51	-61	-60
Current Account Balance (% of GDP)	-4,3%	-3,3%	-1,3%	-0,7%	-2,2%	-2,8%	-3,2%	-2,5%
Fiscal Policy								
Fiscal Primary Balance (% of GDP)	-0,6%	-1,9%	-2,5%	-1,8%	-1,6%	-0,9%	-1,5%	-0,9%
Government Gross Debt (% of GDP)	57,2%	66,2%	69,4%	73,7%	77,2%	75,9%	77,0%	76,0%

BRAZIL: MONETARY POLICY

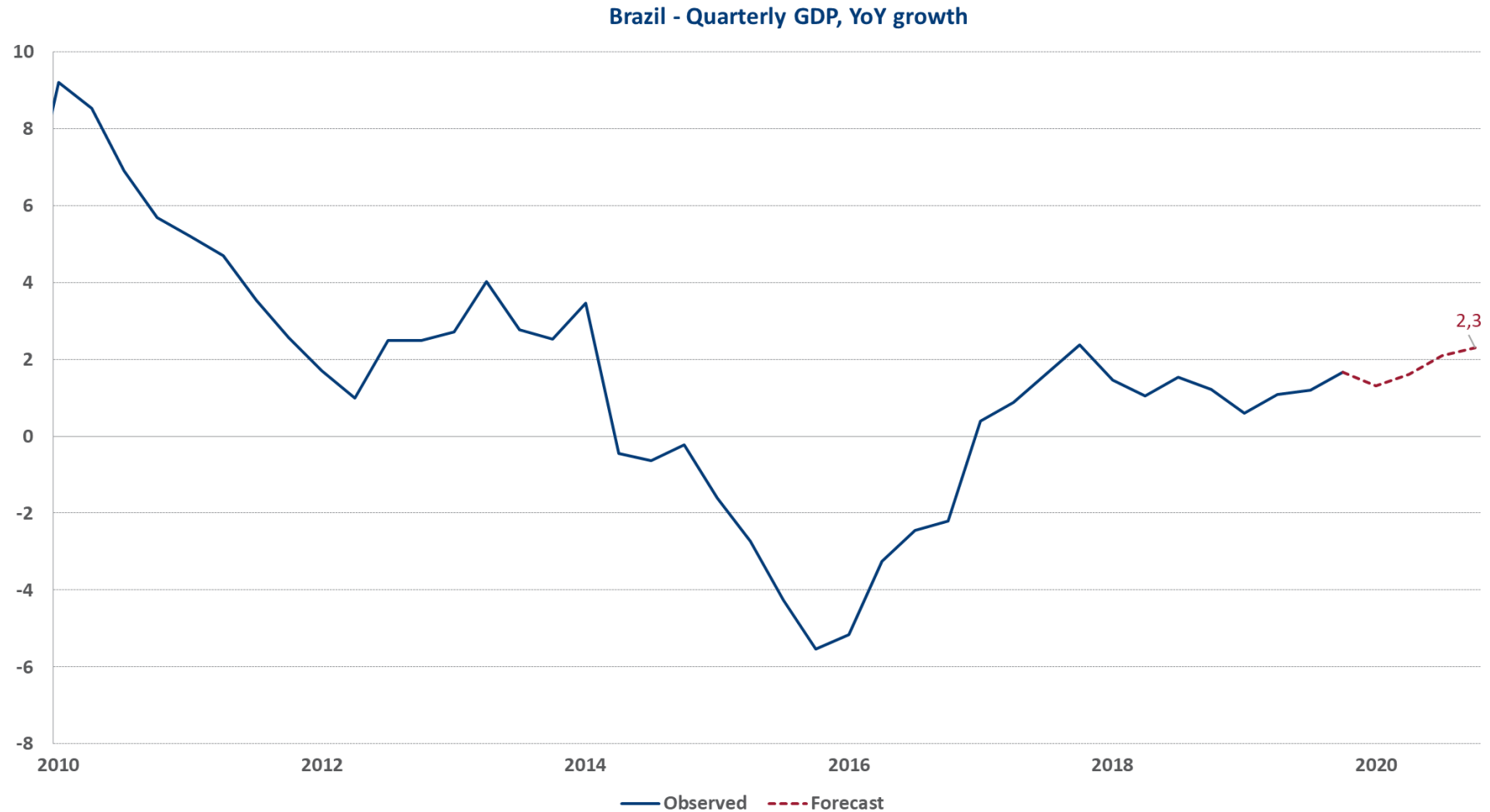
» Selic rate will probably be cut to 4%, where we expect it to remain till yearend

CPI, Selic rate and Real ex-post interest rate



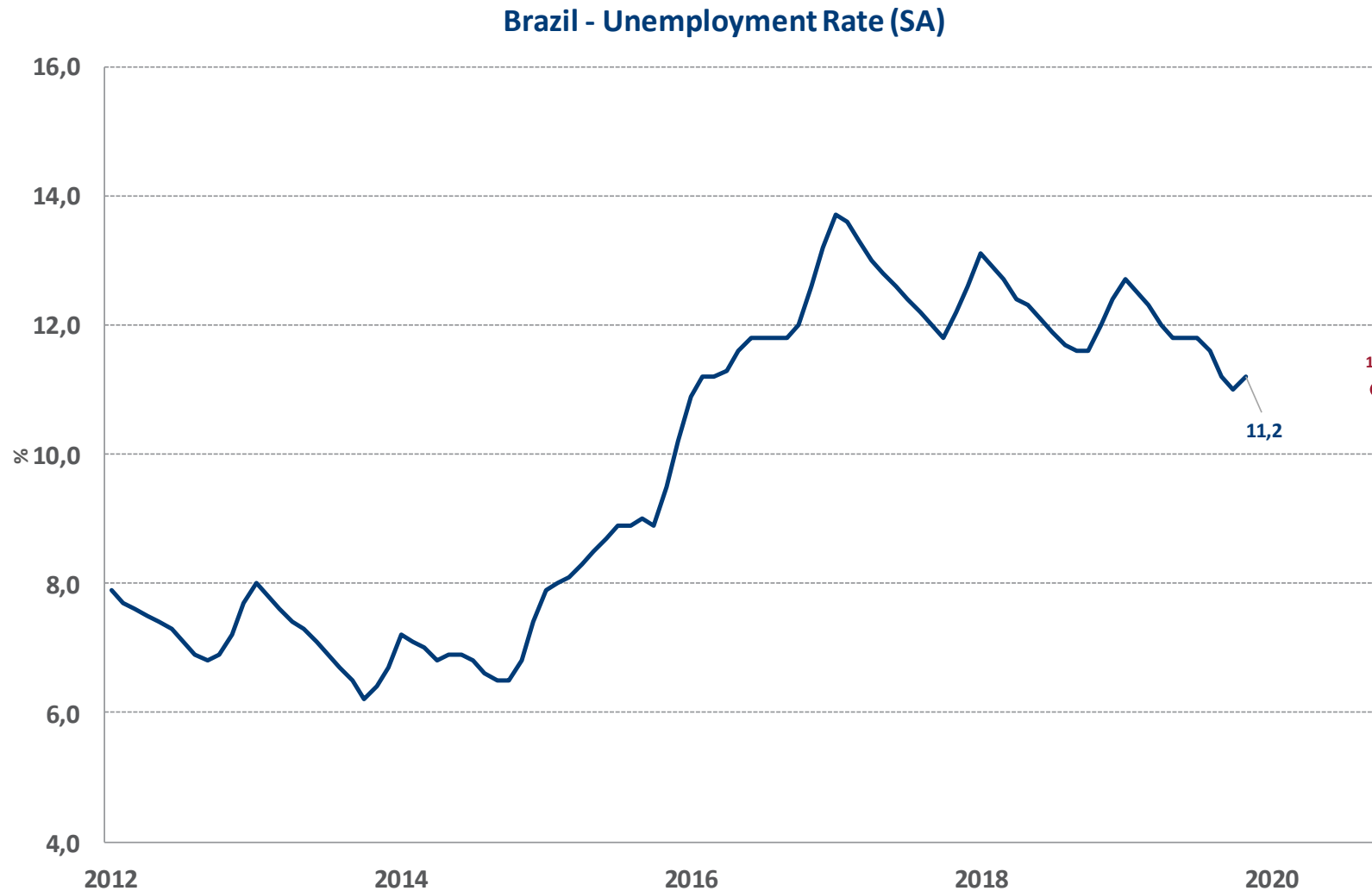
BRAZIL: ACTIVITY

» We now expect GDP growth of 1.9% in 2020, with some improvement in the second half of the year



BRAZIL: LABOR MARKET

» Unemployment rate might decrease slowly despite improvement in formal job market



BRAZIL: INFLATION

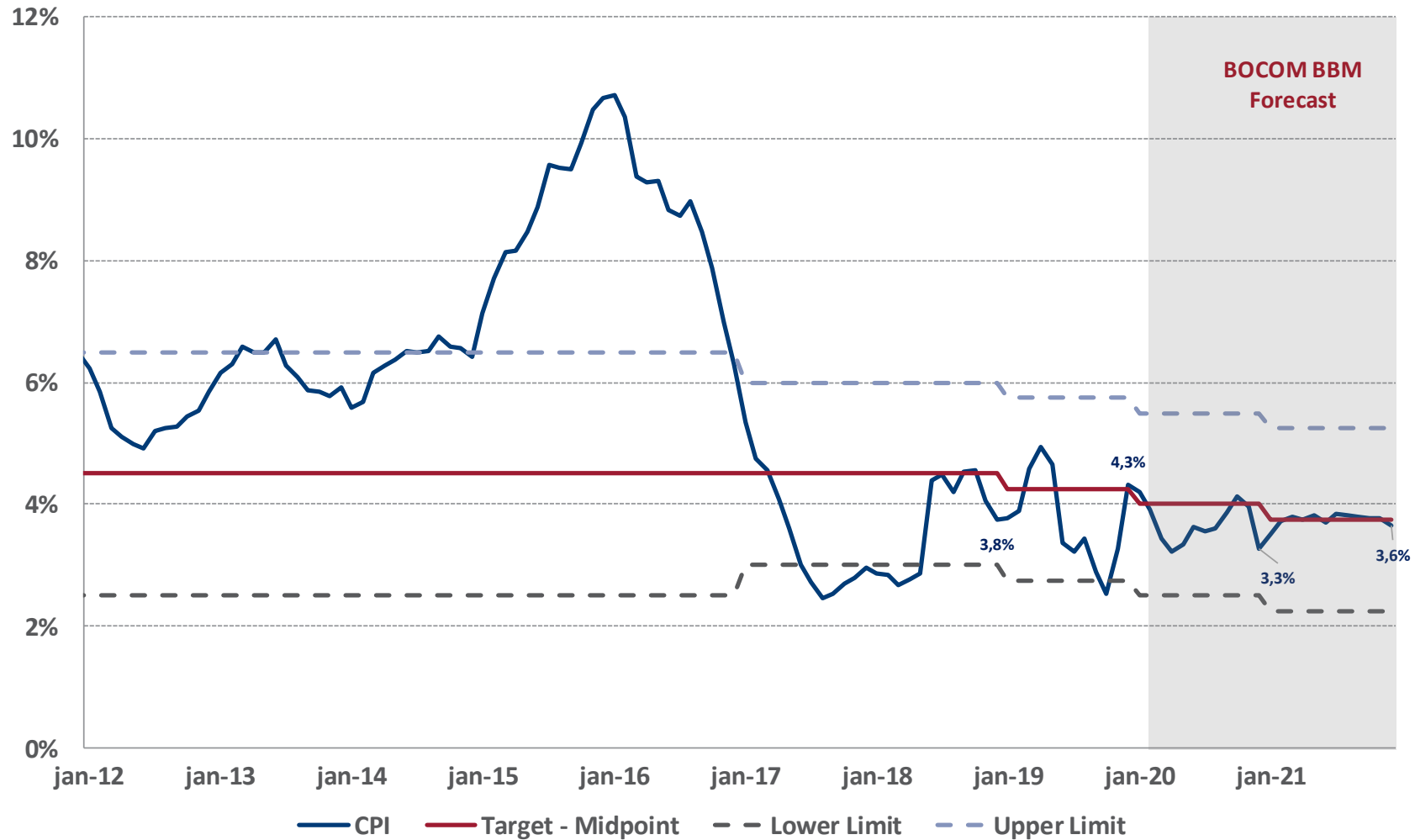
»» New weights and still high unemployment should contain inflation below the target's midpoint

Baseline Scenario							
USD/BRL: 4,25 in 2020, 4,1 in 2021							
GDP Growth: 2.1% in 2020, 2.5% in 2021							
Potential GDP growth: 1.5% in 2020 e 2% in 2021							
	IPCA	Administred	Non-Regulated	Services	Food-at-Home	Industrial Products	Output-Gap
19 Q1	4,6%	6,3%	4,0%	3,6%	8,7%	1,4%	-2,4%
19 Q2	3,4%	3,7%	3,2%	4,0%	4,1%	1,5%	-2,0%
19 Q3	2,9%	2,9%	2,9%	3,6%	3,8%	1,2%	-1,6%
19 Q4	4,3%	5,5%	3,9%	3,5%	7,8%	1,7%	-1,2%
20 Q1	3,4%	4,8%	2,9%	3,5%	4,0%	1,5%	-1,2%
20 Q2	3,6%	3,8%	3,5%	3,7%	6,0%	1,6%	-1,0%
20 Q3	3,9%	3,7%	3,8%	4,0%	7,0%	1,6%	-0,9%
20 Q4	3,3%	3,3%	3,3%	4,1%	3,9%	1,6%	-0,7%
21 Q1	3,8%	4,0%	3,8%	4,6%	5,4%	1,5%	-0,6%
21 Q2	3,7%	4,1%	3,6%	4,6%	5,0%	1,2%	-0,4%
21 Q3	3,8%	4,4%	3,6%	4,7%	4,8%	1,2%	-0,3%
21 Q4	3,6%	3,9%	3,6%	4,7%	4,3%	1,3%	-0,2%

BRAZIL: INFLATION

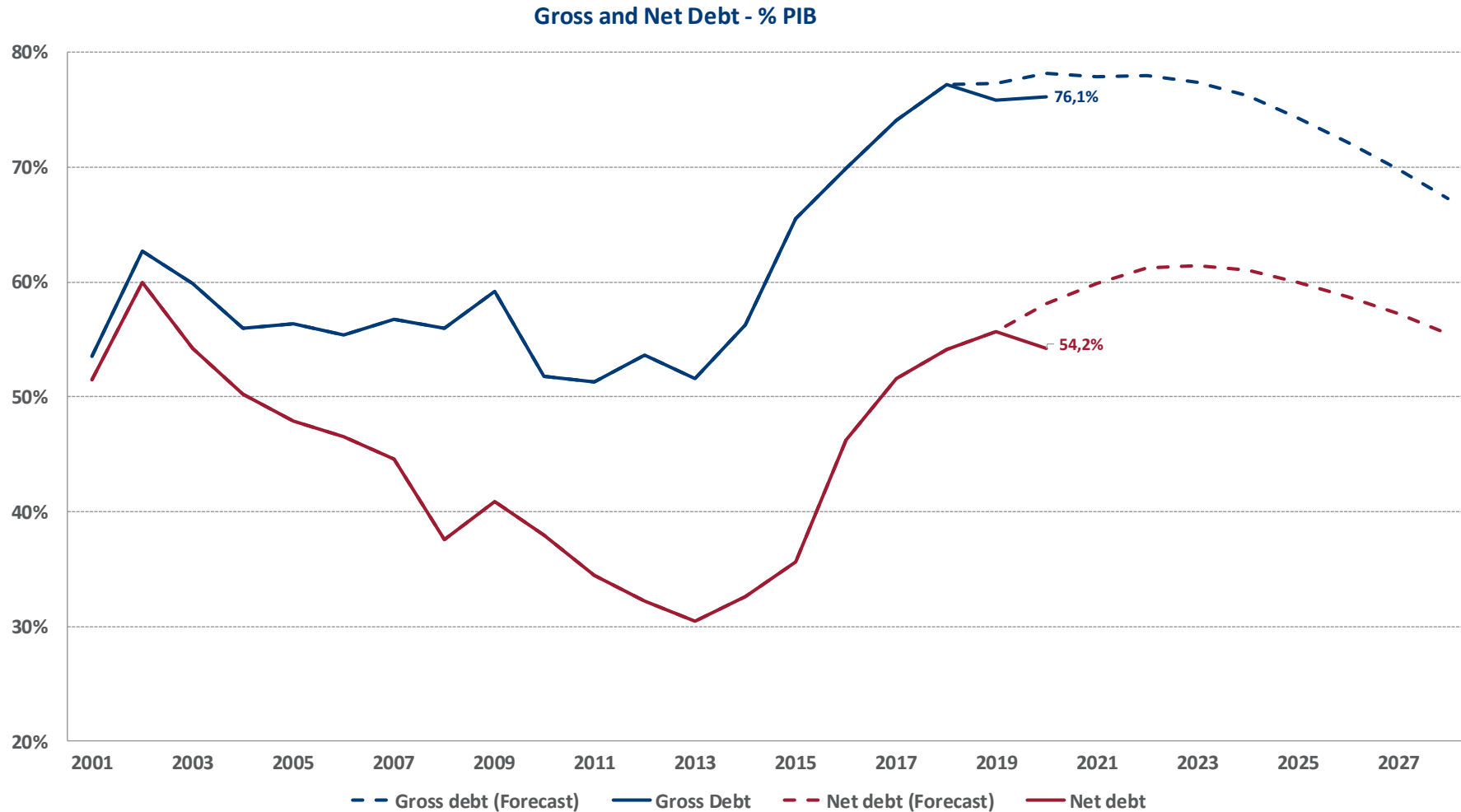
» Inflation should remain contained and close to target

CPI and Inflation Targets



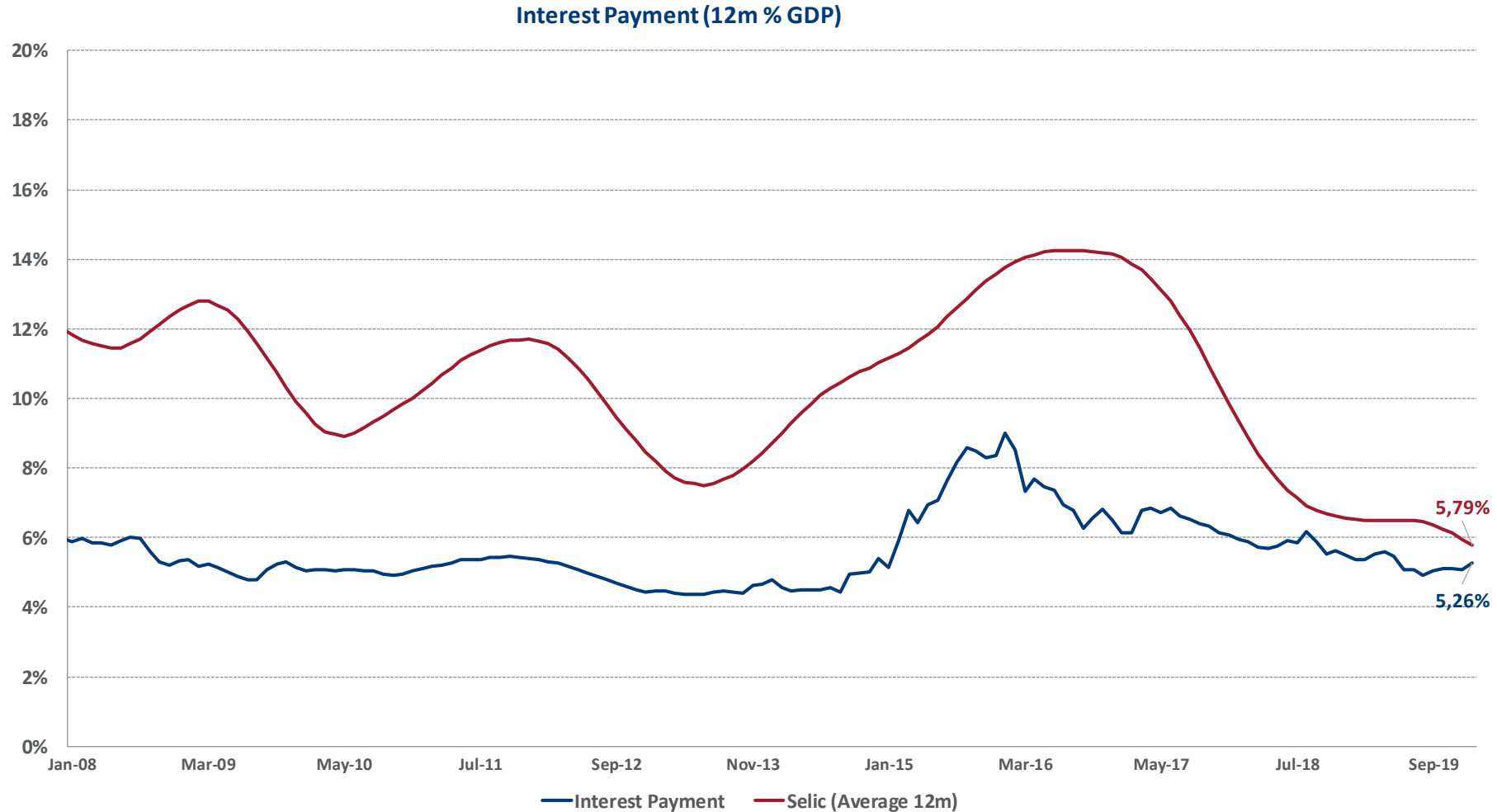
BRAZIL: DEBT DYNAMICS

»» Better debt dynamics, but debt/GDP still high



BRAZIL: DEBT DYNAMICS

»» Decline in interest rates is an important source of improvement to debt dynamics



»» Ministry of Economy sent 3 new Constitutional Amendments to the Senate:

1. **“Emergency PEC”**: establishes thresholds and rules that trigger the freezing or cut of public employees when both federal or state governments breach certain benchmarks, allowing the decrease in expenditures
 2. **Federative Pact**: redistribution of revenue between the Federal and Local Govts (R\$ 400 bn); creation of a Fiscal Council; uniformization in budget standards for local administrations; overview of subsidies; No more federal backing to local govts debt, (and more...)
 3. **Earmarked Funds**: proposal to end the earmarking of revenue to several state funds, unfreezing around R\$ 220 bn of public money unused
- »» “Emergency PEC” is the most relevant in the short run, and equivalent to a Constitutional amendment being appreciated by the House
- »» Measures are needed to make the Expenditure cap viable and make budget administration easier and more effective

BRAZIL: RATING

» Upgrade probable in 2020; Market pricing already as *Investment grade*

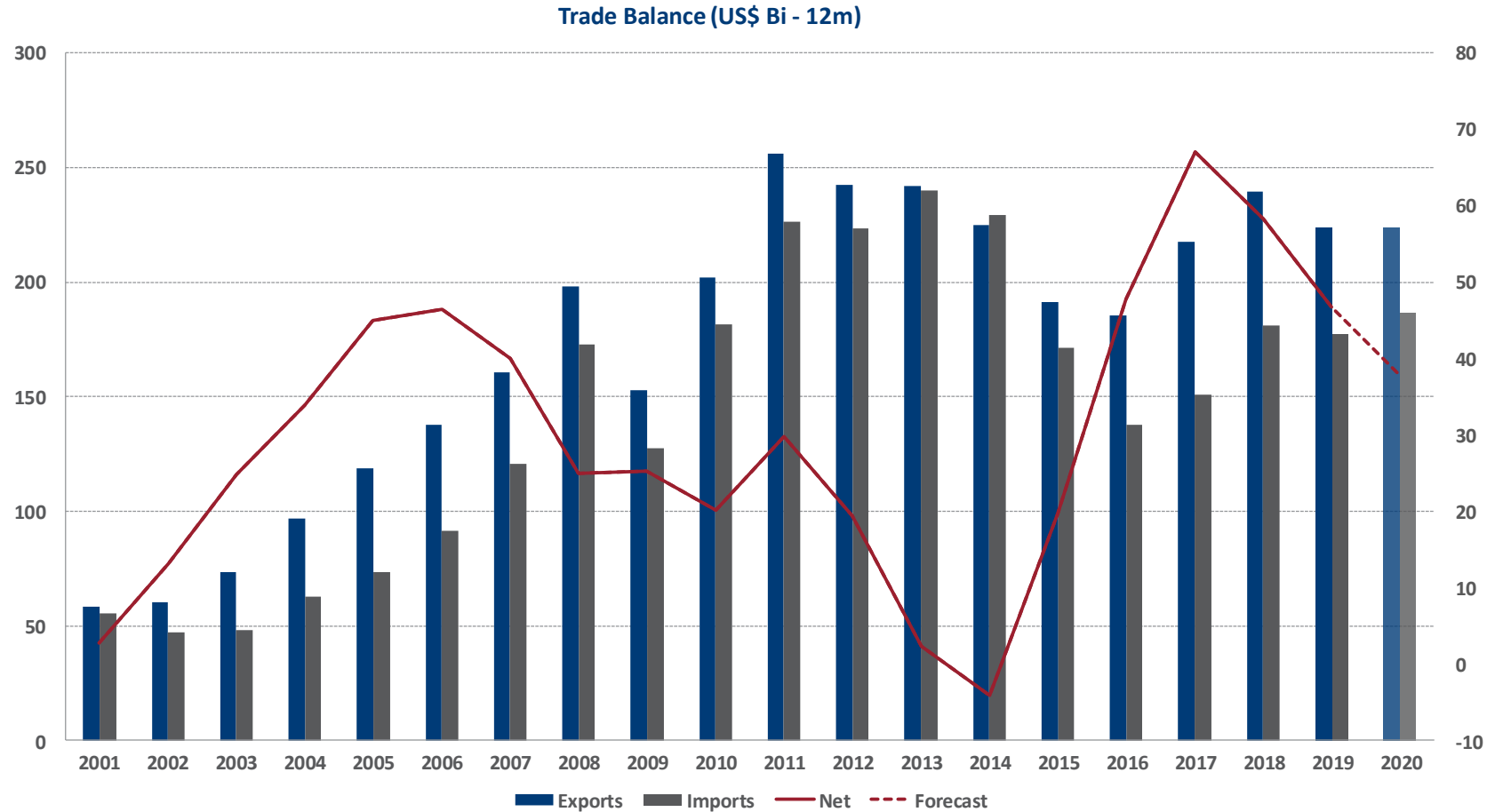
Brazil: CDS 5 Years



	Current	Outlook	Agency's First Investment Grade	Steps until IG
S&P	BB-	Positive	BBB-	3
Moody's	Ba2	Stable	Baa3	2
Fitch	BB-	Stable	BBB-	3

BRAZIL: TRADE

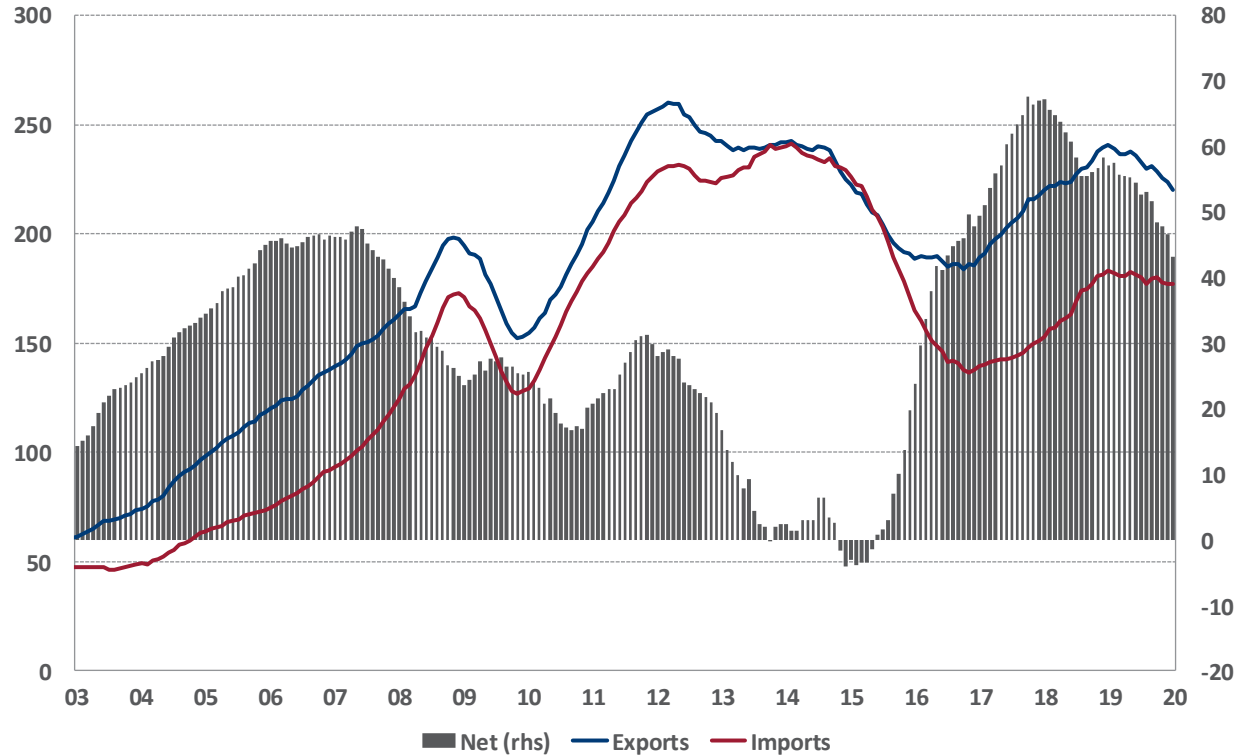
»» Trade balance will should continue to feel the negative impacts from decelerating trade partners



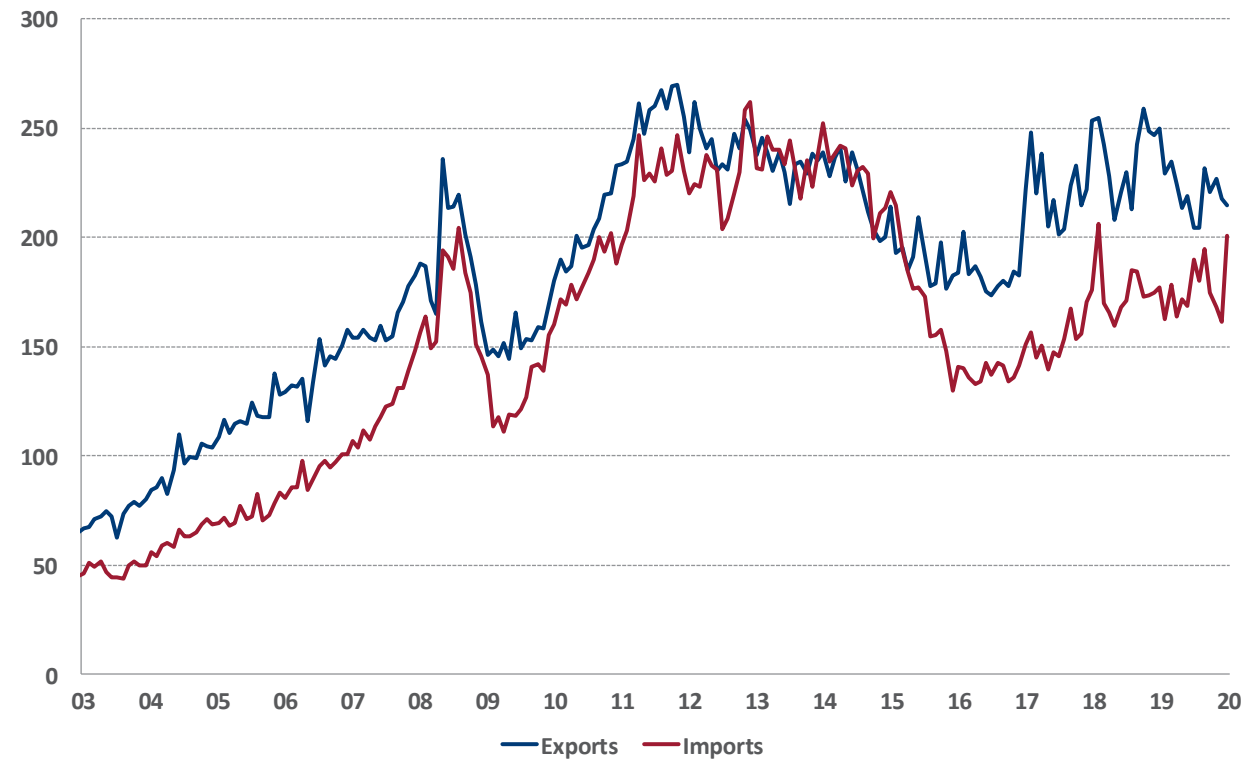
BRAZIL: Trade Balance

»» Decrease in commodity prices and import increase are the vectors for 2020 in trade

Trade Balance - US\$ Billion in 12m

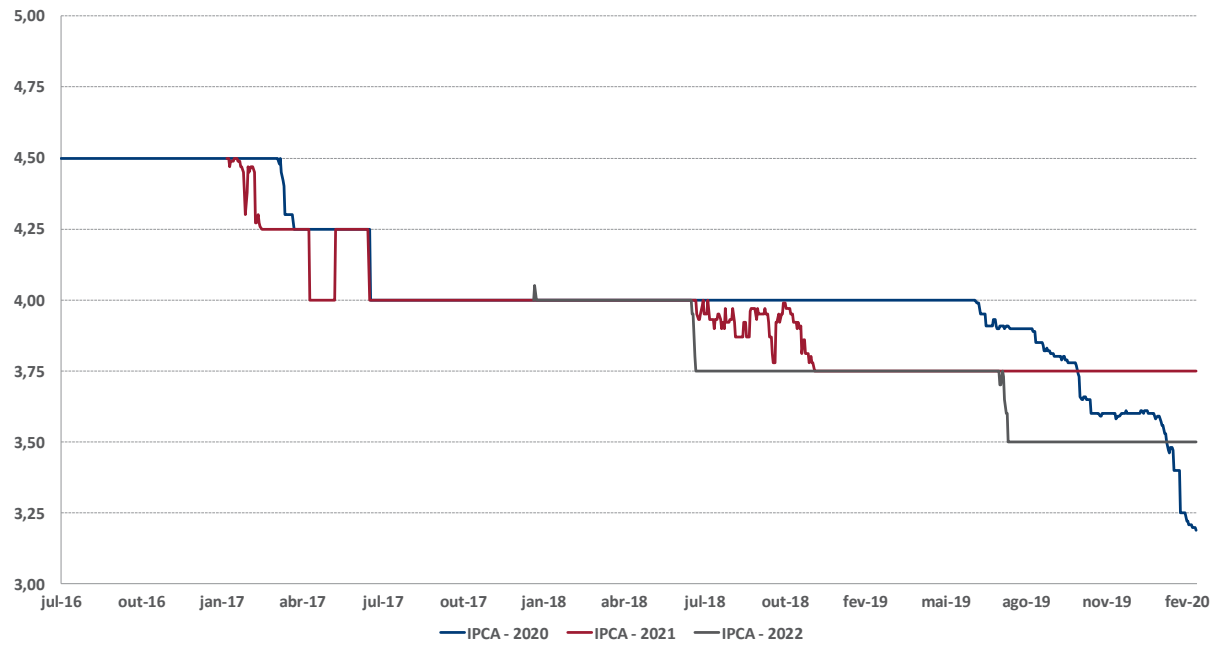


Brazil: Trade Balance - US\$ Billion, SAA



BRAZIL: MARKET FORECASTS

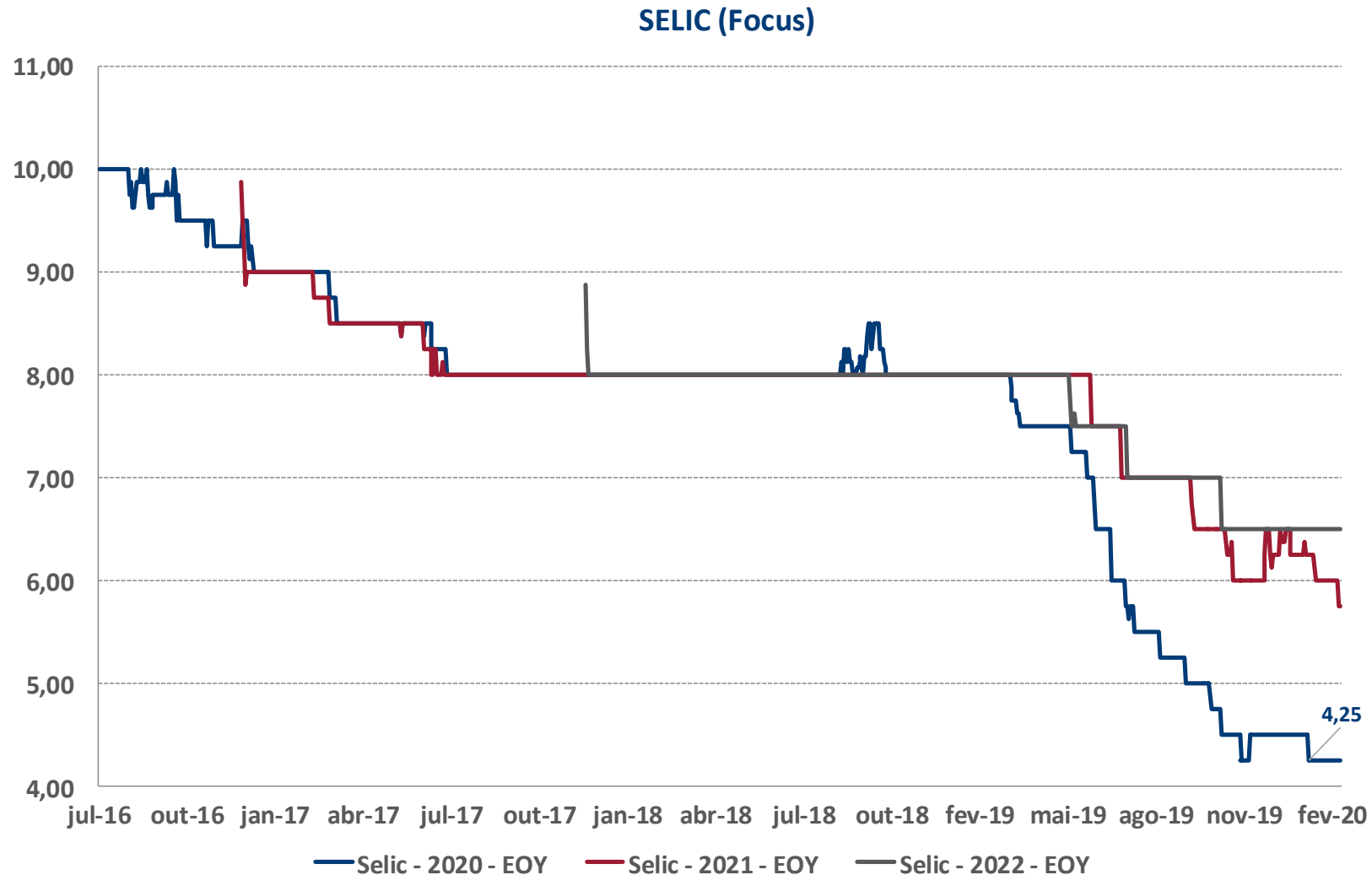
Inflation Expectations (Focus)



GDP Growth (Focus)



BRAZIL: MARKET FORECASTS



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