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Brazil: Macroeconomic Scenario

A Better Outlook

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- **Although we expect the BRL's volatile trend to continue in the upcoming months, we believe that progress in the structural reform agenda next year could offset weakening pressures stemming from the narrower interest rate differential, the reshaping of corporate debt and gradual deterioration in the current account balance. Hence, we forecast that the USD/BRL will converge toward USD/BRL4.00 by YE2020 after closing 2019 at USD/BRL4.10.**

- **Expectations for key fiscal policy indicators have improved recently. We expect extraordinary revenue to drive the government's primary deficit considerably below the target for 2019, while gross general government debt peaks in two years' time (at just below 80% of GDP). Nonetheless, Brazil's fiscal adjustment remains incomplete, as the consolidation process still depends upon further reductions in mandatory expenses, especially with respect to the government payroll. Thus, the approval of the constitutional amendment (which has been coined the "Fiscal Emergency") will play a major role in 2020. This proposal is an important hypothesis of our baseline scenario, which anticipates compliance with the spending cap rule in the coming years and primary budget surpluses from 2023 onward. Considering the shorter legislative year due to municipal elections (October 2020), it is important that Congress makes significant progress with the Fiscal Emergency Package in the first half of the next year.**

- **Recently released National Accounts data were encouraging, suggesting that the current economic growth rate is better than previously thought. Not only have 2018 and 1H19 data been revised higher, but also, 3Q19 GDP surprised to the upside, both in terms of the headline result and its composition. As an upshot, we revised our 2019, 2020 and 2021 GDP growth forecasts. For 2019, we raised it to 1.2% from 0.8%; for 2020, to 2.3% from 2.0%; and finally for 2021, to 3.0% from 2.7%. Still, despite upward revisions, we still expect a gradual recovery.**

- **Year to date, new loan growth has increased, enabling households to anticipate consumption and contribute to the scenario of a gradual economic recovery. However, we believe that increased household debt and delinquency rates will require monitoring going forward. We continue to see room for expansion, as the ratio of outstanding bank loans to GDP is currently around 48%, below the average of peer economies. This growth, however, has to be accompanied by an improved labor market conditions in order to generate greater traction for economic activity.**

- **Even after sizably revising higher our 2019 inflation forecast, on the heels of a supply shock (in the meat segment), we maintain a benign inflationary outlook, with activity running below potential and inflation expectations well anchored. The IPCA-EX3 (a core inflation gauge, including goods and services more sensitive to the economic cycle) should end the year at 2.7%, per our projections. We forecast 2020 IPCA inflation at 3.4% (target: 4.00%) and at 3.8% for 2021 (target: 3.75%).**

- **The Copom once again reduced the Selic rate by 50 bps to 4.50% pa – a new historical low. In the statement, the authority left the door open to either ending or extending the cycle, depending upon the evolution of economic data. Although stronger activity reduces the likelihood of further stimuli, our expectation of cooling momentum in 1Q20 supports our estimate of two additional 25-bp cuts in this cycle, leading to a terminal rate of 4.00%. We anticipate interest rate normalization to start in 2021, with the Selic rate ending that year at 6.00%.**

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FX Rate and Balance of Payments

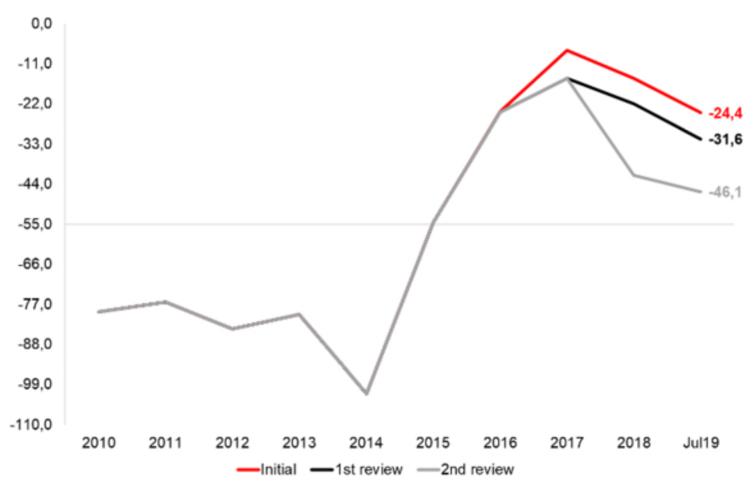
The Brazilian Central (BCB) was forced to intervene in the FX market for two key reasons: (i) frustrated expectations regarding sizeable foreign capital inflow in the aftermath of the auction of transfer of oil rights; and (ii) the negative surprise in the review of external sector data. In our opinion, these actions of the authority did not aim to set a level for the FX rate, but rather to avoid dysfunction in the market from contaminating the rest of the economy. Together with the improvement observed in other factors that usually affect the currency (e.g., international developments, in particular news related to the Sino-American trade dispute), the BCB's intervention has proven to be successful, as evident in the FX rate's recent strengthening. What should we expect for the coming months?

From the international standpoint, fears of a strong global economic slowdown and further escalation of trade tensions between China and the U.S. are abating, prompts some respite for the BRL. Although we acknowledge that uncertainties (global and local) could continue to haunt market participants, we do not expect the global backdrop to exert perennial weakening pressure on the FX rate.

As for the domestic front, we believe that three elements that have negatively influenced Brazil's currency are likely to persist: (i) Brazilian-based companies have prepaid their external debts and resorted to the domestic capital market for funding in local currency; (ii) FX inflows are shrinking due to the narrower interest rate differential and lingering uncertainties (e.g., about the growth outlook); (iii) a deteriorating current account deficit on the back of faster domestic economic growth in tandem with softening economies for key trading partners. In any case, we believe these factors are likely to weigh less on the currency next year, in comparison with what happened in 2019.

Regarding the reshape of corporate debt from external obligations to local currency liabilities, we note that the timeline of debt servicing released by the BCB at YE2018 estimated disbursements of US$94.5 billion in 2019. In the first data review announced for this year—September 2019—this estimate was revised to US$153.3 billion. Afterward (in November), that number was further revised to US$178.5 billion.

Figure 1. Current account balance - US$ billion, 12M-to-date



Source: Brazilian Central Bank

According to BCB figures, the prepayment of external debt has been quite intense. Consequently, as the corporate sector has resorted to local currency instruments for funding, we expect external payments to decline in the coming years, thus reducing BRL pressure as time goes by. Once again, BCB expects the amount of payments (amortization and interest) for next year to reach US$90.1 billion–roughly half of the amount projected to be paid this year. Regarding portfolio outflows linked to the narrower interest rate differential, with the end of the Brazilian monetary easing cycle looming, we expect this impact to lose steam, thus leading to lower pressure than that observed this year.

Last, but not least, we look at deterioration in the current account balance. First, we clarify some points regarding recent changes in the statistics used to assess Brazil's balance of payments. Based upon the time series that was available before the first review, the current account deficit had reached US$24.4 billion in 12 months ending July 2019. Then, this number was increased to US$31.6 billion after the first review and then to US$46.1 billion in the last revision carried out in November. Hence, there was a US$21.7 billion increase compared to initial expectations, frustrating market participants.

Services accounted for a tiny part of this change—approximately US$3.0 billion—whereas income accounts (which basically consists of interest payments and remittances of profits and dividends) corresponded to the bulk of it—US$17.0 billion of the increase in the current account deficit. The BCB stated that it currently counts on more detailed data about capital flows, which allowed it to identify distortions that were leading to an underestimation of some payments. However, it has not been able to extend this review for data before 2017, making it more difficult to assess the evolution of past current account balances. In any case, we think it is unlikely that future releases show corrections of the same magnitude recently seen, as the methodology should remain the same going forward – although periodic reviews are scheduled to occur in July and November of each year.

Despite the substantial changes previously mentioned, we think the main reason for the distress regarding the current account deficit stems from the fact that the deterioration has taken place following a shrinking trade balance this year—a projected US$44.2 billion surplus in 2019 from US$58.0 billion in 2018 (according to our estimates)—notwithstanding the fact that import outlays have not registered a significant rise in the period. That is, if the current account deficit was moving to worrisome levels in the absence of an increase in imports, what should one expect if the country really speeds up its economic pace?

Although we expect economic growth to accelerate, we further expect the pace to be moderate and, hence, import outlays are not likely to present an explosive trajectory. Moreover, we note recent improvement in the composition of imports, with an increase in the volume of capital goods and intermediate products, suggesting better competitiveness for local producers going forward. As for export proceeds, although do not believe the global economy is on the brink of rapid acceleration in the medium term, it is still hard to anticipate another setback such as the one brought by the Argentine crisis—at least, not one of the same proportion. In other words, we do not believe a retreat as strong as the one observed in 2019 can be taken as the base case for the coming years. Given these assumptions, we think the trade surplus in 2020 is not going to recede as intensively as we project was the case in 2018 and is the case in 2019: we forecast a 2020 trade surplus of US$37.0 billion—US$7.2 billion lower than US$44.2 billion previously mentioned.

Therefore, considering the assumptions presented (i.e., the services account without many changes, the income account not registering spikes like those this year and a milder retreat of the trade balance) we anticipate a less worrisome trend for the current account deficit than the one suggested by recent data reviews. We project the imbalance to climb to US$58.0 billion in 2020 after having ended 2019 at US$53.3 billion–also according to our projections. Thus, after being reviewed to a level close to 3.0% of GDP, we think the current account deficit is not going to follow a steadfast trend toward the 4% of GDP heights that usually raises concerns for market participants.

As a result, being initially surprised by the BCB's review, we ponder that the current account deficit is not likely to bring many skepticism about the maintenance of a favorable situation regarding the Brazilian balance of payments. Especially given the fact that foreign direct investment inflows have continued to overcome the current account deficit. Incidentally, as we expect privatizations and concessions of public enterprises to the private sector, we believe that the source of financing could become more abundant.

Considering our thoughts regarding the international economic outlook and Brazil's balance of payments (as well as possible progress in the structural reform agenda), we expect market sentiment regarding the soundness of Brazil's economy to improve–as illustrated by Standard & Poor's recent change outlook change. In our view, this expected improvement in domestic economic fundamentals could offset the less intense weakening pressure discussed before, thus leading the FX rate to converge to USD/BRL4.00 at YE2020, versus our YE2019 forecast of USD/BRL4.10.

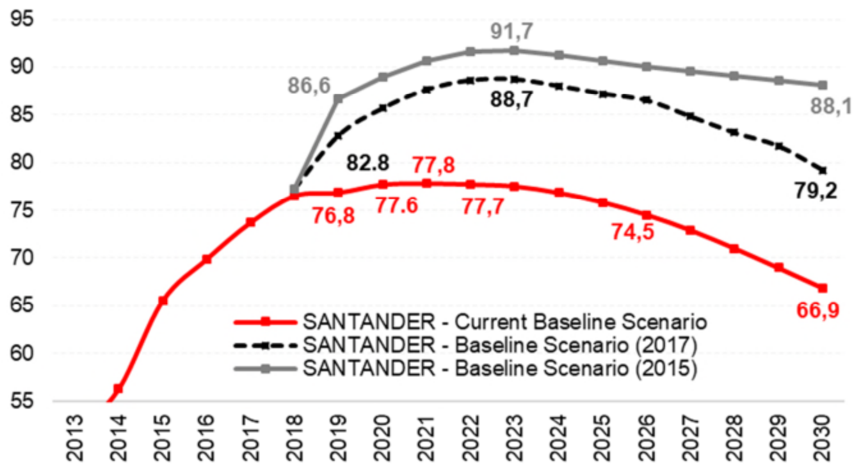
Fiscal Policy: tasks still not completed

Congress goes into recess on December 22 and will resume on February 2, 2020. By then, in our view, the top priority on the economic agenda should be moving forward with two constitutional amendment proposals (PECs 438/18 in the Lower House and 186/19 in the Senate). The goals of both proposals are to prevent (through cuts in mandatory expenses, such as payroll) a breach in the constitutional spending cap and avoid compressing discretionary spending that could cause a federal government shutdown. The October municipal elections should abbreviate the legislative year, so it is fundamental, in our view, that during 1H20 at least the Congress and the Senate can agree on one consolidated version of the bill, with elements of both proposals mentioned above.

A fundamental assumption of our projected debt/GDP trajectory is that the spending cap will be upheld. We still have little visibility on the final content of the "fiscal emergency package" that needs to be approved; this will determine the time that Congress has until further measures of mandatory spending cuts are needed. However, we believe that by YE2020, the fulfillment of the spending cap, until at least the end of the current presidential term, will be assured.

Expectations for key fiscal policy indicators have improved recently. Regarding the central government's primary balance, we forecast a deficit of BRL87.5 billion in 2019 (1.2% of GDP), considerably below the target set for this year (BRL139 billion). Extraordinary revenue, especially from the oil auctions held in October and November, contributed significantly to the difference (e.g., net inflow of BRL23.7 billion to the federal government from the Transfer of Rights [ToR] auction). For 2020, we project the central government's primary deficit at BRL114 billion (-1.5% of GDP), not far from the target set in the annual budget (-BRL124 billion or -1.6% of GDP).

Figure 2. Gross Public Debt (% GDP) - Current Baseline Scenario and Previous Scenarios



Sources: Central Bank of Brazil, National Treasury and Santander

However, we call attention to some factors that not incorporated in our projections for 2020 fiscal accounts. On one hand, non-recurring revenue could come from the Eletrobrás privatization (BRL16.2 billion, as stated in 2020 Budgetary Guidelines Law) and from the oil areas that have not received any bids during the ToR auction and could be offered again next year - the signing bonuses of these oil areas totaled BRL36.6 billion, value that would not necessarily be maintained in the event of a new auction. On the other hand, some recent changes bring risks of increasing the degree of public budget rigidity, such as the mandatory payments of parliamentary amendments previously considered discretionary and proposals for expansion of social spending (potential increase of nearly BRL 20 billion in mandatory expenditures), which requires close monitoring. For the consolidated public sector (this includes the federal government, regional governments and state-owned companies), we expect primary deficits of BRL68.5 billion in 2019 (-1.0% of GDP) and BRL109.5 billion in 2020 (-1.4% of GDP), meeting the respective targets of -BRL 132 billion (-1.8% of GDP) and -BRL 118.9 billion (-1.6% of GDP).

Regarding public debt, updated projections also point to a more benign scenario. The sharp decline of the cost of debt rollover, in the wake of fiscal/parafiscal measures adopted in recent years and significant fall of interest rates, BNDES (The Brazilian Development Bank) payments to the National Treasury (BRL123 billion in 2019) and positive net result from Central Bank operations in the FX spot market (allowing for the reduction of BRL95 billion in the amount of repo contracts) largely explain the more favorable numbers for the Brazilian public debt. Looking ahead, the stronger pace of economic growth (see the section on Economic Activity) and maintenance of interest rates at historically low levels for an extended period should lead the gross public-debt-to-GDP ratio to peak in 2021. Our forecasts for this indicator in the coming years are: 76.8% in 2019; 77.6% in 2020; 77.8% in 2021; 77.7% in 2022. That is, we do not expect public debt to exceed 80% of GDP, a much better scenario than anticipated a few years ago.

Nevertheless, as we have emphasized, Brazil's fiscal adjustment is incomplete. Despite (important) changes in social security rules and debt deleveraging, public accounts remain on an unsustainable path, in our view. The fiscal consolidation depends on the reduction of mandatory expenses, especially with respect to payroll. Therefore, the approval of the aforementioned constitutional amendment proposals will assume the leading role next year. Our baseline scenario considers the continuity of the fiscal reform agenda, compliance with the spending cap rule and (gradually increasing) primary surpluses from 2023 onward.

Economic activity: still gradual, but a slightly stronger recovery expected

The credit of the National Financial System has been performing well in 2019, reaching growth of 6.3% in the 12 months ending October. The main reason for this expansion is still the individual credit segment, which increased ~14%. Nevertheless, it is noteworthy that this growth was accompanied by a higher debt and income commitment, raising some concern. Household debt (as a proportion of the wage bill) reached 44.8% in October, close to the pre-crisis level. Our concern here is a possible impact (though time lagged) on household defaults. The latter reached ~3.53% in October, slightly higher than that observed in October last year and at the close of 2018 (3.38% and 3.25%, respectively). Another fact that corroborates a more cautious view is the commitment of household income with payment of principal and interest on debt: the index calculated by the Central Bank rose to 20.6%, compared to 19.9% observed in December 2018. Still, it should be noted that FGTS disbursements in 2019 might be earmarked for debt repayments, underpinning a possible better outlook on households' financial situation by 2020. In this sense, the move towards lowering the Selic rate may favor a healthier debt.

At the sectoral level, we see the new mortgage lending showing positive signs: the sector grew 3.8% until October, favored by a scenario of low interest rates - (average 7.4% p.a. for individuals). This access to credit enables households to anticipate consumption and improve well-being, evidence that we have already seen from expanded retail sales data and the recovery of the construction component within GDP.

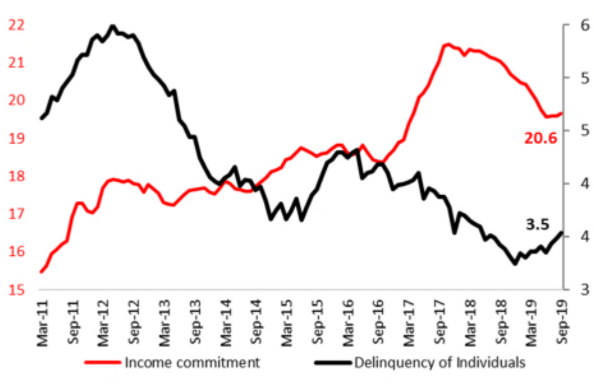
Overall, we forecast a bright outlook for the credit market next year if confidence and the job market are recovering as well. With these data, we expect higher credit demand without intensifying the (still high) household debt and, consequently, without materially affecting delinquency levels.

Figure 3. GDP Breakdown

GDP Breakdown (%)				
Components	**2018**	**2019F**	**2020F**	**2021F**
Total GDP	**1.3**	**1.2**	**2.3**	**3.0**
Agriculture & Livestock	2.0	1.2	1.9	2.5
Industry	0.5	0.6	2.9	3.4
Services	1.5	1.4	2.1	2.9
Household Consumption	2.1	1.8	2.5	3.3
Government Consumption	0.4	-0.8	0.3	0.3
Investments	3.9	3.2	6.2	7.4
Exports	4.2	-2.2	2.6	4.3
Imports (-)	8.3	1.5	5.3	6.1

Source: IBGE

Figure 4. Indebtedness and Delinquency - Individuals



Source: Brazilian Central Bank

The revision of the National Accounts data released by IBGE (revised 2018 and 2019 data) was encouraging. Although insufficient to reverse our expectation of a gradual recovery in growth, the upward revisions of the historical series and the positive surprise in relation to Q3 GDP (0.6% growth over Q2) made it clear that the current pace of growth is higher than previously expected. GDP growth in 2018 was revised from 1.1% to 1.3%: the agricultural sector was the main source of the overall improvement, as its expansion rate last year rose from 0.5% to 2%. Such a revision was, to some extent, expected by us, since the new Municipal Agricultural Survey - released in September / 19 - increased the weight of soybeans in Brazilian agriculture, which recorded in 2018 the largest harvest in history.

In addition, third quarter GDP data surprised not only by the numbers themselves, but also by their composition. We believe that construction, as well as retail, will be crucial sectors to drive the growth of the Brazilian economy in 2020 and 2021; and such sectors showed a significant increase in the third quarter of this year. In our opinion, these activities, which are extremely sensitive to monetary policy, have a sustained reaction and should contribute to job creation and, consequently, to an increase in income and consumption next year. Moreover, the economic growth observed in the last quarter was driven by the private sector, as government consumption fell 0.8% compared to the previous quarter. Domestic absorption grew by 0.8% in the same period, due to the increase in consumption and investments. On the other hand, the external sector continues to contribute negatively, with an increase in imports and a fall in exports, which reflect, among other factors, the “trade war” between the United States and China and the political crisis in the South American countries, important destination of Brazilian manufactured goods.

As a result, we revised our growth forecast for 2019, 2020 and 2021. For 2019, the expectation for GDP to rise has risen from 0.8% to 1.2%; for 2020, from 2.0% to 2.3%; and finally to 2021 from 2.7% to 3.0%. Therefore, despite bullish revisions, the scenario is still of gradual recovery. We recognize that the composition of growth, the dynamics of the sectors mentioned above and the credit data renew the mood of economic agents, but this picture should be viewed with caution.

Inflation

Since our last general outlook revision, we upgraded our 2019 IPCA forecast to 4.0% from 3.4% previously expected, mainly driven by beef price shock. During this period, the price of an arroba (unit of weight corresponding to 33 lbs) of ox increased by approximately 35%, from BRL170 in October to BRL230 in November. In the 2019 IPCA composition, + 1.1 pp is due to meat prices hike; we see four possible drivers for this shock: (i) the worldwide meat supply shock caused by African swine fever (ASF) epidemic decimating Chinese herds; (ii) increased Chinese demand for animal protein for the Chinese New Year (January 17-25, 2020); and (iii) the restricted domestic supply caused by a weak precipitation in some pasture regions.

Thus, if we extract the meat price shock’s contribution of 0.80 pp, the 2019 IPCA would be 3.20% (including 0.30 p.p. participation of meat inflation, excluding the shock).

Therefore, our forecast is similar to the Central Bank of Brazil (BCB) projections (4.00%) in the latest COPOM statement, but above FOCUS survey expectations at 3.8%. Despite the insulate meat price shock, 2019 IPCA is expected to be well below the 4.25% inflation target, but above the 2018 inflation rate of 3.75%. Within the basket of the price index, projections by groups remained virtually the same except for household food. Accordingly, we expect a year-on-year increase of 5.2% in regulated prices (October: 5.3%; FOCUS: 5.1%) and 3.6% of free-float prices (October: 2.7%). Within free-float prices, our projections for industrial goods prices excluding foodstuff remained at 1.5% y/y and services in 3.2% y/y, as well as our projection for the IPCA-EX3 (the most sensitive inflation core to monetary cycles, which represents almost 40% of the IPCA basket), which remained at 2.7%, although above 2018 figure of 2.5% reflecting the gradual recovery of the economy.

For 2020, we still expect prices to rise by 3.4% y/y, thus we might have the fourth consecutive year of inflation below the inflation target (4.0% for 2020). It is worth noting that our inflation forecast for 2020 is below COPOM’s scenario with Focus Survey and FOCUS survey projections, both at 3.6%. We highlight that our projections already include the impact of the 2017 and 2018 new household consumption basket—the so-called POF (*Pesquisa de Orçamentos Familiares*).

Thus, we expect foodstuff prices to increase by 5.6% y/y and industrial good prices excluding foodstuff with a slight increase of 0.9% y/y, services prices by 3.4% y/y and regulated prices 3.4% (FOCUS 4.0%; October 4.1%). With the recovery of economic activity faster than previously expected, we revised the core inflation (IPCA-EX3) upwards to 3.4% y/y, above the October projections at 2.8%, but still very low.

The 2021 IPCA forecast remained stable at 3.8% y/y, close to the inflation target (3.75%) and FOCUS survey expectations, Within the composition of our projections, we expect an increase of 4.4% y/y from regulated prices (FOCUS: 4.0%),, 4.2% y/y from foodstuff prices, 1.7% from industrial goods prices excluding foodstuff, 4.0% services prices and 4.1% from IPCA-EX3.

Figure 5. IPCA and IPCA-EX3 Inflation Core

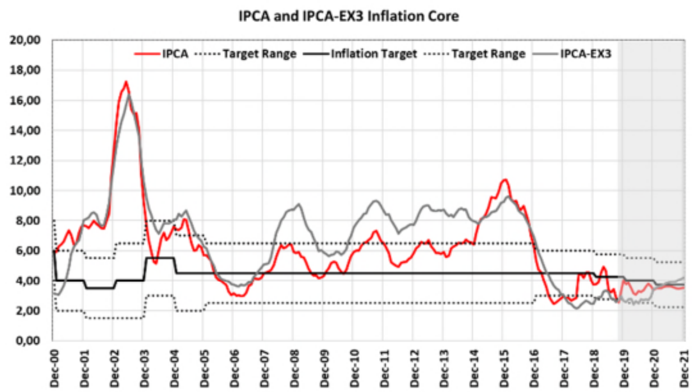


Figure 6. IPCA Forecast

	2016	2017	2018	2019	2020	2021
IPCA	**6,3**	**2,9**	**3,7**	**4,0**	**3,4**	**3,8**
Food and beverage	**8,6**	**-1,9**	**4,0**	**5,8**	**5,9**	**5,1**
Food at home	9,4	-4,9	4,5	7,3	5,6	4,2
Meat	3,0	-2,5	2,2	31,4	5,6	5,6
Regulated Prices	**5,5**	**8,0**	**6,2**	**5,2**	**3,4**	**4,4**
Market Prices	**6,5**	**1,3**	**2,9**	**3,6**	**3,4**	**3,6**
Market Prices Ex Foodstuff	**5,8**	**3,1**	**2,5**	**2,6**	**2,9**	**3,5**
Industrial Ex Foodstuff	4,8	1,0	1,1	1,5	0,9	1,7
Services	**6,5**	**4,5**	**3,3**	**3,2**	**3,4**	**4,0**
IPCA-EX3	6,9	3,1	2,5	2,7	3,4	4,1

Sources for both figures: IBGE and Santander estimates.

Monetary policy: Preparing to land, depending upon macro conditions

On December 11, the Copom (the Monetary Policy Committee of the Brazilian Central Bank [BCB]) once again cut the Selic policy rate by 50 bps, taking it to another historical low of 4.50% p.a. That outcome was widely expected by both analysts and the yield curve.

In the communiqué, the Copom forecast economic activity gaining some traction from 1Q19 onward (yet in the context of a “gradual recovery”), but with “various measures of underlying inflation running at comfortable levels.” Also, according to the Copom, the global outlook is consistent with “a relatively favorable environment for emerging economies.”

Amid remaining economic uncertainties, and a still comfortable inflation outlook, policy guidance was apparently aimed at giving the authority considerable discretion with respect to the next steps. Unlike in previous meetings, the committee did not signal what would be the most probable decision ahead, only hinting that future moves “will continue to depend upon the evolution of economic activity, the balance of risks, and inflation projections and expectations.”

The Copom’s flexibility for the next moves stems from the fact that while on one hand the authority “judges that the current stage of the business cycle recommends caution in the conduct of monetary policy”, on other hand the BCB’s own inflation simulations show that expected inflation remains below the center target for 2020 and 2021 — the main policy horizons. That was particularly the case for simulations with Selic rate at 4.25% early in 2020 and 4.50% late next year, and at 6.25% for 2021. The numbers seem to suggest that doors might still be open for a little additional stimulus, conditional on the evolution of macroeconomic conditions and balance of risks.

Note: For this hypothesized Selic path, and assuming FX rate flat all the way at 4.20, the BCB estimates IPCA at 3.7% for 2020 (target: 4.00%), and 3.7% for 2021 (target: 3.75%). With FX at 4.15 for end-2019, at 4.10 for end-2020 and at 4.00 for end-2021 (as expected by the market), the BCB simulations point to IPCA inflation at 3.5% for 2020 (target: 4.00%), and 3.4% for 2021 (target: 3.75%).

In the balance of risk assessment, the BCB makes a few adjustments in the statement. Firstly, the Copom dropped the mention to the risk of downward inertial forces to inflation, probably reflecting the upward impact of the ongoing meat price shock, expected to drive annual IPCA headline from low-3% toward 4% in December. Secondly, the Copom refers to “changes in financial intermediation” as another element of uncertainty in the policy transmission. In this particular aspect, the authority keeps signaling “the current degree of monetary stimulus, which affects the economy with lags, increases the uncertainty about the transmission channels and may raise the path for inflation over the relevant horizon for the conduct of monetary policy.” In our view, the Copom clearly continues to indicate that a wait-and-see approach might become necessary at a certain point in the near future.

All in all, the BCB’s communication seems to confirm our (ex-ante) expectation that the authority would leave the next steps more data-dependent. We recognize that the likelihood of further rate cuts have diminished, especially given the of signs of economic improvement. Still, we associate part of the recent growth dynamics with one-off factors (to be precise, the release of funds from FGTS mandatory savings accounts), so that our baseline scenario sees a softening economy in 1Q20 (with fading effects of this temporary stimulus on consumer spending). Thus, our baseline considers that preliminary signs of a slowing economy early in 2020 will keep the BCB in easing mode, even at a more moderate speed. For now, we still project two Selic 25-bp cuts in 1Q20, yielding a terminal rate of 4.00% in the cycle. For 2021, we see the policy rate back up at 6.00%, closer to our neutral rate estimate (3.00% in real terms).

Figure 7. Macroeconomic forecasts

	2015	2016	2017	2018	SANTANDER FORECASTS 2019	2020	2021
GDP (%)							
GDP Growth	-3.5	-3.3	1.3	1.3	1.2	2.3	3.0
Inflation (%)							
IPCA-IBGE	10.7	6.3	2.9	3.7	4.0	3.4	3.8
IGP-M	10.5	7.2	-0.5	7.5	6.9	4.1	4.0
FX Rate							
BRL/USD - end of period	3.90	3.26	3.31	3.87	4.10	4.00	4.10
BRL/USD - average	3.33	3.49	3.19	3.65	3.95	4.05	4.05
Interest Rates (%)							
SELIC - end of period	14.25	13.75	7.00	6.50	4.50	4.00	6.00
Labor Market							
Unemployment rate (average)	8.5	11.5	12.8	12.3	12.0	10.9	9.4
Balance of Payments							
Exports (USD bi)	191.0	185.2	217.7	239.3	223.7	226.6	230.6
Imports (USD bi)	171.5	137.6	150.7	181.2	179.5	189.6	205.0
Trade Balance (USD bi)	19.5	47.6	67.0	58.0	44.2	37.0	25.6
Current Account (USD bi)	-58.9	-24.2	-21.8	-41.5	-53.3	-58.0	-70.4
Current Account (% of GDP)	-3.3	-1.3	-0.4	-0.8	-2.9	-3.1	-3.5
Fiscal Accounts							
Primary Balance (% of GDP)	-1.9	-2.5	-1.7	-1.6	-1.0	-1.4	-0.7
Net Public Sector Debt (% GDP)	35.6	46.2	51.6	53.8	55.6	57.7	59.2
Gross Public Sector Debt (% GDP)	65.5	70.0	73.7	76.5	76.8	77.6	77.8

Source: Santander.

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