

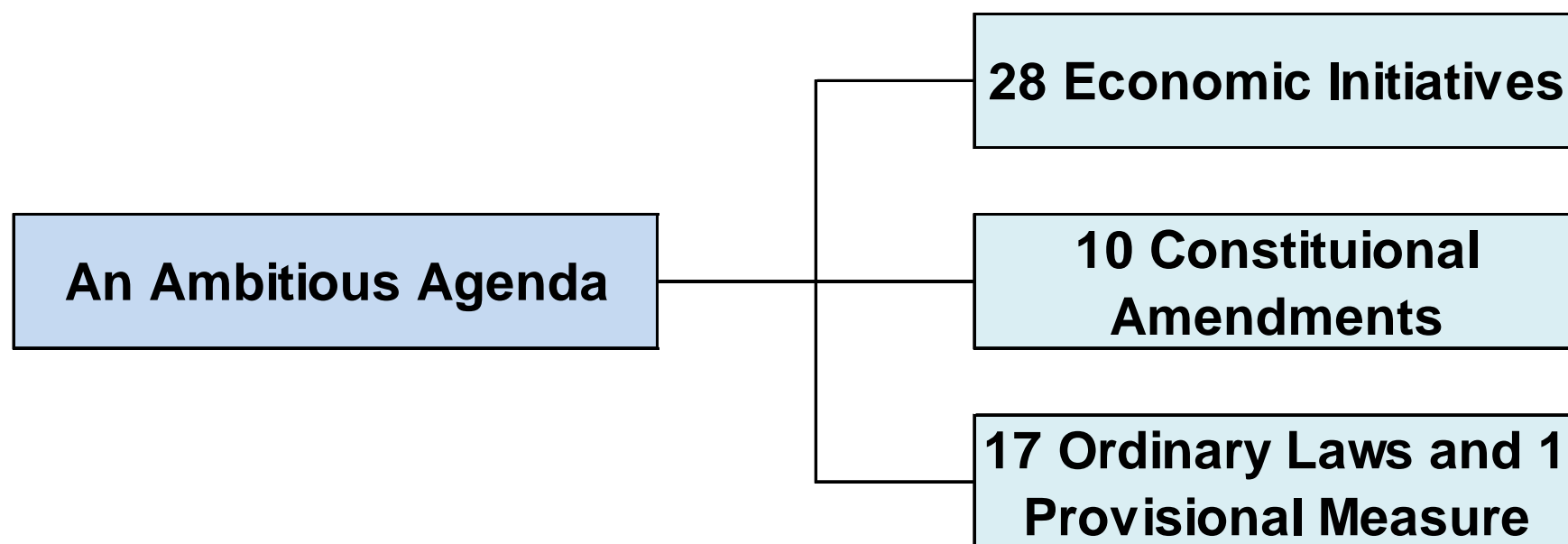


ECONOMIC AND POLITICAL SCENARIOS

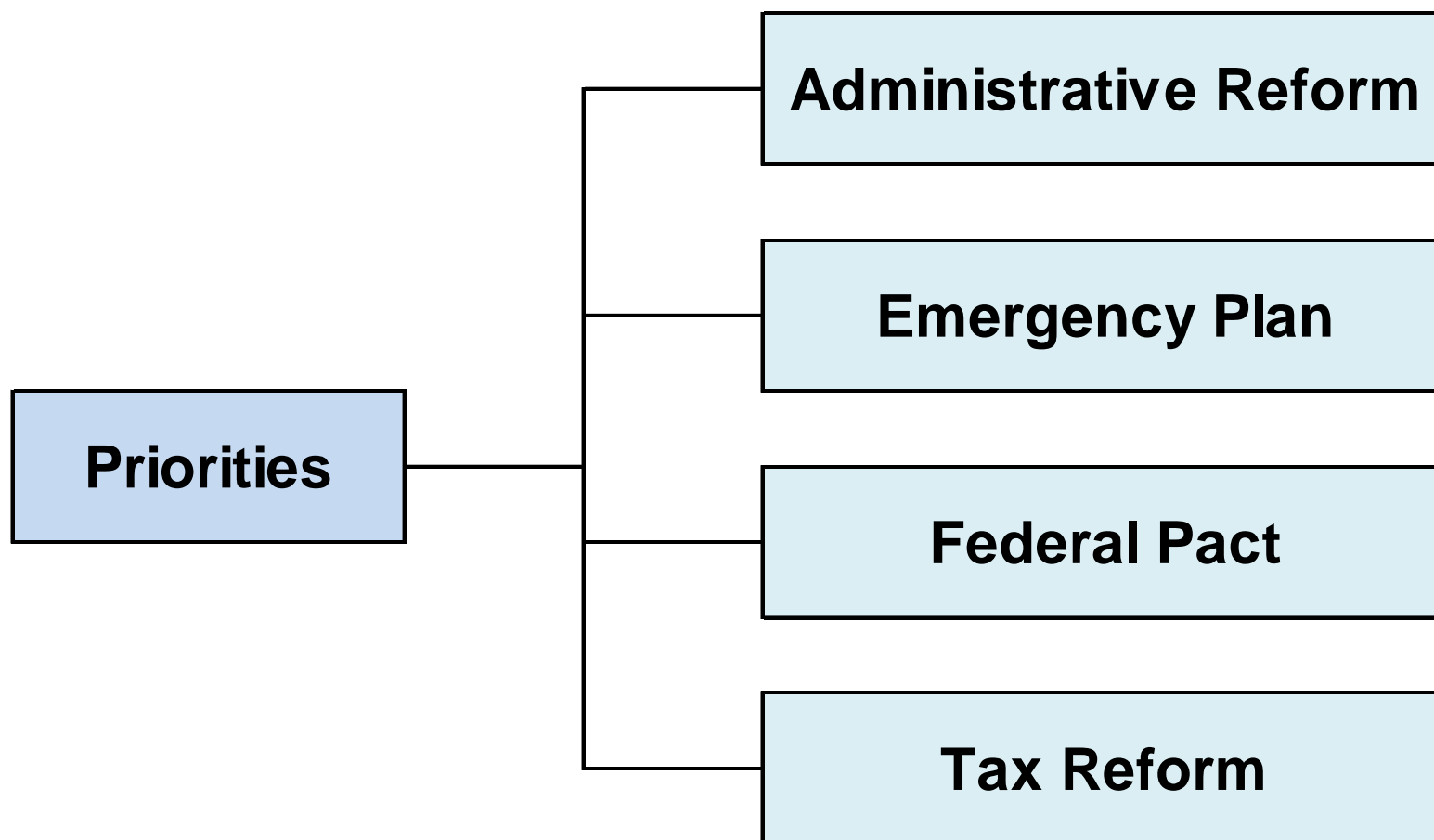


February 2020

The Economic Agenda after The Pension Reform

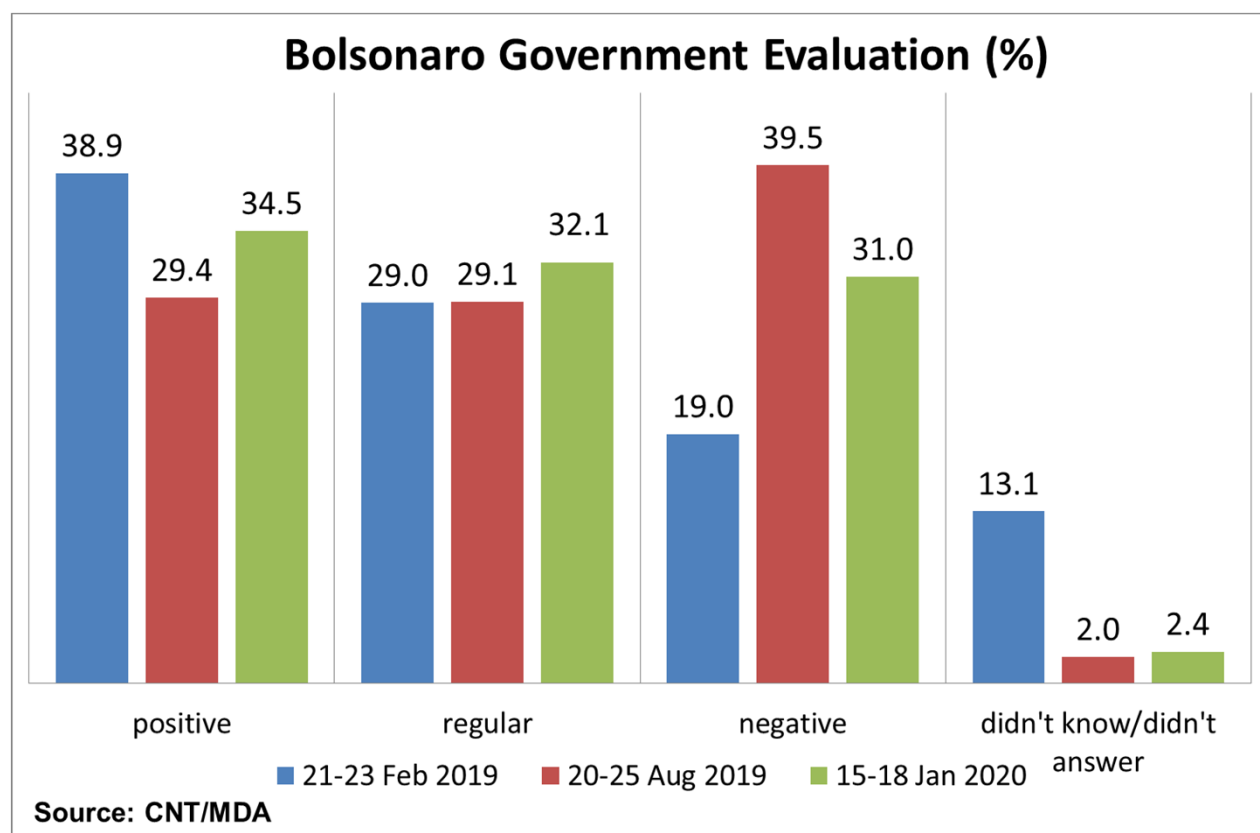


The Economic Agenda after The Pension Reform



The risks for the Economic Agenda

- ✓ President Bolsonaro popularity worsened in the first year of his administration, but it started to recover this year
- ✓ Fortunately, this low support to his administration did not impact the negotiation on the reforms



The risks for the Economic Agenda

- ✓ Tight Calendar:
 - ✓ After the mid-year recess in July, Congress focus might turn to the October local election
 - ✓ After Election, Congress focus on bills like 2021 federal budget and also the beginning of the campaign for the heads of both houses of the Congress, which election will take place in February 2021, just after the yearend recess
 - ✓ The new heads of the Congress will be committed with the reforms as much as the current ones?

Coronavirus

Drop of 1-2 pp of Chinese GDP

- Lower Chinese imports
- Lower Chinese production of Components

Drop of 0.5-0.8 pp of Global GDP

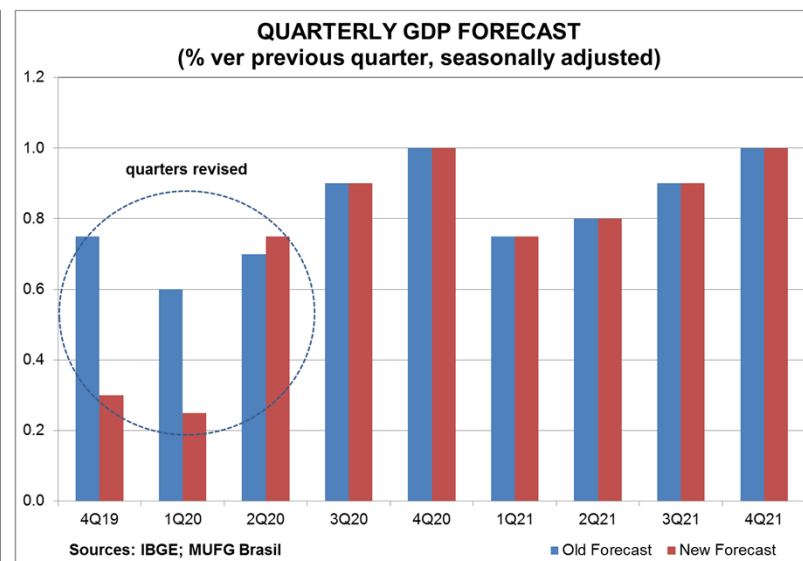
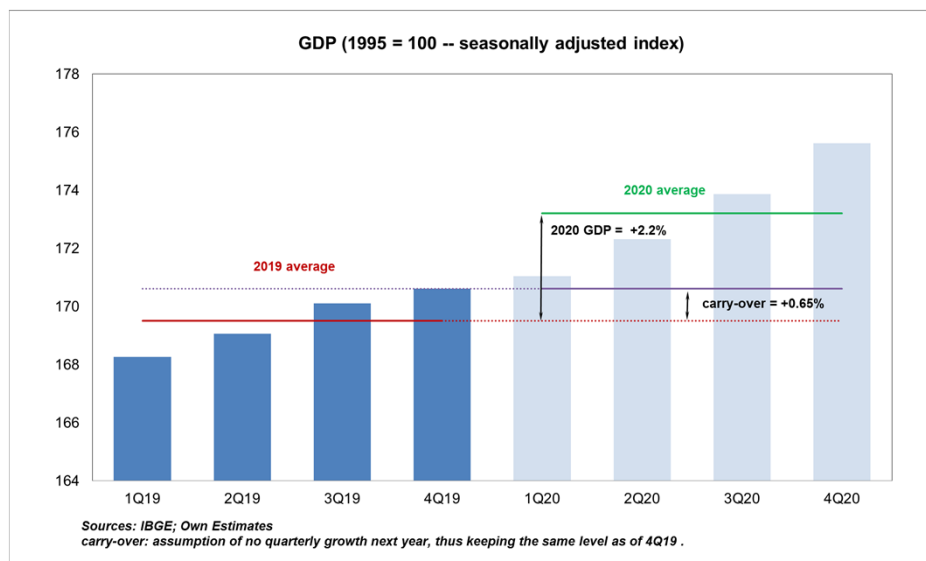
- Lower Global Imports

Drop of 0.2-0.4 pp of Brazilian GDP

- Lower Exports
- Lower Revenue in Exporting Sector
- Lack of Components

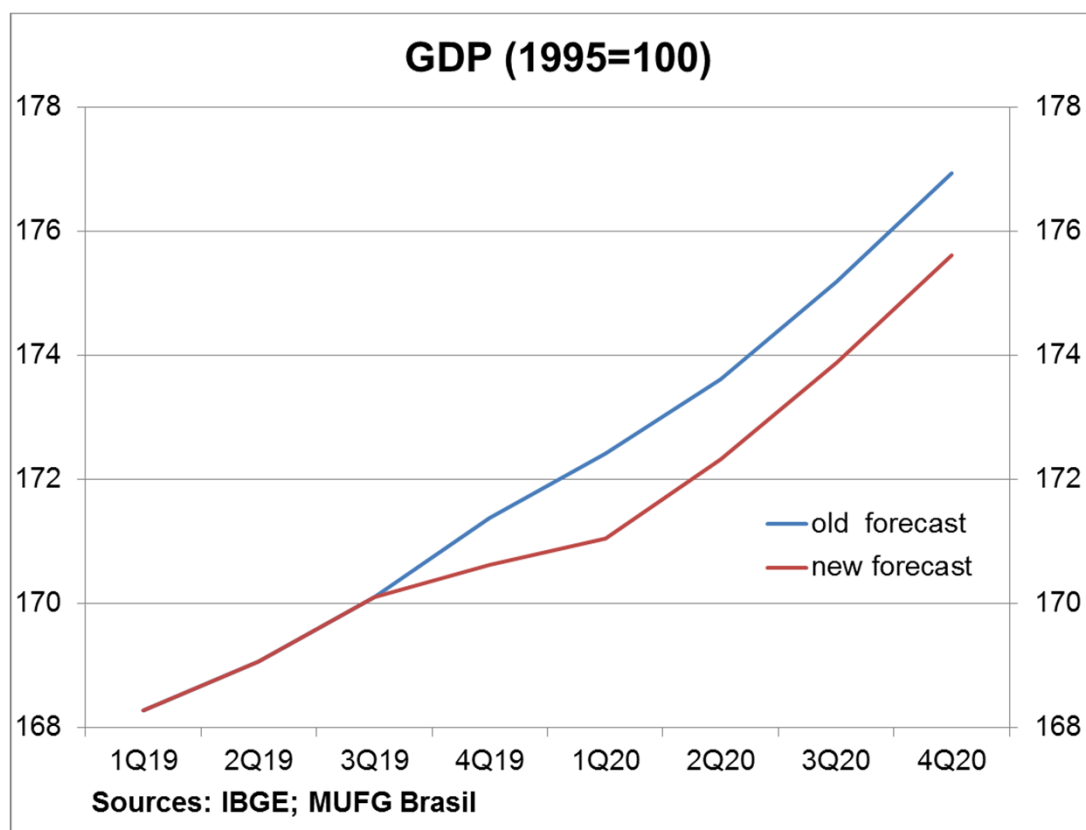
GDP: 2020 revision

- ✓ Reasons for the revision:
 - ✓ Weaker-than-expected 4Q19
 - ✓ Still weak beginning of 2020
 - ✓ Coronavirus



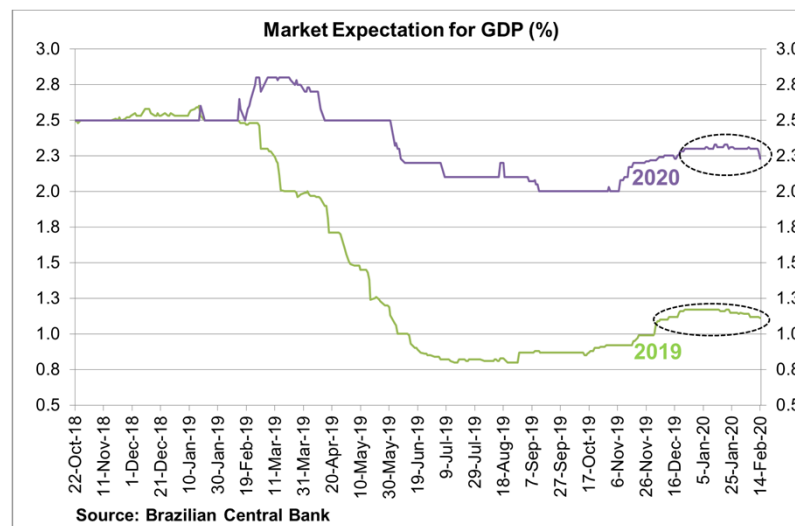
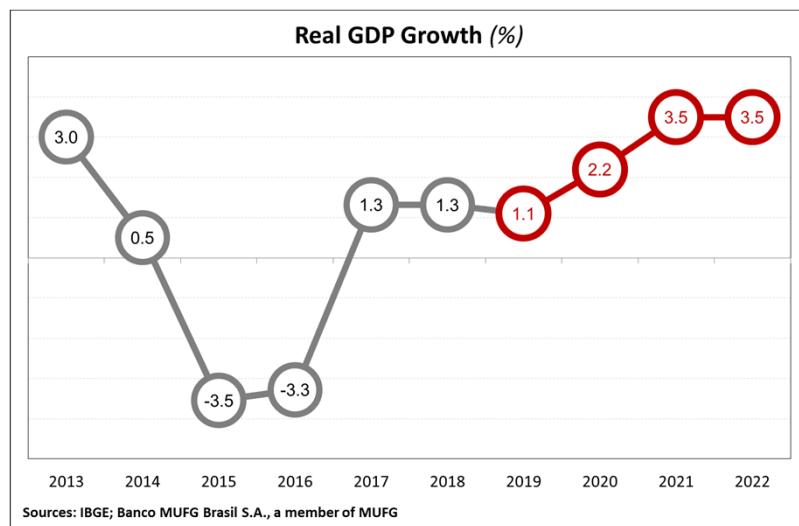
GDP: 2020 revision

- ✓ The impact of the coronavirus might be limited mainly in the 1Q20
- ✓ Then, economic activity might resume its gradual recovery path
- ✓ But, recovery will take longer than expected



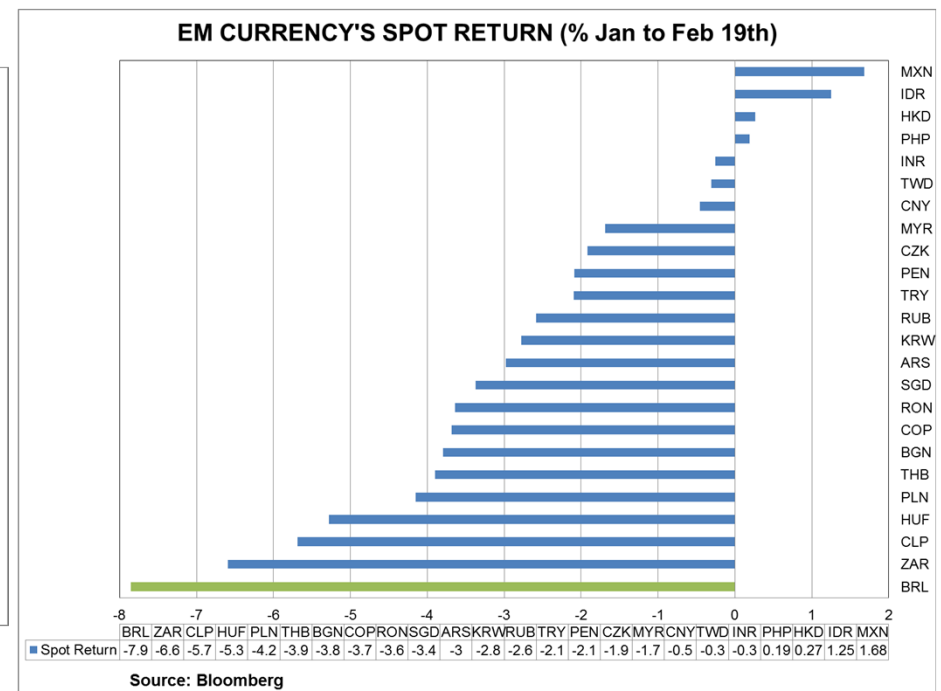
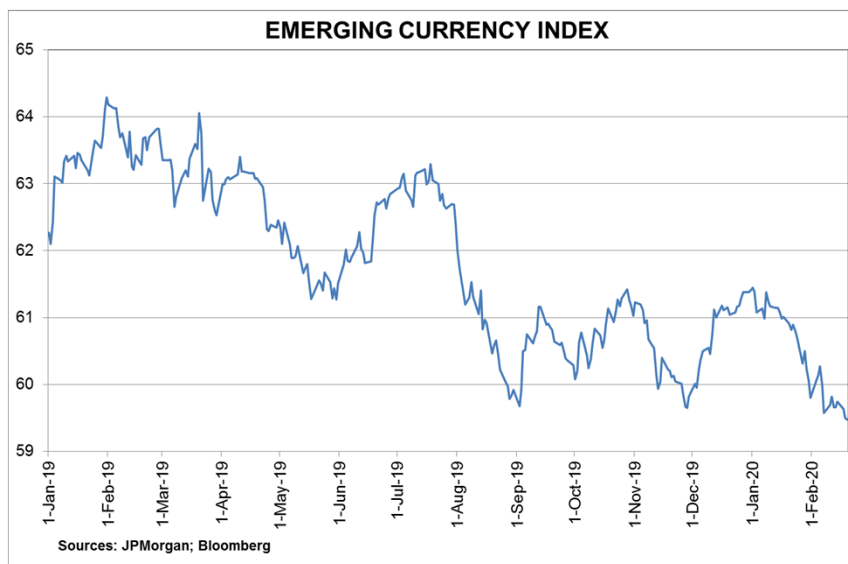
GDP

- ✓ Drivers of GDP growth:
 - ✓ Stronger pace of household consumption driven by moderate inflation, average interest rates at lower levels and gradual improvement of labor market conditions;
 - ✓ Gradual recovery of productive investments to reduce the idle capacity in an environment of stronger demand and also benefitted by infrastructure investments.
- ✓ The progress of the economic agenda in the Congress is essential to consolidate the confidence of consumers and businessmen
- ✓ Major risk relies on severe global economic slowdown.



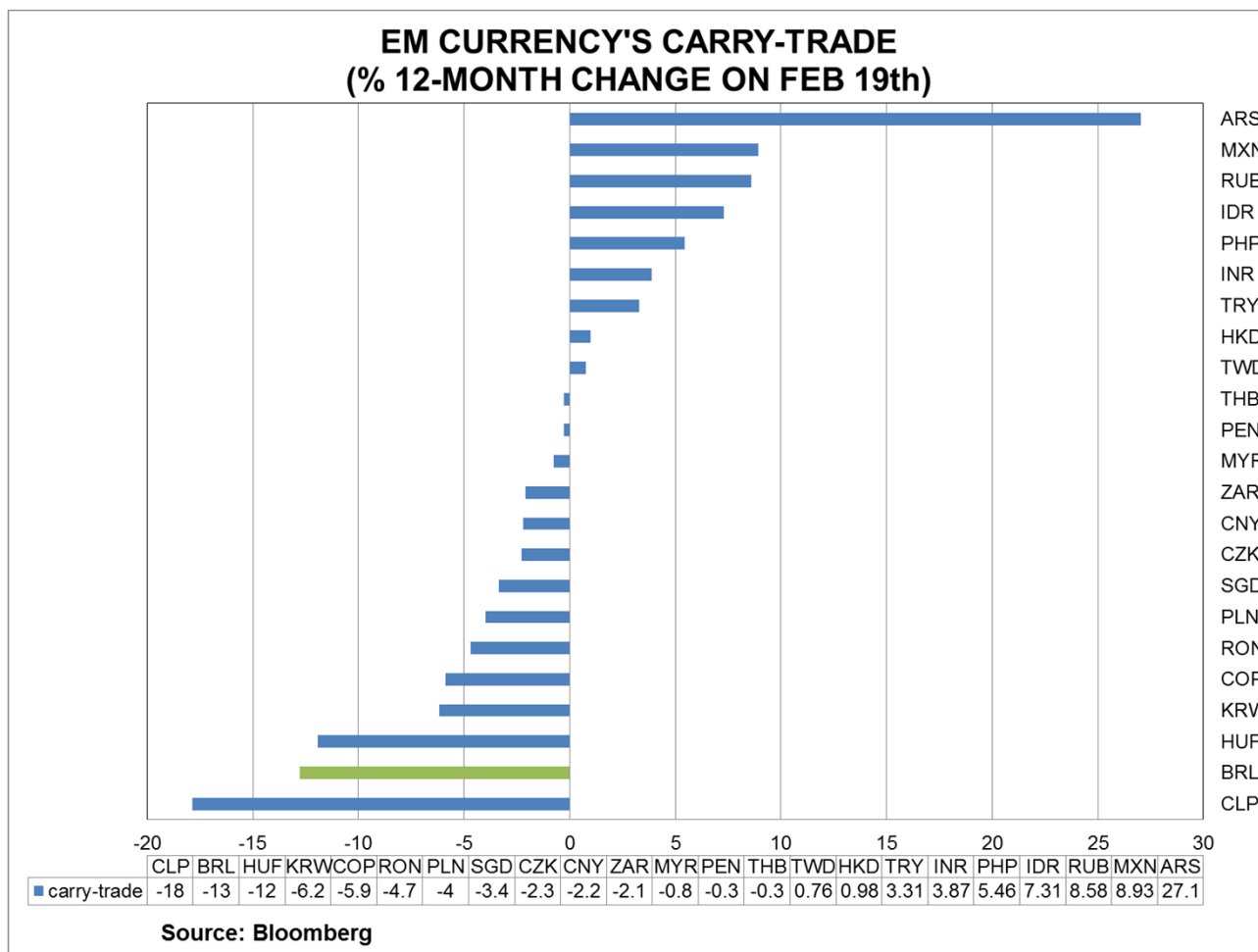
FX Rate

- ✓ BRL impacted by the concerns of the coronavirus impact on the global economy like other EM currencies
- ✓ But, BRL has been underperforming its peers



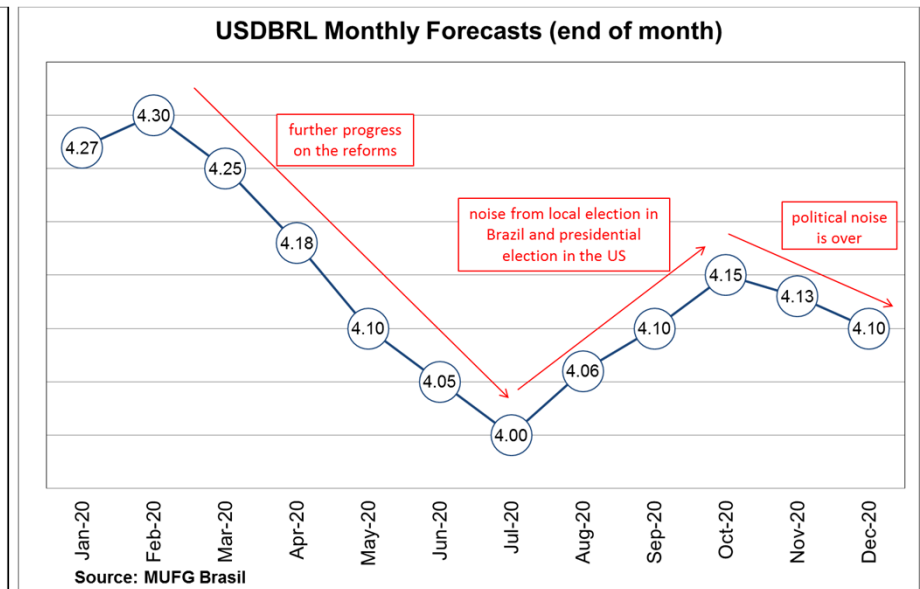
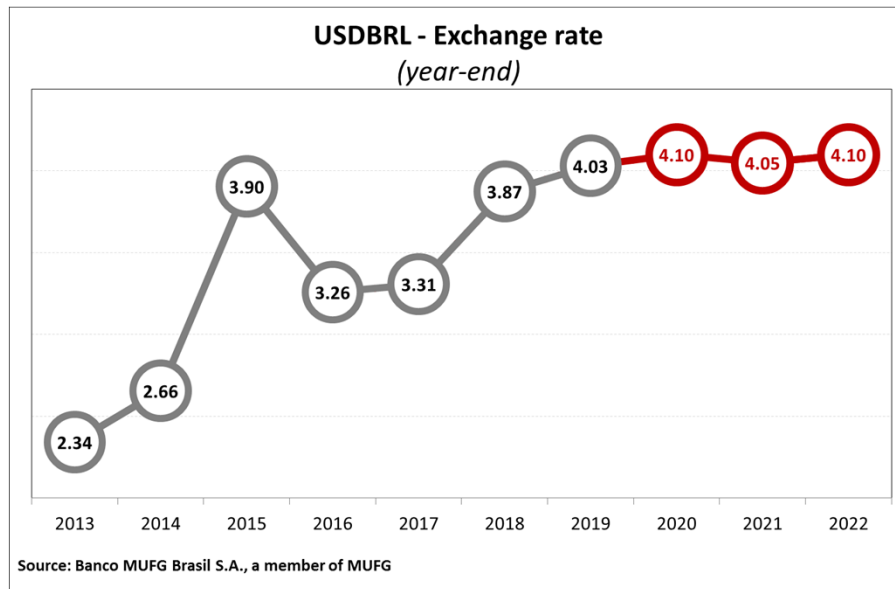
FX Rate

- ✓ Lower Carry-Trade reduced the attractiveness of Brazilian market in comparison with its peers
- ✓ And, there is no sign of improvement in the short-run



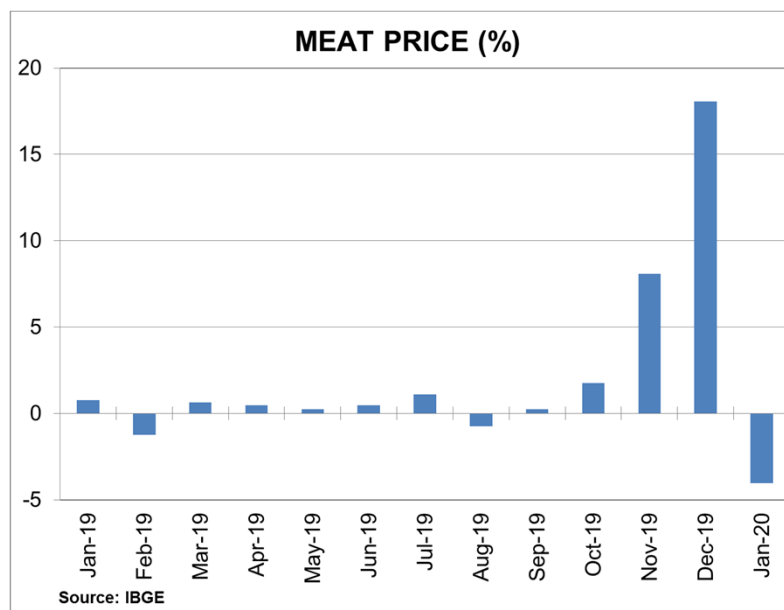
FX Rate

- ✓ For 2020, we expect that BRL might appreciate along the first half with the progress of the economic reforms and depreciate in the second half as the result of political noise coming from local election in Brazil and the presidential dispute in the US, ending the year at 4.10
- ✓ Any hurdle to progress on the reforms is a domestic risk



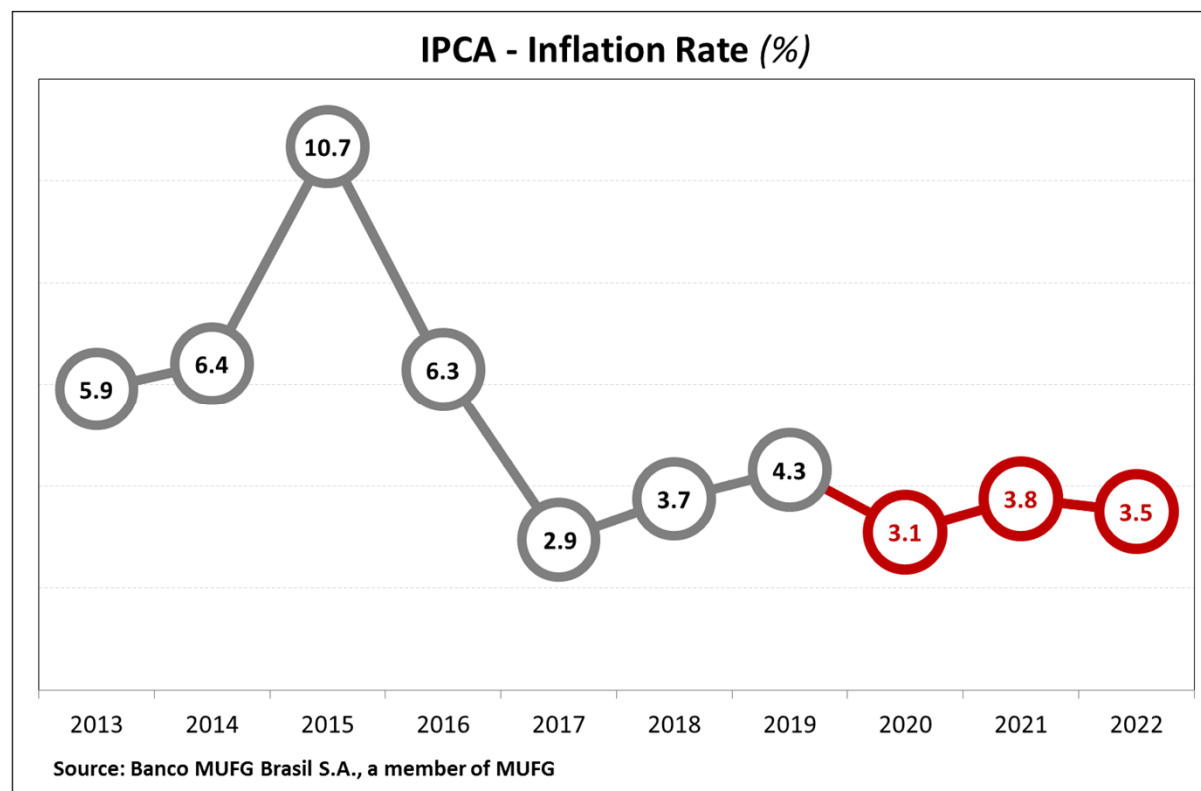
Inflation

- ✓ We revised down IPCA inflation forecast to 3.1% in 2020
- ✓ The reasons for this change are:
 - ✓ Lower-than-previously expected inflation figures for the 1Q20, mainly benefitted by some deflation of meat prices
 - ✓ Lower-than-previously expected inflation coming from monitored prices amid the significant rainfall in the latest months and the low price of oil
 - ✓ Reduction of economic growth



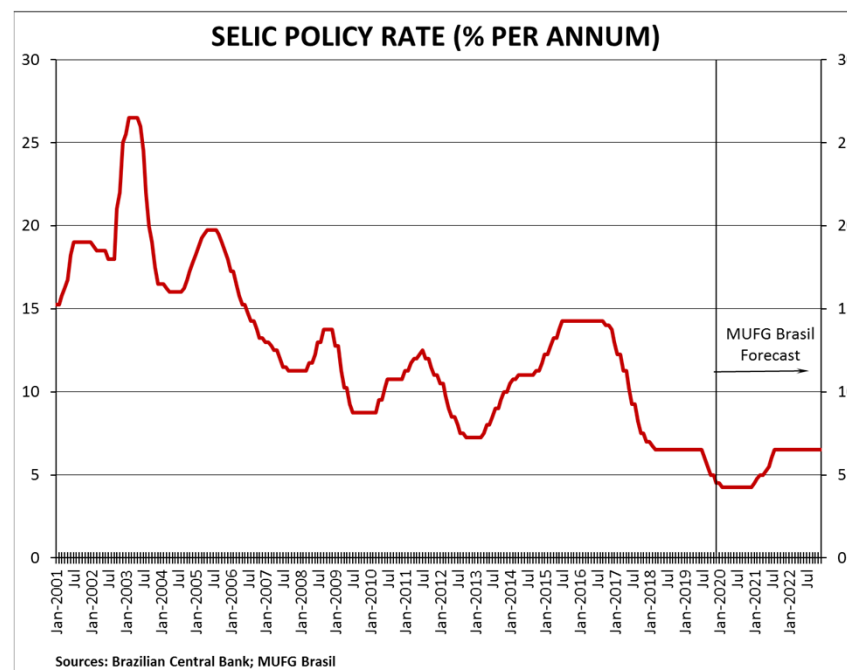
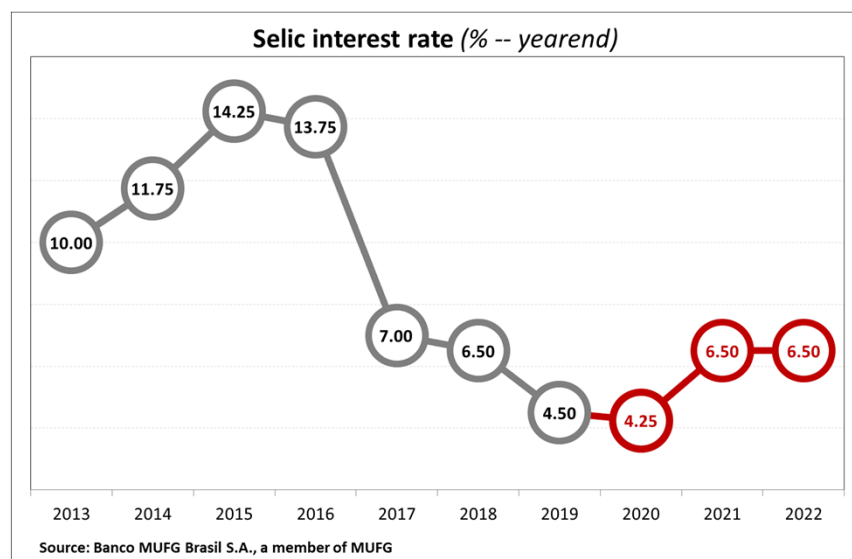
Inflation

- ✓ We assume the maintenance of solid monetary policies, in which Central Bank keeps its high credibility and ability to guide inflation expectation



Selic Policy Rate

- ✓ Copom cut the Selic policy rate to 4.25% in February
- ✓ Revision down of 2020 GDP made us expect stability of the rate along 2020
- ✓ But, higher GDP growth pace in 2021 might trigger the withdrawal of monetary stimuli in order to ensure that inflation expectation keep well-anchored to the targets.



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